US 70.97 | EUR 78.18 | GBP 88.39 | JPY 0.66

### Cotton Market

<table>
<thead>
<tr>
<th></th>
<th>Rs./Bale</th>
<th>Rs./Candy</th>
<th>USD Cent/lb</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm</strong></td>
<td>19761</td>
<td>41300</td>
<td>74.13</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>Rs./Bale</th>
<th>Rs./Candy</th>
<th>USD Cent/lb</th>
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<tbody>
<tr>
<td><strong>Domestic Futures Price (Ex. Warehouse Rajkot), October</strong></td>
<td>19520</td>
<td>40797</td>
<td>73.22</td>
</tr>
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<tbody>
<tr>
<td><strong>International Futures Price</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>NY ICE USD Cents/lb (December 2019)</td>
<td>61.42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZCE Cotton: Yuan/MT (January 2020)</td>
<td>12,370</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZCE Cotton: USD Cents/lb</td>
<td>79.00</td>
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**Cotlook A Index – Physical**

72.50

**Cotton Guide:** We have seen two major reports being released yesterday. Let’s have a look at what they have brought to the table:

USDA Export Sales data: US Cotton export Upland sales for the week ending on October 03, 2019 were at 188,800 Running Bales (RB) were up by 6 percent from the previous week and 53 percent from the prior 4 week average.

Reductions were noted for El Salvador 7,400 RB, Mexico 400 RB, Malaysia 200 RB.
For 2020/2021 total net sales reductions were for El Salvador of 5,300 RB.

Upland Shipments- Exports of 149,100 Running Bales were down 4 percent from the previous week and 10 percent from the prior 4 week average.

<table>
<thead>
<tr>
<th>Country</th>
<th>Increase in Running Bales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>137,300</td>
</tr>
<tr>
<td>Vietnam</td>
<td>37,500</td>
</tr>
<tr>
<td>South Korea</td>
<td>7,900</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5,200</td>
</tr>
<tr>
<td>India</td>
<td>3,300</td>
</tr>
</tbody>
</table>

Table 1: Upland sales of 188,800

The market has not responded to both the US Export Sales data and the WASDE Report. In other words, the market had considered these reports to be neutral. Further, market expectations are more leaned towards some news from the US China front. According to the news that we have currently, it seems unlikely that any partial deal will be struck during this meet.

The Indian MCX Futures were neutral with lower volumes at 540 lots and change figures in small numbers. The ICE Figures took a downturn by -70 points as the market participants are now not expecting any major changes.
to happen on the US China front. The ICE December contract settled at 61.42 cents per pound with a change of -67 point whereas the ICE March contract settled at 62.08 cents per pound with a change of -72 points. Total Volumes were at 21,608 contracts.

Pima Sales-

<table>
<thead>
<tr>
<th>Country</th>
<th>Increase in Running Bales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>5,200</td>
</tr>
<tr>
<td>Peru</td>
<td>1,800</td>
</tr>
<tr>
<td>India</td>
<td>1,200</td>
</tr>
<tr>
<td>Japan</td>
<td>600</td>
</tr>
<tr>
<td>Turkey</td>
<td>500</td>
</tr>
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<td></td>
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<tr>
<td></td>
<td>Table 3: Pima sales summed up at 9,600 Running Bales</td>
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</tbody>
</table>

Pima Shipments-

<table>
<thead>
<tr>
<th>Country</th>
<th>Upland Shipments in Running</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>4,100</td>
</tr>
<tr>
<td>Vietnam</td>
<td>2,200</td>
</tr>
<tr>
<td>Germany</td>
<td>900</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>900</td>
</tr>
<tr>
<td>Thailand</td>
<td>800</td>
</tr>
<tr>
<td></td>
<td>Table 4: Pima Shipments summed up at 10,300 RB</td>
</tr>
</tbody>
</table>

WASDE Report-

As predicted by us correctly in our previous report, USDA said, “World production is 130,000 bales lower as declines for Brazil, Pakistan, Australia and the United States more than offset a 1-million-bale increase in India”

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<tr>
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<tbody>
<tr>
<td>Beginning Stocks</td>
<td>80.93</td>
<td>80.80</td>
<td>80.73</td>
</tr>
<tr>
<td>Production</td>
<td>119.01</td>
<td>124.90</td>
<td>124.77</td>
</tr>
<tr>
<td>Consumption</td>
<td>120.23</td>
<td>121.74</td>
<td>121.61</td>
</tr>
<tr>
<td>Trade</td>
<td>41.23</td>
<td>43.34</td>
<td>42.91</td>
</tr>
<tr>
<td>Ending Stocks</td>
<td>80.73</td>
<td>83.75</td>
<td>83.69</td>
</tr>
<tr>
<td></td>
<td>Table 5: USDA WASDE report in Million 480 lb Bales</td>
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The cotlook Index A is adjusted higher at 72.50 cents per pound with a change of +75 points. Shankar 6 2018-2019 crop price is at 41,300 Rs per Candy.
On the fundamental front we are of the view that the markets will show consolidated figures on the international front, while we expect MCX prices to show declines of around 150 Rs.

On the technical front, prices are trading within an upward sloping channel. Price are above the daily EMA (5, 9) at 61.83, 61.59, which would act as immediate support, along with the lower end of the channel. The momentum indicator RSI is at 57, implying positive bias for the price.

The immediate resistance for the price would be at 63.00, 50% Fibonacci extension level of impulse & immediate support would be at 61.20 (23.6% Fibonacci extension level of upside impulse). Thus for the day we expect price to trade in the range of 61.20-63.00 with positive bias. In MCX, we expect the price to trade within the range of 19300-19700 with a bullish bias for the price.

Compiled By Kotak Commodities Research Desk, contact us: mailto:research@kotakcommodities.com or can contact: allwyn.stewart@kotakcommodities.com, Source: Reuters, MCX, Market source
**NEWS CLIPPINGS**

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<td>Bangladesh: Disciplining expansion of RMG industry</td>
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<td>6</td>
<td>Trade seeks greater access to China market</td>
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<td>Input tax credit under GST regime restricted to 20% of claims: CBIC</td>
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<td>Noida: Apparel sales down by 25%, say exporters</td>
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INTERNATIONAL NEWS

Cotton Highlights from October WASDE Report

The October 2019 World Agricultural Supply and Demand Estimates (WASDE) report has been released by USDA. Here’s this month’s summary for cotton:

The 2019/20 U.S. cotton supply and demand estimates show slightly lower production and ending stocks compared with last month. Production is lowered less than 1% to 21.7 million bales, largely the result of a reduction in Texas.

Domestic mill use and exports are unchanged from last month, and ending stocks are reduced 200,000 bales. At 7.0 million bales, U.S. ending stocks in 2019/20 are projected at 36% of use, compared with 27% in 2018/19.

The 2019/20 season-average price for upland cotton is forecast at 58 cents per pound, unchanged from last month and 12.5 cents lower than in 2018/19.

The 2019/20 global cotton supply and demand forecasts show little overall change from last month.

World production is 130,000 bales lower, as declines for Brazil, Pakistan, Australia and the United States more than offset a 1-million-bale increase in India.

Global consumption is 130,000 bales lower than September’s forecast, and the projection for world trade in 2019/20 is reduced 300,000 bales. Lower expected imports for China and Vietnam more than offset increases for Pakistan and Turkey.

Exports for Australia and Brazil are also lower. World ending stocks in 2019/20 are now forecast at 83.7 million bales – virtually unchanged from the September forecast but 3.0 million bales higher than in 2018/19.

Source: cottongrower.com - Oct 10, 2019
Cotton sustainability is key for rural development: FAO

FAO Director-General highlights importance of a crop that is "more than just a commodity"

Managing trade policy and climate risks are critical to supporting the more than 25 million farmers who grow cotton, experts gathered here emphasized.

"Cotton represents so much more than just a commodity: It is a culture, a way of life, and a tradition that finds its roots at the heart of human civilization," said FAO Director-General Qu Dongyu at a World Cotton Day event held on Thursday at the World Trade Organization's headquarters here.

"Cotton provides employment and income for some of the poorest or most remote rural areas in the world," Qu added.

World Cotton Day is being held at the initiative of the "C-4" countries - Benin, Burkina Faso, Chad and Mali - and is being hosted at the WTO with the collaboration of FAO, the UN Conference on Trade and Development and other organizations.

"It is critical that the cotton sector meets the highest standards of sustainability at all stages of the value chain", the Director-General said.

Natural fibers are opportunity

Qu Dongyu also spoke at a side event organized by FAO to discuss market and policy trends for the cotton sector, which has an annual turnover of around $50 billion with a production of 25 million tonnes in 75 countries. International trade in cotton is estimated at US$ 18 billion annually.

Cotton is a major source of livelihoods and incomes for many rural smallholders and laborers, including women, providing employment and income to some of the poorest rural areas in the world.

In many, regions, cotton is the only viable economic activity available to rural households and communities and the sector benefits more than 100 million families worldwide. For example, cotton export earnings help to finance 50 percent of the food import bills for Mali and 22.5 percent of those for Chad,
while they more than offset the cost of food imports in Burkina Faso, accounting for as much as 60 percent of the country’s export revenues.

A particular focus of the discussion was how to tackle the opportunities offered by growing demand for natural fibers in recent years, as part of a marked trend toward sustainability which has provided further market opportunities for cotton fibres. Despite this there is a loss in market share for the natural fiber triggered by robust demand for the man-made fibers, most notably polyester.

In addition, there are exogenous risks because of climate change.

FAO has long offered developing countries technical and policy support for boosting productivity and creating more opportunities in the cotton value chain. There is a need to keep increasing productivity, investment and bring innovation and sustainable standards to increase the benefits of the cotton sector.

FAO's South-South framework has also been leveraged in the cotton sector, in which China and India are the biggest producers and Brazil the second exporter after the United States of America.

Source: business-standard.com- Oct 10, 2019

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USA: Retail Apparel Prices Dipped in September—But Why?

Ending a three-month streak of increases, retail apparel prices fell 0.4 percent in September, led by a drop in women’s and girls’ clothing, the Bureau of Labor Statistics (BLS) reported Thursday in the Consumer Price Index (CPI).

Women’s apparel prices declined 1.6 percent in the month, with decreases of 4.2 percent in outerwear, 2.6 percent in suits and separates, and 0.9 percent in dresses outweighing a 1.1 percent increase in the underwear, nightwear, swimwear and accessories group. Girls’ clothing prices fell 2.2 percent in September from the previous month.
Men’s apparel prices rose 1 percent last month, as declines of 1.8 percent in suits, sport coats and outerwear were balanced by increases of 2.5 percent in pants and shorts, 2 percent in the underwear, nightwear, swimwear and accessories group, and 0.5 percent in shirts and sweaters.

Boys’ apparel prices were up 2.2 percent in the month, while the cost of infants’ and toddlers’ clothes dipped 1.2 percent.

In footwear, retail prices were down 0.1 percent last month. Women’s footwear fell 0.2 percent and boys’ and girls’ declined 1.9 percent, while men’s footwear cost 1.5 percent more.

The apparel price decline could be related to continued low levels in prices for raw materials like cotton and wool. Spot prices on U.S. cotton averaged 58.43 cents per pound for the week ended Oct., up from 57.94 cents per pound a week earlier, but down from 72.66 cents a year ago. For wool, the Australian Eastern Market Indicator was down 98 cents to $15.11 cents per kilogram for the week ended Oct 4.

Also potentially contributing was promotional activity at retail softening merchants’ pricing power. According to the U.S. Census Bureau, apparel and accessories stores saw sales fall 0.9 percent in August month-over-month, while sales at department stores fell 4.8 percent.

The overall CPI was unchanged in September on a seasonally adjusted basis after rising 0.1 percent in August, BLS reported. Over the past 12 months, the index increased a non-adjusted 1.7 percent.

The core index, minus the volatile food and energy sectors, rose 0.1 percent in September after increasing 0.3 percent in each of the past 3 months. The core index rose 2.4 percent over the past 12 months.

The energy index, important for operating costs, declined 1.4 percent in September, its fourth decline in the past five months. The gasoline index fell 2.4 percent in September following a 3.5 percent decline in August. The index for natural gas declined 0.7 percent in September, its eighth decline in the past nine months. The electricity index was unchanged.

Source: sourcingjournal.com- Oct 10, 2019
**US knit fabric revenue up two per cent**

In 2018, revenue of the US knit fabric market rose 2.6 per cent. Knit fabric consumption, however, continues to indicate a relatively flat pattern.

The pace of growth was the most pronounced in 2014 with an increase of 19 per cent year-on-year.

In 2018, knit fabric exports from the US declined by 5.9 per cent against the previous year. Exports peaked in 2013; however, from 2014 to 2018, exports failed to regain their momentum.

Nicaragua, Honduras and Guatemala are the main destinations of knit fabric exports from the US, together accounting for 50 per cent of total exports.

Mexico, France, El Salvador, the Dominican Republic, Colombia, Australia, Chile and China together account for a further 33 per cent. Among the main destinations, Australia has experienced the highest growth rate of exports, over the last five-year period, while the other leaders have experienced more modest paces of growth.

The average knit fabric export price over the last five years has increased at an average annual rate of 8.8 per cent.

The growth pace was the most rapid in 2014 when the average export price increased by 22 per cent.

China, India and Israel are the main suppliers of knit fabric imports to the US, together accounting for 79 per cent of total imports.

Source: fashionatingworld.com- Oct 10, 2019
**Myanmar: End-July apparel exports down 4%**

Local factories that make clothes for export have not benefited from the ongoing US-China trade war, as the companies looking for alternative manufacturing sites tend to choose Myanmar over the Philippines, an industry group said.

This is according to the Confederation of Wearable Exports of the Philippines (Conwep), whose factories make clothes for international brands such as Polo and Fossil.

Its data showed that the sector’s exports dropped 4 percent from January to July this year to $542 million, compared to the same period a year ago.

Last year, exports of the local apparel industry dropped 16 percent to $927 million, after a flat growth the year before.

The sector was expected to grow 10 to 20 percent last year.

This year, the group was expecting a 15-20 percent growth from the trade war, as global companies aimed to set up shop in parts of Southeast Asia instead of China to avoid being a casualty of the growing tensions.

But the expected transfer of manufacturing sites to the Philippines has not happened.

“If we’re seeing the same trend, I think [we’d see] continuous decline. [We’re] not enjoying the trade war. That’s a very big sign. Why is there no growth?” Conwep Executive Director Maritess Jocson-Agoncillo said.

The group employs 60 percent of the apparel industry’s 180,000 workers, who are in factories mainly located in economic zones.

Even then, these workers are still paid more than their counterparts in Southeast Asia.

The monthly wage of an apparel factory worker in Myanmar working eight hours a day costs $85 to $95.
Vietnam and Cambodia have relatively higher monthly wages at $146 to $167, and $147 to $170, respectively, Conwep data showed.

The same worker in the Philippines, meanwhile, has a monthly average of $190 to $274.

Cushioning the impact of the high cost of doing business in the country are the current tax incentives, she said.

Conwep presented the figures in a roundtable discussion earlier this week with other industry groups that would be affected by the Citira, or the Comprehensive Income Tax and Incentive Rationalization Act.

The bill seeks to lower the corporate income tax, which is currently one of the highest in Southeast Asia.

But it has drawn a lot of criticism because it will also mean the rationalization of tax incentives, which critics fear will lead to job losses after companies fail to cope with the rising cost of doing business.

Conwep estimates over 110,000 workers — in apparel, textile, travel goods, and footwear industries — will be displaced in 12 to 18 months once the bill is passed.

The group is asking for a grandfather rule, wherein the bill will only apply to incoming firms but exempt existing companies.

“The cost of doing business is already very tough on us, and then now you have this,” she said.

Source: business.inquirer.net - Oct 11, 2019
Exports of wearables faltering despite trade war as investment shifts to Myanmar

The Philippines’ failure to take advantage of opportunities from the US-China trade war is reflected in the decline of exports in wearable products, the Confederation of Wearable Exporters of the Philippines (ConWEP) said.

ConWEP Executive Director Marites Jocson-Agoncillo told reporters at an investment forum on Tuesday that the expected growth did not come and that she was taking the decline as a warning.

“I’m not enjoying the trade war. That’s a very big sign — how come we don’t have growth? There’s a trade war — but (orders) are not coming in for apparel,” Ms. Jocson-Agoncillo said in English and Filipino.

ConWEP initially forecast 15-20% export revenue growth in 2019, but assumed that the Philippines captures some of the market from China.

Instead, ConWEP saw a 15% decline in textiles in the first seven months of 2019. Apparel exports fell 4%, while footwear rose 27%, and travel goods up 5%.

She said investments are shifting to Myanmar due to the country’s lower labor costs. In her presentation, she estimated Myanmar’s monthly wage at about $85-95, compared with the Philippines’ $190-274.

Ms. Agoncillo added that the reduced fiscal incentives proposed in the Corporate Income Tax and Incentives Rationalization Act (CITIRA) bill add “fuel to the fire.”

She estimates that CITIRA could cause job displacement in the apparel sector of 40% in the first 12-18 months.

“The cost of doing business is already very, very tough on us. And then there’s this added threat,” she said.

Source: bworldonline.com- Oct 10, 2019

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Bangladesh: RMG exporters getting 14pc incentives not to avail special 1pc

The Bangladesh Bank on Thursday instructed banks not to issue one per cent special cash incentive to the readymade garment exporters who would avail 14 per cent cash incentives under four criteria.

The BB imposed a set of conditions in this regard, stating that if any appeal exporter availed 14 per cent cash incentives in four criteria — 4 per cent cash incentive in place of bonded facility and duty drawback, 4 per cent cash incentive for export-oriented small and medium apparel industries, 4 per cent cash incentive for exporting to new markets excluding the US, Canada and the European Union, and another 2 per cent additional incentive for apparel export in the eurozone, the exporter would not be entitled to get the one per cent special cash incentive.

However, there would be no bar on availing 4 per cent cash incentive in place of bonded facility and duty drawback and the special incentive simultaneously, said a BB circular issued on the day.

Besides, locally owned entities located in the export processing zones and economic zones would be entitled to avail the incentive against their exports in the EU, the US and Canada.

The BB circular said that the exporters must ensure at least 30 per cent local value addition to be entitled for the special incentive.

Among the others conditions, the BB circular said that the products manufactured in own factory of the exporter would be entitled for one per cent special cash incentive on net price of freight on board.

In September this year, the government decided to issue cash incentive against export of products under 40 criteria with a view to encouraging exporters.

The BB set the conditions in giving incentives as there were instances of misuse of such facility.

The government has provided around Tk 3,500 as cash incentive annually in recent years.
On Thursday, the BB also warned the banks as well as the officials of the exporters’ association of punitive measure for any misuse in disbursing cash incentive.

Source: newagebd.net- Oct 11, 2019

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Bangladesh: Disciplining expansion of RMG industry

The Bangladesh Garment Manufactures and exporters Association (BGMEA) has sought government's intervention in setting capacity benchmark for export oriented garment factories in the country. In the wake of unplanned capacity expansion of many factories, the apparel apex body has urged the government to set a capacity development benchmark to rein in unplanned expansion of the industry that has resulted in the concentration on a few items of export.

The BGMEA's move came after it had identified unplanned capacity enhancement of the industry in respect of a few products as one of the major reasons for local exporters' poor price negotiating capacity and unhealthy competition among themselves. The proposal of the BGMEA also intends to monitor investment and capacity of the industry in terms of product categories as only five items -- t-shirt, shirt, trouser, jacket and sweater -- accounted for 73 per cent or US$ 24.91 billion of the total US$ 34.13 billion RMG export earnings in the last fiscal. Besides, about 74.14 per cent of the country's total RMG items exported last fiscal were made of cotton, reflecting overwhelming reliance on the basic raw materials and less efforts to grab demands for value-added items using manmade or artificial fibre.

The crux of the problem lies in the unscientific, almost irrational manner in which factories upcaled their capacity disregarding some of the basics pertaining to production management and the discipline critically required for the purpose. Curiously, most factories were driven by the motive of procuring as much export orders as possible, that too for the few aforementioned apparel items as buyers usually place orders for these in big volumes.
In fact, this practice had begun decades ago when during the MFA (multi-fibre arrangement) quota regime, Bangladesh as a new entrant in apparel trade thrived quickly by exporting some of the low-end apparel products, particularly to the EU market. Factories enhanced their capacities at their sweet will, often procuring orders that they could not manage to ship on time. Subcontracting sizeable portion of the orders to smaller factories did help, but not always in avoiding cancellation of orders due mostly to delay. Another reason also responsible for unreasonable capacity expansion was that most factories preferred to specialise in some of the few aforementioned categories of clothing.

From the BGMEA's move it is clear that the practice is still on-much to the disadvantage of the industry. As a result, Bangladeshi apparels are failing to fetch the right price. Obviously, excessive capacity in a few common and low-end product-range causes undue competition among local manufacturers making it conversely convenient for buyers not to offer fair price.

According to the BGMEA, the average price of garment items has declined by 1.61 per cent in last four years. Over and above, excessive concentration on few items renders the industry less diversified with poor value addition. Given the situation, the BGMEA's proposal regarding capacity benchmark, if implemented, will put a cap on unplanned capacity expansion of the factories, and also provide authentic data that could be used to evaluate strengths and weaknesses of the industry.

Source: thefinancialexpress.com.bd- Oct 10, 2019
NATIONAL NEWS

Restriction on export rebates not just hits MSMEs but also makes tough for India to climb tax rankings

Trade, Imports, Exports for MSMEs: The Ease of Doing Business (EoDB) Index, a ranking system established by the World Bank Group, ranks 190 economies around the world based on indices such as starting a business, registering property, paying taxes, resolving insolvency, etc.

In 2018, India created headlines by being a ‘top global improver’ in the EoDB Index for the second consecutive year and is presently placed 77th. What is less impressive, however, is the fact that India is ranked 121st in the ‘paying taxes’ parameter of the EoDB Index.

Cost Burden

MSMEs in India contribute to nearly half of India’s exports and around 30 per cent of GDP. However, they have historically been the worst affected due to radical policy changes by the government.

The introduction of the Goods and Services Tax (GST) in 2017 inter alia promised to boost exports through expedited refunds and simplified procedures, but certain policy changes brought about subsequently by the government have actually resulted in the reduction of various privileges and benefits. This has had the effect of increasing the cost of exports and has contributed to the widening credit gap faced by the MSMEs.

Exports in India are effectively zero-rated, meaning GST is not required to be paid at the time of export. Interestingly, however, an option is available to the exporter of paying GST through his accumulated input credit balance and then claiming a rebate in full.

This option of zero-rating through the rebate mode was popular for two reasons. Firstly, the rebate claim process was automated and did not require any formal application from the exporter’s end.

Secondly, the exporter could fully monetize a part of his available input credit through this option, thereby increasing the overall refund amount.
Restricting Benefits

On the input side, the refund is available to the exporter of the remaining accumulated input credit to the extent attributable to his export turnover. However, this refund process involves interaction with government officials and is often time-consuming. Further, the input credit is only partially refundable for those exporters selling a part of their production domestically.

Under the option cited above, the accumulated input credit balance for the purpose of claiming such partial refund remains less since the part of input credit utilized to pay GST on export is available as rebate in full. This was a unique benefit inasmuch as it enabled obtaining seamless refunds against legitimate exports. This benefit was previously extended to all classes of exporters. However, with effect from October 2018, the government has retrospectively restricted certain exporters claiming benefits under other export incentive schemes from claiming this benefit.

Seeking Relief

Admittedly, the government has wide powers when it comes to granting or restricting benefits under taxation statutes. However, the power of the government to distinguish one class of persons from another is not so wide. Article 14 of the constitution prohibits discrimination among equals and the onus is on the government to toe the line.

Imposing restrictions on exporters claiming benefits under other export incentive schemes not only puts them in a disadvantageous position when compared to other exporters but also nullifies the benefit of zero-rating of exports.

This particularly puts stress on those MSMEs who are already beneficiaries of various export incentive schemes under the Foreign Trade Policy and exposes them to the risk of huge demands and lengthy litigation. Therefore, it comes as no surprise that various exporters have approached the High Courts seeking interim reliefs.

The ‘paying taxes’ parameter in the doing business index takes into account inter alia, time spent on tax compliance, as well as the efficiency of a country’s refund disbursal infrastructure.
Though the introduction of GST has set the country’s previously convoluted indirect tax structure on the right path, unreasonable restrictions such as the one discussed above not only have an adverse impact on the health of the MSME sector but also make it difficult for India to climb up the tax rankings.

Source: financialexpress.com- Oct 10, 2019

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American companies hold up ambitious India-US trade agreement

Talks are currently underway towards an “interim” deal in the near-term and an FTA over a longer term, with India agreeing to open up portions of its agricultural sector in exchange for partial restoration of its benefits under a zero-tariff preferential US trade programme.

Squabbling among US private sector entities is understood to be one of the key factors holding up an India-US trade deal that could lead to the opening up of the agriculture sectors of the two countries on a reciprocal basis and an ambitious Free Trade Agreement (FTA) between them, according to people familiar with the discussions.

Talks are currently underway towards an “interim” deal in the near-term and an FTA over a longer term, with India agreeing to open up portions of its agricultural sector in exchange for partial restoration of its benefits under a zero-tariff preferential US trade programme. As part of these negotiations the United States is also understood to have dropped its demand for access to India’s dairy sector, a particularly vexatious issue given religious sensibilities in India to dairy products derived from cattle reared on animal feed.

A deal was expected to be signed by US President Donald Trump and Prime Minister Narendra Modi at their bilateral meeting in New York on the margins of the UNGA meetings. But it wasn’t and there was a view that India might have been behind it, given its history of muddled opportunities.

The dispute, according to those people, is between Indian branches and their US headquarters. While the Indian entities are willing to settle for reduced but nominal tariffs of 5% on ICT products, their American headquarters are
pushing for “zero tariff” in a bid to leverage White House’s intervention to the fullest, it was said,

On medical devices such as heart stents and knee-cap implants, a US market leader is in dispute with the industry’s representative association on “trade margins at first point of sale”, a key issue in a heavily price-regulated market.

Even if these differences were sorted out, the deal is understood to be still “some months from being wrapped up” and would require at least one more meeting of the principals, Union’s commerce minister Piyush Goyal and the US trade representative Robert Lighthizer.

Negotiations are currently focussed on an “interim deal” in the near term which is likely to be “reasonably sizable” in scope, and a long-term and more ambitious Free Trade Agreement, with the former expected to address tariff and market access issues that have been of most immediate concern, said the people familiar with the talks.

The two-track negotiations were first revealed by President Donald Trump in remarks to reporters before his bilateral meeting with Prime Minister Narendra Modi on the sidelines of the UN General Assembly meetings in New York in September, “We’ll have the larger deal down the road (in) a little bit, but we will have a trade deal very soon,” he had said.

Largely overlooked at the time in the excitement over Trump-Modi and Trump-Imran Khan talks, officials from both sides have since acknowledged the two-track talks but have refused to publicly discuss details until now, specially the efforts focussed on the longer-term goal of an FTA, which typically paves the way for low tariffs and enhanced market access on a reciprocal basis between signatories. Both India and the US separately have multiple bilateral and multilateral FTAs.

“An FTA is very much on the table,” said Mukesh Aghi, head of the US-India Strategic Partnership Forum, an advocacy group that has been at the forefront of promoting ties between the two countries in commercial and security sectors. Aghi has long argued for India and the US to sign an FTA.

Another key element of the negotiations that has remained under the radar is India’s offer to open up its agriculture sector “entirely” in exchange for parties restoration of its benefits under Generalized System of Preferences
(GSP), a zero-duty preferential trade system, lifting of tariff on its steel exports to the United States and settlement of all disputes at the World Trade Organization.

The extent of the agriculture sector that India is offering to open up could not be ascertained immediately but the people familiar with the discussions insisted access under consideration is “limited” and “selective” and it will be done on the basis of reciprocity. “India will also gain access to the US farms sector,” one of them said, refusing to discuss details.

There are hopes among the more optimistic circles that these discussions could lead to an early resolution of differences that have lingered for decades and gotten progressively worse. And it was said that if a deal was ready to be signed, President Trump could travel to India to seal it in November.

But the people engaged in the talks discounted the possibility of Trump’s visit to India saying “it’s not on the cards for sure”.

Even if a presidential visit looked improbable at this time, there was new hoped of a deal based, among other things, on a growing perception among officials on both sides of an “excellent rapport” between the key negotiators, Goyal and Lighthizer. “They share an easy and growing relationship,” said a person who has spoke to them both about the talks.

Source: hindustantimes.com- Oct 11, 2019

LSPs could become the new 'heroes' of a changing apparel industry

The sourcing shake-up sparked by the US-China trade war means logistics service providers could become the “heroes” of the apparel industry.

According to Jane Singer, managing director of apparel intelligence firm Inside Fashion, the major impact on China from the US tariffs has not been a shift in production, but the growing risk of worldwide political instability and the need to diversify supply chains.
“We can clearly see the movement out of China has not been just because of the recent tariffs,” she told delegates at the TPM Asia conference in Shenzhen today.

“There’s been what we call a migration, or a slow leak, out of China for many years because of rising costs. Tariffs are part of those costs and they’ve been an impetus, but it’s more because people realise there’s a lot more political risk, not just in China, but everywhere in the world. And as such, it’s important to be diversified.”

Apparel supply chain diversification is not an easy task, however, given China’s dominance.

For example, Ms Singer explained, after China joined the WTO vertical production became possible, due to the manufacturing clusters that developed there, including the sewing side of the industry and the mills to produce fabric.

“Sewing can very easily move, but mills are a long-term capital investment and, unfortunately, you can move sewing out of China but you still have to order most of your fabric, trims and packaging from there,” she said.

“This has created a logistical conundrum for an industry in which the supply chain needs to be very fast and very agile.

“Strategic sourcing means looking at tariffs as one part of the cost. Speed and agility and the ability to carry smaller inventory, which you have in China, is also a cost, and it’s a saving if you can place your orders very late and have them delivered quickly. So that’s another reason why, even with tariffs, people will not be so quick to move into other countries, regardless of how cheap they are.”

There’s also a lack of capacity elsewhere to accommodate any large-scale shift in Chinese production in the short term, added Ms Singer, although, despite the challenges, the industry was “making a very big effort” to develop alternative sourcing locations.

For example, she said, Vietnam had become very important for apparel, but was getting expensive; Bangladesh is key for Europe because of its free trade
agreement with the EU, but there wasn’t much capacity for US suppliers to move into.

“India is getting more attention and Pakistan is a rising star; Indonesia has the workforce and there’s interesting developments in terms of joint-ventures to specifically try and develop the apparel industry there.”

Greater diversification of the supply chain will mean the need for much more logistics support, and therefore the industry was much more open to using 3PLs, noted Ms Singer.

“Before, people were definitely not interested, but now they’re desperate; they need help. If you can come up with a solution that helps them and that’s easy to implement without being terribly expensive you’re going to have a more receptive audience.

Speed is a top priority – logistics is now a key aspect of a garment brand’s business and apparel brands are also looking at logistics to more strategically manage their inventory.

“In the garment industry, this is particularly tough as there’s no downtime. So logistics needs to find ways to support shorter lead times, but without raising costs. Logistics providers can be the heroes here – there’s big opportunities for them,” said Mr Singer.

Source: theloadstar.com- Oct 09, 2019

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Prices low, cotton growers at wit’s end

CCI reluctant to start procurement, private traders offer prices below MSP

Cotton farmers are grappling to get remunerative prices of their produce, as private buyers are treading cautiously in view of the fiscal slowdown that has hit the textile industry. Besides, high moisture content is also adding to their woes since the Cotton Corporation of India (CCI) is not making any purchase.
Talking to The Tribune, cotton trader Ashok Kapur attributed the declining trend in cotton prices to the fact that the mills had not entered the market in a big way. “The mills are only making hand-to-mouth purchase, as the yarn market is sluggish right now and they are unable to dispose of their inventory. The low prices of cotton should have prompted them to make more purchase, but they slowdown has played a spoilsport,” he said.

He felt that the pressure of cotton arrivals is also contributing to low prices, as the arrivals in the region’s markets are high as compared to the last year.

Satish Bansal, an arhitya at local grain market, said the prices were hovering between Rs 4,700 to Rs 5,200 per quintal, which was less than the MSP of Rs 5,350 per quintal. He blamed high moisture content for low cotton prices. He said the produce arriving in the market these days had 15 to 16 per cent moisture. He said only private buyers were making purchases and the CCI was staying away. He said the market committee had also allotted a yard to the CCI for making the purchase, but no farmer is approaching the agency primarily due to high moisture content.

Sources say the CCI has made some purchase at Killianwali market. The CCI guidelines don’t allow the agency to procure cotton having more than 12% moisture content. Besides, the CCI’s condition of making direct purchase from the farmers may also turn out to be a roadblock.

Sukhdeep Singh, a farmer from Kotfatta village, said his cotton fetched Rs 4,800 per quintal, which was disappointing. “We were better off last year when we sold our cotton for Rs 5,500 per quintal. Our returns would be low this year, considering the fact that we had to shell out Rs 700 per quintal as labour charges for plucking cotton,” he said. BKU Ekta Ugraha leader Shangara Singh Mann said no government agency was entering the market, leaving farmers at the mercy of private buyers.

**Arhtiyas decry CCI move**

Muktsar: The Federation of Arhtiya Association on Wednesday held a meeting of agents from Muktsar, Bathinda, Faridkot, Muktsar and Fazilka. They decided to meet the CM over the CCI’s decision to buy raw cotton direct from farmers in ginning factories. Vijay Kalra, president of the association, said they would seek CM’s personal intervention. TNS
Expedite purchase: BKU

Fazilka: Activists of the BKU (Lakhowal) led by their state president Ajmer Singh Lakhowal staged a protest outside the DC office here on Wednesday. Lakhowal sought speeding up of the paddy and cotton procurement as farmers had been facing difficulties due to tardy purchase. The farmers have demanded a compensation of Rs 40,000 per acre for the loss of cotton crop due to hailstorm a few days ago.

Source: tribuneindia.com- Oct 10, 2019

Moody's slashes India's GDP growth forecast for fiscal 2020 to 5.8%

Moody's Investors Service on Thursday slashed its 2019-20 GDP growth forecast for India to 5.8 per cent from 6.2 per cent earlier, saying the economy was experiencing a pronounced slowdown which is partly related to long-lasting factors.

The projection is lower than 6.1 per cent that the Reserve Bank of India (RBI) had forecast just last week.

Moody's attributed the deceleration to an investment-led slowdown that has broadened into consumption, driven by financial stress among rural households and weak job creation.

"The drivers of the deceleration are multiple, mainly domestic and in part long-lasting," Moody's said in a report.

It expected the growth to pick up to 6.6 per cent in 2020-21 and to around 7 per cent over the medium term.

"Although we expect a moderate pick-up in real GDP growth and inflation in the next two years, we have revised down our projections for both. Compared with two years ago, the probability of sustained real GDP growth at or above 8 per cent has significantly diminished," it said.
Last month, the Asian Development Bank and the Organisation of Economic Cooperation and Development lowered 2019-20 growth forecast for India by 50 basis points and 1.3 percentage points to 6.5 per cent and 5.9 per cent, respectively.

Last week, the RBI also slashed its growth projection for the economy to 6.1 per cent from an earlier estimate of 6.9 per cent.

Rating agency Standard & Poor's has also lowered its India growth forecast to 6.3 per cent from 7.1 per cent.

In June, Fitch cut India's growth forecast for the current fiscal for a second time in a row to 6.6 per cent. It had earlier in March lowered the growth estimate for 2019-20 to 6.8 per cent, from 7 per cent projected earlier, on weak momentum of the economy.

Moody's said the drivers of the deceleration are multiple, mainly domestic and in part long-lasting.

"What was an investment-led slowdown has broadened into consumption, driven by financial stress among rural households and weak job creation," it said adding a credit crunch among non-bank financial institutions (NBFIs), major providers of retail loans in recent years, has compounded the problem.

"While we expect a moderate pick-up in real GDP growth and inflation over the next two years supported by monetary and fiscal stimulus, we have revised down our projections for both. We forecast real GDP growth to decline to 5.8 per cent in the current fiscal from 6.8 per cent in 2018-19, and to pick up to 6.6 per cent in 2020-21 and around 7 per cent over the medium term." Moody's expected a 0.4 percentage point slippage in the fiscal deficit target of the government to 3.7 per cent of the GDP in the current fiscal due to the corporate tax cut and lower nominal GDP growth.

"A prolonged period of slower nominal GDP growth not only constrains the scope for fiscal consolidation but also keeps the government debt burden higher for longer compared with our previous expectations," it said.

It, however, saw "low probability" of a significant and rapid deterioration in fiscal strength, India's main credit constraint, given the resilience to financing shocks offered by the composition of government debt.
India's real GDP growth has declined in each of the past five quarters, falling to 5 per cent year-on-year in April-June 2019 from 8.1 per cent in January-March 2018.

"By international standards, 5 per cent real GDP growth remains relatively high, but it marks a low rate for India.

Combined with a marked decrease in inflation in recent years, this has resulted in a material decline in nominal GDP growth from typical annual rates of 11 per cent or higher over the past decade, to around 8 per cent in the second quarter of 2019," it said.

While private investment has been relatively weak since 2012, consumption -- which makes up about 55 per cent of GDP -- had remained robust.

"However, private consumption growth has now also fallen quite sharply, to 3.1 per cent in the second quarter from 7.3 per cent in the first. This was the lowest rate of quarterly consumption growth since October-December 2014, and high-frequency consumption demand indicators (such as automobile, truck, two-wheeler and tractor sales) point to continued weakness," it said.

The government has estimated that the corporate tax cut will reduce revenue by around Rs 1.45 lakh crore or about 0.7 per cent of GDP in 2019-20.

"After factoring in exclusions for tax exemptions and the recent 0.3 per cent of GDP transfer of capital from the RBI, we expect a central government fiscal deficit of about 3.7 per cent of GDP in 2019-20, resulting in a slippage of 0.4 percentage points of GDP from the government's target of 3.3 per cent," Moody's said.

As a result, the general government deficit, which at about 6.4 per cent in fiscal 2018 is already much larger than those of Baa-rated peers (median of 2.5 per cent), is likely to remain wider than Moody's previously expected, it added.

Source: business-standard.com- Oct 10, 2019
Trade seeks greater access to China market

The exporters are looking forward for some positive development from the meeting between Prime Minister Narendra Modi and Chinese President Xi Jinping, which is happening at a time when Regional Comprehensive Economic Partnership (RCEP) negotiations are going on. While there are a lot of reservations about opening up the Indian market for China, exporters want removal of trade barriers for products they ship to China.

While the US-China trade war presents an opportunity for India to grow exports, China too sees India as a potential market.

“We largely export raw materials like steel and cotton, while China sends finished products to India. We want to protect our manufacturing sector from cheaper Chinese goods and want to export more value-added products,” said Israr Ahmed, Regional Chairman, South, Federation of Indian Export Organisations.

“India has a trade deficit of $53 billion with China and hence that country should provide more easier access to our products,” said Sanjay Jain, former Chairman, Confederation of Indian Textile Industry.

According to him, China is a buyer of Indian cotton yarn and fabric. “Due to preferential tariffs, exports from Vietnam, Pakistan and Indonesia to China have been growing. From being the largest yarn exporter a few years back, we have lost almost 50 per cent of the exports this year. Similarly, China can buy more fabric from India as it will not affect its domestic production,” he said.

However, a free trade agreement in textiles presents a threat of increased synthetic textile imports from China. Similarly, agri exports present an opportunity as well as a challenge. India can grow its leather footwear exports to China, but China is a large producer of cheaper non-leather footwear.

According to Sharad Kumar Saraf, President FIEO, manufacturing costs have to be competitive to increase exports to China. “The important sectors that need to be focused are bulk drugs, engineering products, chemical products, etc, he said.
Even in gems and jewellery, India has a trade deficit of over $300 million as China exports silver bars, gold bars, rough coloured gem stones, rough pearls and buys lesser quantum of cut and polished diamonds, gold jewellery and polished coloured gem stones.

The trade is also expecting increased investments from China into the manufacturing sector. ‘China is exiting production of several goods due to higher labour costs and pollution concerns and it is shifting base to neighbouring countries. This presents an opportunity for India as we have a large domestic market as well,” said Ahmed.

In order to attract investments, plug-and-play policy should be in place in the manufacturing sector. Pre-approved facilities for manufacturing can tap the opportunity that arises when Chinese companies shift production bases.

Source: deccanchronicle.com- Oct 11, 2019

Input tax credit under GST regime restricted to 20% of claims: CBIC

Experts said it would block cash flow of businesses and increase their compliance burden

Businesses will have to pursue their vendors on a monthly basis to upload their invoices to enable them to take the entire input tax credit (ITC) after the indirect tax board came out with a notification to restrict these credits to 20 per cent of the claims.

Concerned at dwindling revenues, the Central Board of Indirect Taxes and Customs (CBIC) put this condition on the claims where vendors have not uploaded their invoices within a month.

Experts said it would block cash flow of businesses and increase their compliance burden.

Though theoretically, businesses have to reconcile their ITC within 60 days, this clause was never implemented since the auto-populated form of purchases by suppliers — GSTR2 — has been suspended.
As such, businesses are supposed to reconcile their input tax credit at the time of annual returns. However, the deadline of annual returns even for the first year of the GST rollout — 2017-18 — have been deferred a number of times. This means that there was no restriction on the businesses to claim their input tax credit, provided they have the invoices to support their claims.

Now, businesses have to follow-up with non-compliant vendors on a monthly basis to upload their invoices in the form GSTR 2A.

Harpreet Singh, partner at KPMG, said, “Restriction of mismatched ITC by 20 per cent would necessitate undertaking monthly reconciliation of purchase, credit register with GSTR 2A, and hence may increase the monthly compliance burden.”

He said the move would also restrict credit, which was rightly availed of but did not get reflected in the GSTR 2A form, on account of default by vendors may result in adverse cash flow impact.

The GST collections fell to a 19-month low of Rs 91,916 crore in September, pointing towards deepening economic slowdown. It was the second straight month of revenue collections falling below the Rs 1-trillion mark, compounding the government’s revenue woes amid steep collection target for the fiscal. The target is over Rs 1.1 trillion a month.

In the first six months till September, GST grew by 4.9 per cent year-on-year.

The government in August had extended the date for filing annual GST returns for 2017-18 and 2018-19 by three months to November 30, as taxpayers were facing technical problems in furnishing returns. In fact, the government postponed the deadline a number of times. The original deadline of filing these returns were December 31, 2018.

GSTR-9 is an annual return to be filed yearly by taxpayers registered under the GST. It consists of details regarding the outward and inward supplies made or received under different tax heads.

The form GSTR-9C is filed by those with an annual turnover of above Rs 2 crore. It is a statement of reconciliation between GSTR-9 and the audited annual financial statement, while GSTR-9A is the annual return to be filed those who have opted for the Composition Scheme under GST.
The deadlines were extended after the businesses and experts complained about the complex nature of filing these returns and reconciliation of audited accounts with these returns. For instance, tax and legal consultants had said hundreds of amendments, notifications and circulars have made the GST Act very complex.

Officials of the Tax Bar Association, a body of over 400 members of chartered accountants, company secretaries, cost advocates and tax consultants, had said that the government has made the entire GST procedure and filing of returns very “confusing with hundreds of changes in the rules and taxes”.

Source: business-standard.com- Oct 10, 2019

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Karnataka textile policy failed to achieve intended target: CAG

There was inordinate delay in release of incentives and subsidies

The Karnataka textile policy 2013-18 failed to achieve its intended investment and job generation targets, said the Comptroller and Auditor General of India (CAG).

“The ₹10,000-crore investment target and 5 lakh employment generation target envisaged in the policy were not achieved and shortfall was to the extent of 63 per cent and 76 per cent, respectively”, said the CAG in its economic social report for March ended 2018.

“Imparting of skill development training to unemployed youth was reduced from 2.96 lakh to 1.09 lakh citing inadequate budgetary support, the report added.

The CAG conducted a performance audit on the Karnataka Textile Policy 2013-18 to assess the outcomes of the initiatives and factors responsible for under performance, said Anup Francis Dungdung, Accountant General Karnataka.
The government which had planned six textile parks in the State with integrated facilities with private sector participation had not fructified. An amount of ₹6.35 crore was irregularly released to an SPV in Kalaburgi though it had not fulfilled the prescribed conditions,” explained Dungdung.

He said “There was inordinate delay in release of incentives and subsidy amount to beneficiary units, which affected their cash flow. Incentive/subsidy to one super-mega project was sanctioned by exceeding the admissible limit under the textile policy on extraneous grounds caused extra financial implications of ₹315 crore.”

“₹84.53 crore released for the implementation of various schemes was retained in the bank for period ranging from two to five years without utilisation. In another case, the department paid ₹51.89 crore to Bescom as penal interest for not clearing the bills in full.” he added.

**CAMPA**

On the Compensatory Afforestation Fund Management and Planning Authority (CAMPA), Dungdung said there was a shortfall to the extent of 51 per cent in raising compensatory afforestation in compensatory lands in respect of forest lands diverted during 2013-18.

Source: thehindubusinessline.com - Oct 11, 2019

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**Goyal to attend RCEP meet in Bangkok as talks move towards scheduled conclusion**

To hold bilaterals with China, South Korea, Japan, Australia and New Zealand to smooth out rough edges

Commerce and Industry Minister Piyush Goyal is leaving on Friday for Bangkok to give a final shape to the proposed Regional Comprehensive Economic Partnership (RCEP) pact India is negotiating with the ASEAN, China and four other nations before the scheduled announcement of its conclusion next month.
“Commerce and Industry Minister will hold a series of bilateral meetings with his counterparts from Japan, Singapore, China, Australia and New Zealand during the Bangkok Ministerial,” according to an official release circulated by the Commerce Ministry on Thursday.

The bilaterals will be important as they could be the last opportunity for Ministers from participating countries to smooth out the rough edges before the scheduled conclusion of the negotiations by November 2019.

For Goyal, the bilateral meetings are especially significant as a large number of industrial sectors, the farm sector and the dairy sector have raised strong objections to the proposed tariff elimination under the RCEP as they fear a surge in imports after the pact is implemented.

While the industrial sector, which includes metals, engineering goods, textiles and heavy industry, is apprehensive of large scale imports from China once the tariff barriers are down, farmers and the dairy sector are equally concerned about increased inflows from Australia and New Zealand.

The 9th RCEP Inter-sessional Ministerial meeting, on October 11-12, will be the last Ministerial before the 3rd Leaders Summit to be held on November 4 in Bangkok to be attended by Prime Minister Narendra Modi.

New Delhi is finding it difficult to accommodate all sensitive sectors under the sensitive list of goods to be insulated from tariff cuts as it is under pressure to eliminate import duties on more than 90 per cent of traded goods for the 10-member ASEAN, Japan and South Korea and more than 80 per cent of items for China, Australia and New Zealand, according to officials closely following the negotiations.

Out of the 25 chapters of RCEP, 21 chapters have been concluded, the release stated. “The crucial chapters of investment, electronic commerce, rules of origin and trade remedies are yet to be settled, the release said.

“Ministerial guidance will be sought on these issues during the Bangkok Ministerial round. The Ministers of participating countries will also be discussing preparations for the 3rd Leaders Summit,” the release added.

Source: thehindubusinessline.com- Oct 10, 2019
120 MoUs signed for exports to China

Ahead of Modi-Xi meet, China pledges to fix trade imbalance

Private companies from India and China signed more than 120 MoUs for export of various products from India, including sugar, chemicals, fish, plastics, pharmaceuticals and fertilisers ahead of the meeting of Prime Minister Narendra Modi and Chinese President Xi Jinping in Mamallapuram on Friday.

“China is working to bring down its trade surplus with India. In the first eight months of this year, India’s trade deficit went down by 1.6 per cent to $37.9 billion,” Zhu Xiaohong, Counsellor, Embassy of China, pointed out at the India-China Business Meeting & Signing Ceremony organised by FICCI.

Modi and Xi will hold the second India-China Informal Summit on October 11-12; the two are expected to announce additional confidence-building measures to strengthen diplomatic, trade and security relations.

Over 60 Chinese entrepreneurs from 34 sectors will carry out trade promotion activities in India; these enterprises have formalised trade agreements with orders of about $100 million, pointed out, Liu Changyu, Deputy Director General, Foreign Trade Department of Ministry of Commerce.

India’s trade deficit with China fell to $53 billion in 2018-19 from over $60 billion a year ago, but it still accounts for almost a third of India’s overall trade deficit.

Zhu said that attract Chinese customers, India needs to focus on compatibility, competitiveness, creativity and cooperation. “Chinese consumers want products that are competitive. Also products lacking innovation cannot succeed in the Chinese market,” he cautioned.

The Chinese Ministry of Commerce is willing to strengthen cooperation with departments in India to improve economic and trade development, said Liu. “Chinese enterprises have responded to the ‘Make in India’ and ‘Digital India’ campaigns and their investment in India has exceeded $8 billion,” he said.
“In the next 15 years, China will import $30 trillion of goods and $100 billion of services from the world. As the only two major developing countries with a population of over 1 billion, China and India are focussing on development,” he said.

Source: thehindubusinessline.com- Oct 11, 2019

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Trade policy in the age of global supply chains

With internationalised production systems, gains and losses cannot be measured by simply looking at bilateral trade deficits

Global supply chains are a by-product of economic globalisation. Yet, their significance is inadequately appreciated by policymakers like President Trump.

The current trade (and tariff) policy of the US basically rests on the simplistic assumption that goods and services exported by the US are all ‘Made in America’ while those imported from China are entirely ‘Made in China’. Consequently, more exports from the US mean gains for America and more imports signify loss. The US currently runs a big trade deficit vis-à-vis China. So, if this trade deficit can be reduced, according to this logic, US would be unambiguously better off and China worse off.

The reality is far more complex. Today’s internationalised production systems are based on global supply chains running through many countries. Also, farms and factories in a country are partially or fully owned by foreign shareholders. Hence, gains and losses cannot be measured by simply looking at the size of trade deficit.

For example, when an Apple iPhone is exported by China to the US, its export price, say, $800, is recorded as Chinese exports to the US. But, in reality, the gain to Chinese GDP consists only of the value added in China which is, say, only $200. The rest, $600 accrues to many other countries, including the US, which provide the design, software, patented technologies, brands, advertising, chips, display screens and many other components which are assembled (not made) in China.
Even a large part of the value added of $200 in China may go as profits to foreign firms (like Taiwan-owned Foxconn) that are doing the assembly work in China. So, if the import of Apple phones from China is restricted by the US, the loss of income of Chinese workers and shareholders may well be less than the loss inflicted on wages and profits earned by America and its allies (like Taiwan, Japan and South Korea).

In addition, the American consumers would lose to the extent the price charged in US stores go up (as a result of higher tariffs) while the producers of ‘Made in US’ goods (the value added by American factors of production may be only a fraction of the export price) like Harley Davidson motorbikes, GM cars and soybeans suffer as US exports go down due to retaliatory tariffs by China.

Further, higher tariffs on inputs like steel, aluminium, tyres, and chemicals from China would inflate the cost of production of goods (which use those inputs) in America reducing their international price competitiveness. Hence, as some American goods become more expensive, US imports of such goods would increase or exports go down, adversely impacting American jobs, wages and profits.

Also, some producers in China may shift their factories or export locations to other countries (including Hong Kong which is considered different from China for trade statistics purposes) to evade higher US tariffs. For similar reasons, some firms producing in America would like to shift their base to other countries (including Mexico or Canada) to bypass higher Chinese tariffs, taking away American jobs.

**Multilateral trade deficit**

What matters for a country is its multilateral trade deficit with all countries taken together. It is a basic lesson of macroeconomics that a country’s overall trade deficit is a reflection of its overspending. Unless the US cuts down on its habit of living beyond its means (by borrowing from abroad), it may reduce its trade deficit with China but its multilateral trade deficit would remain largely unaffected.

It seems that, belatedly, Trump is realising the folly of pushing the trade and tech war with China any further, especially as re-election is approaching. He would have a hard time convincing his support bases (especially in the so-
called ‘rust belt’ and agricultural states) that more jobs and incomes have been created (rather than lost) for them, as promised. Trump also knows that, despite his rhetoric of asking US companies to dismantle factories and withdraw investment from China, he cannot force them to do so against their economic self-interest.

Business interests are powerful forces determining national and international policies in all countries, including the so-called socialist or communist countries of today. Hence, the trade and technology war between US and China is unlikely to cross the threshold where it would lead to a breaking point.

India is not yet linked to any significant global manufacturing supply chain, due to a host of factors like poor infrastructure, difficulty in land acquisition and procuring necessary clearances, and uncertainty of government policies.

It is a major factor behind India’s stagnating export earnings and deprives India of the potential benefits from being a destination of parts of the global supply chains being relocated to evade tariffs in both China and the US.

Source: thehindubusinessline.com- Oct 11, 2019

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**Huge investment scope in handmade carpet, other floor coverings sector: Textile ministry**

There is a huge scope of investment in the handmade carpet and other floor coverings sector to set up units in India and discourage imports, the textiles ministry said on Thursday.

The sector is highly labour-intensive and provides employment to over 20 lakh workers and artisans especially women directly or indirectly in the rural areas, it said in a statement.

"There is a huge scope of investment in this sector to set up units to produce carpets and other floor coverings in order to discourage imports and also fulfil domestic requirements," it said.

The ministry is also organising an expo to attract global buyers.
Over 450 overseas carpet buyers are expected to attend India Carpet Expo in Varanasi, beginning from Friday.

"The carpet industry has immense potential for growth both in production and exports," it said.

Ravi Capoor, textiles secretary, will inaugurate the expo, which is one of the largest handmade carpet fairs in Asia.

It added that Indian handmade carpets have huge demand in global markets. It exports 85-90 per cent of its total carpet production.

Exports of handmade carpets and other floor coverings increased to USD 1.76 billion in 2018-19 from USD 1.71 billion in the previous fiscal.

India is exporting its handmade carpets to more than 70 countries in the world, mainly to the US, Germany, Canada, the United Kingdom, Australia, South Africa, France, Italy and Brazil. Recently, exports have also started to China.

Germany and other European countries were the traditional markets for export of Indian products followed by the US.

Source: timesofindia.com- Oct 10, 2019
Noida: Apparel sales down by 25%, say exporters

The two-day apparel exhibition being held in the city has some bad news coming from the apparel and garment industry in Gautam Budh Nagar: exporters say sales have gone down by 20-25% in the past six months.

Apparel is one of the largest industries in Noida and the district is also recognised as a readymade garment hub under the state government’s ‘one district, one product’ scheme. However, manufacturers said that the scheme only gave recognition, but without incentives or subsidies.

“The apparel industry in Noida is struggling to survive mainly because of two reasons. The ongoing recession that has hit sales in the international market and the changing government policies and schemes. By the time we get acquainted with one scheme, it is replaced by another,” said Anil Bountra, an apparel exporter in Noida.

According to Rajiv Mehta, another apparel exporter, “The government needs to provide more subsidies and improve its laws related to labour, industry infrastructure and financing. Also, the schemes and policies need to stay consistent, incentive plans have to be fixed and not keep fluctuating.”

Others said that the government schemes are not very beneficial and hardly any subsidies are offered. Other countries have a much better industry environment, said exporters.

“Electricity rates here are so high that it comes to about Rs 10 per garment on an average, whereas power is free for garment manufacturers in China. The garment industry of a small country like Bangladesh is 1.5 times ours and import duty is free there. However, we don’t get such facilities. Between April and September, I faced about 25% drop in sales,” said Neeraj Prakash, another apparel exporter in Noida.
Prakash added, “However, October onwards is usually a good season, so we are hoping the next few months will be better.”

The apparel exhibition started in Noida on Thursday under the ‘one district, one product’ scheme. Several apparel manufacturers displayed their products, saying they are hoping to shift from export to the domestic market in the face of drop in sales.

“There seems to be recession in the international market and exports have been hit. However, the domestic market is doing well and is capable of offsetting the losses. We are helping industries work through this with the help of one district, one product scheme and other policies,” said Kulmani Gupta, chairman of the Noida chapter of Indian Industries Association.

There are over 3,000 garment units in GB Nagar, employing more than 10 lakh people. According to government data, in the past one year, 1,39,255 people were employed and an investment of Rs 2,824.45 crore was made.

Source: timesofindia.com- Oct 11, 2019