



IBTEX No. 200 of 2019

October 15, 2019

US 71.30 | EUR 78.64 | GBP 90.06 | JPY 0.66

Cotton Market		
Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm		
Rs./Bale	Rs./Candy	USD Cent/lb
19665	41100	73.45
Domestic Futures Price (Ex. Warehouse Rajkot), October		
Rs./Bale	Rs./Candy	USD Cent/lb
19510	40776	72.87
International Futures Price		
NY ICE USD Cents/lb (December 2019)		62.22
ZCE Cotton: Yuan/MT (January 2020)		12,660
ZCE Cotton: USD Cents/lb		81.25
Cotlook A Index – Physical		74.25
<p>Cotton Guide: After a brief up rise, we have seen profit taking, which in turn has led the prices to take a downturn once again. There was massive selling seen throughout the day yesterday. The ICE December Future contract thus settled lower by 3 digits i.e. -166 points at 62.22 cents per pound. The ICE March 2020 contract settled lower by -127 points with a change of 63.18 cents per pound.</p> <p>The main reason why we say that the profits were booked is the Quantity of Volumes. The total volumes summed up at 54,000 contracts which is almost a 3 times rise as compared to the daily average of around 18,000-20,000 contracts. The total open interest also increased by 5,822 contracts to 241,825. The open interest (OI) for the December contract increased by 2,620 contracts whereas the open interest for the March contract increased by 2,168 contracts.</p>		

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Page 1

The MCX contracts on the other hand were quite mixed. The MCX October contract ended negative with a change of -150 Rs at 19,510 Rs per Bale. The MCX November contract settled at 19,120 Rs per Bale with a change of +50 Rs whereas the MCX December contract settled at 19,140 Rs per Bale with a change of +90 Rs. The volumes were decent at 1520 lots.

The cotlook Index A was updated at 74.25 cents per pound with a change of +250 points. Shankar 6 [2018-2019] prices were unchanged at 41,100 Rs per Candy.

While speaking about the changes in the geopolitical trade situations that have happened in these few days, there is an optimistic wave around, which has diminished [to a certain extent] the major bearish perception. The Market is of the view that since the new tariffs will not be levied by the US, the demand prospects of finished goods produced by China should increase.

Fundamentally speaking, after this profit taking, the prices are set to show a sideways trend with a positive Bias. After a discussion with other market participants who trade on fundamentals the view for ICE is mostly bullish to neutral. However, arrival pressure has to be monitored on a regular basis. For MCX we still expect a mixed sideways trend with a bearish bias.

On the technical front, As seen in the chart, ICE Cotton have given a Head & shoulder pattern breakout, while trading within an upward sloping channel, which would act as the immediate resistance. Price are above the daily EMA (5, 9) at 62.44, 62.13, which would act as immediate support. The momentum indicator RSI is at 58, implying positive bias for the price. The immediate resistance for the price would be at 64.80, 76.4% Fibonacci extension level, while the immediate support would be at 61.20 (23.6% Fibonacci extension level). Thus for the day we expect price to trade in the range of 64.80-61.20 with positive bias. For MCX October, we expect the price to trade within the range of 19400-19900 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

INTERNATIONAL NEWS	
No	Topics
1	Weaker growth amid Brexit, trade uncertainty: World Bank
2	US NRF welcomes progress on trade talks with China
3	China's Imports From US Fell by 20% in September Amid Tariff War, Exports Down 18%
4	USA: Price Uptick Adds a Rosy Glow to Cotton
5	Vietnam: Textile industry hit by on-going trade war
6	UK boosts trade, investment partnership with Ghana
7	Pakistan: Strong buying by mills pushes cotton prices higher
8	Buyers' to increase Bangladesh sourcing in 2019
9	Sri Lanka: Trade deficit drops down by \$ 2.3 b
10	Pakistan: CPEC Authority - a potential game changer?
11	Pakistan: Cotton – good intentions are not enough

NATIONAL NEWS	
1	How India can enter global supply chains
2	US lists rise of China as challenge before India; wants free flow of goods, capital, data
3	RCEP members to sort out issues hindering trade agreement by Oct 22
4	AEPF appeals to FM to direct banks to pass on rate cut, recast their debt
5	WPI inflation for apparel up 1.9% in September 2019
6	Karnataka textile policy failed to hit Utopian target: CAG
7	The key to Indian economy is in better wages for the masses
8	Prime Minister Modi may have to take a final call on RCEP next month
9	Will ask firms to clear Rs 40,000-cr MSME dues fast: FM Nirmala Sitharaman

INTERNATIONAL NEWS

Weaker growth amid Brexit, trade uncertainty: World Bank

The global economic outlook is deteriorating amid Brexit-related uncertainty, trade tensions and a downturn in Europe, World Bank president David Malpass recently said in Montreal. Ahead of the International Monetary Fund (IMF) and World Bank annual meetings, he said the world economy now looks even weaker than its June forecast for 2.6 per cent growth in 2019.

Malpass repeated his criticism of the roughly \$15 trillion of bonds with zero or negative yields, describing it as ‘frozen capital’ that is diverting resources from growth and benefiting bondholders and issuers of the debt.

The IMF has also indicated it may lower its 2019 outlook after the fund in July projected 3.2 per cent growth, the lowest since the financial crisis. The IMF is scheduled to release its updated forecast this week.

Source: fibre2fashion.com - Oct 14, 2019

[HOME](#)

US NRF welcomes progress on trade talks with China

Welcoming the US government decision to delay planned tariff hikes, the National Retail Federation (NRF) recently said retailers are encouraged by the progress made between the United States and China and are pleased that the administration has listened to the concerns of the business community as the trade war takes an increasing toll on the US economy.

“The decision to delay planned tariff hikes is welcome news to US retailers and consumers heading into the busy holiday shopping season. Although this is a step in the right direction, the uncertainty continues.

We urge both sides to stay at the negotiating table with the goal of lifting all tariffs and fundamentally resetting US-China trade relations,” NRF senior vice president for government relations David French said in a statement.

The Donald Trump administration announced recently that a scheduled tariff hike from 25 per cent to 30 per cent on \$250 billion worth of goods from China will not take place on October 15 as negotiators finalise a tentative trade deal.

Both countries recently arrived at a substantial 'phase one' trade deal on intellectual property, financial services and big agricultural purchases. China agreed to step up purchases of US farm products. The agreement has to be put on paper and more work is required to get it finalised.

Source: fibre2fashion.com- Oct 14, 2019

[HOME](#)

China's Imports From US Fell by 20% in September Amid Tariff War, Exports Down 18%

China's trade with the United States fell by double digits again in September amid a tariff war that threatens to tip the global economy into recession.

Exports to the United States, China's biggest foreign market, fell 17.8% to \$36.5 billion, a deterioration from August's 16% decline, customs data showed Monday. Imports of American goods sank 20.6% from the year before to \$10.6 billion, a slight improvement over August's 22% decline.

President Donald Trump agreed Friday to put off an additional tariff hike planned for this week on Chinese imports. In exchange, he said Beijing agreed to buy up to \$50 billion of American farm goods. But they reported no agreements on disputes over China's trade surplus and technology policies that brought on the 15-month-old fight.

"The external environment facing China's foreign trade development is still complicated and severe. Instability and uncertainty are increasing," a customs agency spokesman, Li Kuiwen, said at a news conference.

Tit-for-tat tariff hikes on billions of dollars of each other's goods have battered manufacturers and farmers on both sides and disrupted supply chains worldwide. Uncertainty has prompted some companies to postpone investments, adding to downward pressure on global growth and fueling financial market jitters.

China's global exports fell 1.4% from a year earlier to \$218.1 billion. Imports fell 5.8% to \$178.5 billion.

The slump adds to pressure on President Xi Jinping's government to shore up cooling economic growth and prevent politically risky job losses.

Chinese growth fell to its lowest level in at least 26 years in the quarter ending in June, decelerating to 6.2% over a year earlier.

Forecasters expect growth in the July-September quarter, due to be reported this week, to fall further to as low as 5.9%, sinking below the ruling Communist Party's official target for the year of at least 6%.

"While import growth should start to recover soon, it will take longer before export growth bottoms out," said Martin Lyng Rasmussen of Capital Economics in a report. "The mini U.S.-China trade deal reached on Friday doesn't alter the outlook significantly."

The country's politically sensitive trade surplus with the United States contracted by 16.5% from a year earlier but stood at \$25.9 billion.

Increased exports to Britain and other European countries and developing markets such as Vietnam helped to offset some of the losses. China's global trade surplus expanded by 42.2% to \$39.7 billion.

For the first nine months of the year, Chinese imports of American goods were off 26.4% at \$90.6 billion. Exports to the United States were off 10.7% at \$312 billion.

Trump put off a tariff hike planned for Tuesday on \$250 billion of Chinese goods. But Washington still is planning a Dec. 15 tariff hike on \$160 billion of smartphones and other imports.

Before then, Trump and Chinese President Xi Jinping are due to attend an economic conference in Chile in mid-November. That is raising hopes a face-to-face meeting might produce progress.

Talks broke down in May over Beijing's insistence that Trump's punitive tariffs had to be lifted once a deal took effect. Washington says some must

remain in place to ensure Chinese compliance. Trump and Xi agreed in June to resume negotiations but they have announced no breakthroughs.

Source: ktla.com- Oct 13, 2019

[HOME](#)

USA: Price Uptick Adds a Rosy Glow to Cotton

Cotton turned to roses this week as the combination of trade talks, USDA's WASDE report and an impending freeze in West Texas potentially have offered U.S. cotton to flow more freely into China, coupled with the probability that U.S. stocks may not be as burdensome as had been previously expected.

Going into the weekly close, the nearby December contract was up 221 points on the week – its third consecutive higher weekly close. Maybe an uptrend is in the works, that is, the market is experiencing a series of higher and higher lows. December traded to 64.00 and was on tap to establish its highest close in over a month.

Demand continues to be the fly in the price ointment, but the potential for a smaller world crop as suggested by the USDA October supply demand report could offset some of the price bearishness that has plagued the market all year.

The AgMarket Network group unanimously agreed that 66 cents, basis December, was a real possibility. Two members of the group indicated they could see December trade to 70 cents. For me, 70 cents is “A Bridge Too Far,” but I do hope they are correct.

The spoiler for me is that there is simply too much cotton in exporting countries to see a trade above 67 cents. Nevertheless, the 61-65 cent trading range is still the order of the day and must be breached before the bull can make his mark. Yet, the continued optimism of a partial settlement in the trade dispute is a significant reason to argue for higher prices.

In its October report, USDA lowered U.S. production 157,000 bales and lowered ending stocks from 7.2 million bales down to 7.0 million bales. The 2019 U.S. crop is now estimated at 21.7 million bales. The impending freeze

in West Texas could take another 200,000 bales or more off the 1N and 1S crops – thus, the argument for yet a smaller U.S. crop. The freeze is some two to three weeks earlier than the normal first freeze.

Total world estimates were little changed from the September data, but certain country changes were notable. The Indian crop was increased one million bales, as expected, but decreases in the U.S., Brazil, Australia and Pakistan crops slightly offset the increase in India. However, world consumption, production and carryover were only marginally changed from the prior month. World production was estimated at 124.8 million bales, with world consumption at 121.6 million.

U.S weekly export sales continue a bit anemic. However, forward sales were significant enough that total commitments and shipments to date are slightly ahead of the 2018/19 pace. Too, recent weekly sales, while anemic as stated, came from a very wide array of countries, i.e., widespread – albeit light – demand for U.S. cotton.

The market must still battle through the bearish on-call purchases that signify the historically excessive volume of cotton that growers still must fix. This, coupled with questionable demand numbers, comprise the primary reason that I am skeptical of the market advancing beyond 66-67 cents. Too, the volume of cotton held in the world's major exporting countries must be reduced before the 70-cent level can be breached.

Additionally, as stated last week, the market does not seem to want any part of the upper 50s again. The U.S. is well into its harvest, and the price lows should be in. Let's go to 66 cents and take another look-see. Begin scale-up hedging at 65 cents plus.

Source: cottongrower.com- Oct 11, 2019

[HOME](#)

Vietnam: Textile industry hit by on-going trade war

Việt Nam's textile industry faces many difficulties with both export and production on the decrease due to effects of an intensified China-US trade war, said industry experts.

“Buyers are concerned with the on-going China-US trade war and it has resulted in fewer and smaller orders,” said a report by the Ministry of Investment and Planning.

Vietnamese textile companies were being hit hard as the trade war dragged on, as indicated in a performance review of the Vietnam National Textile and Garment Group (VINATEX), one of the largest in Việt Nam.

Export of raw materials to China, traditionally a major market for Vietnamese products that accounts up to 60 per cent of the country's total export volume, plummeted as China cut back on imports. Among the most affected was yarn export with the price continuing to fall as fears of further tariffs being slapped on an additional US\$250 billion worth of Chinese goods linger.

“As the global yarn industry faces worsening prospects due to the on-going trade war, competition among rival countries such as India, Indonesia, Pakistan, Thailand and Việt Nam has intensified,” said the review.

In stark contrast to last year when there were more than enough orders to work on until the end of the year by September, companies are scrambling to secure orders to maintain production.

A vast majority of orders, if they were signed at all, were of small volume and short-term as customers were constantly on the look-out for new developments of the trade war. In addition, more and more Chinese orders have been shipped to countries with better tax incentives such as Cambodia and Bangladesh.

The possibility of Việt Nam's textile industry hitting its target of \$40 billion in exports this year is getting slimmer, said VINATEX Vice President Trương Văn Cẩm.

Along with the trade war's adverse effects, expectations for trade deals such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the EU-Việt Nam Free Trade Agreement (EVFTA) were set unrealistically high, Cẩm said, adding such deals will take a while to make a real impact.

According to figures released by the General Department of Customs, textile exports during the first three quarters of 2019 reached \$29.2 billion, a 9.1 per cent year-on-year increase.

Source: vietnamplus.vn- Oct 14, 2019

[HOME](#)

UK boosts trade, investment partnership with Ghana

UK international development minister Baroness Sugg visited Ghana recently ahead of the UK-Africa Investment Summit in 2020. Co-hosting the UK-Ghana Business Council alongside Ghanaian vice president Mahamudu Bawumia, Sugg discussed how UK aid and investment can help Ghana move beyond aid by creating jobs, boosting growth and driving its economic potential.

Sugg launched a new partnership between the London Stock Exchange and the Ghana Stock Exchange, which will see the United Kingdom share the expertise of London to help Ghana become a regional hub for financial services.

She also championed the use of UK aid to help Ghana globally scale up its garment exports and support agri-businesses to turn more productive, competitive and attractive for investors.

Sugg said building strong African markets will help attract quality investment from around the world and encourage more trade in the future, according to an official release.

UK imports of goods from Ghana increased by 143.7 per cent in the year to April 2018.

The 2020 summit will bring together businesses, governments and international institutions and will be a key milestone towards achieving the UK's objective of becoming the largest G7 investor in Africa. The UK will host the summit in London on 20 January.

Source: fibre2fashion.com- Oct 15, 2019

[HOME](#)

Pakistan: Strong buying by mills pushes cotton prices higher

Strong mills' buying pushed the rates higher on the cotton market on Monday, dealers said. The official spot rates were higher by Rs 50 to Rs 8850, dealers said. In the ready session, about 18,000 bales of cotton changed hands between Rs 8750-9100, they said.

Rates of seed cotton per 40kg in Sindh were at Rs 3600-4200 and in the Punjab prices were at Rs 3700-4300, they said. In Balochistan, seed cotton prices were at Rs 4100-4600, they said. In Sindh, Binola prices per maund were at Rs 1550-1600 and in Punjab rates were at Rs 1550-1650, they said and adding that polyester fibre was at Rs 187.

Market source said that cotton prices gaining momentum, it appears that prices of lint cotton may go further up. Commenting on the market trend, cotton analyst, Naseem Usman said that short supply of fine cotton quality is causing rise in rates of cotton at nearly daily basis. Other brokers said that ginners under the circumstances were taking advantage as much as they can.

The following deals reported: 400 bales of cotton from Panu Aqil at Rs 9050, 4000 bales from Khairpur at Rs 8750/8900, 600 bales from Rohri at Rs 8750/8800, 400 bales from Ghotki at Rs 9075, 600 bales from Mirpur Mathelo at Rs 9050, 1000 bales from Saleh Pat at Rs 8800, 2000 bales from Rajanpur at Rs 9000, 400 bales from Chichawatni at Rs 8500, 200 bales from Vehari at Rs 8500, 400 bales from Liaquatpur at Rs 8900, 400 bales from Khanewal at Rs 8950, 800 bales from Yazman Mandi at Rs 8900/8950, 200 bales from Haroonabad at Rs 8900/8950, 400 bales from Faqeerwali at Rs 8950, 400 bales from Mianwali at Rs 9000, 600 bales from Ahmedpur East at Rs 8950, 800 bales from Shadan Lund at Rs 8800/8850, 1400 bales from Alipur at Rs 8800/8850, 400 bales from Daranwala at Rs 8900/8950,

400 bales from Bahawal Nagar at Rs 8800/8950, 600 bales from Sadiqabad at Rs 9100 and 600 bales from Fort Abbas at Rs 9000, they said.

Source: breccorder.com- Oct 15, 2019

[HOME](#)

Buyers' to increase Bangladesh sourcing in 2019

According to recent study by the US Fashion Industry Association (USFIA), despite slipping to the sixth position as a preferred sourcing destination for US-based apparel and fashion companies, majority of the buyers expressed an interest in increasing their sourcing from the country in 2019.

Bangladesh's RMG exports to the USA, from January-August 2019, grew by 11.81 percent compared to that in the corresponding period of 2018. The data from the Office of Textiles and Apparel reveals that the country earned US \$4.08 billion in the first eight months of 2019 from its RMG exports as against US\$3.65 billion earned during January-August period of 2018. Experts and exporters opined that this growth was possible due to shifting work orders from China in the wake of trade war.

A recent study of Asian Development Bank also stated the trade war between China and the US has become a boon for Bangladesh as the country exported a total of US\$4.23 billion in textile and apparel items to the US during January-August period of 2019.

After the Rana Plaza building collapse in 2013, Bangladesh's apparel exports to US declined in 2014 and stood at US\$4.83 billion which was US\$4.95 billion in 2013.

In 2015, exports rose to \$5.40 billion but continued declining in next two consecutive years. In 2017 and 2018, the country earned US\$5.06 billion and \$5.40 billion respectively from garment exports to US.

Source: fashionatingworld.com- Oct 14, 2019

[HOME](#)

Sri Lanka: Trade deficit drops down by \$ 2.3 b

Sri Lanka's trade deficit contracted by \$ 2.3 billion to \$ 4.8 billion during the first eight months of this year, the Central Bank said yesterday, with August seeing an import decline of 16.6% while exports declined by 0.4%.

The deficit in the trade account contracted by \$ 2,386 million to \$ 4,854 million during the first eight months of 2019, in comparison to \$ 7,240 million in the corresponding period of 2018, the Central Bank said in its latest External Performance report.

The trade deficit contracted in August 2019 as the decline in imports continued while the dip in exports in the previous month has largely recovered. Import expenditure recorded a decline of 16.6% (year-on-year) and export earnings declined fractionally by 0.4% (year-on-year) in August 2019, mainly due to the lower prices of major export categories.

The trade deficit fell to \$ 540 million in August 2019 compared to the deficit of \$ 717 million recorded in July 2019.

Meanwhile, the terms of trade, which represents the relative price of imports in terms of exports, improved by 5.2% (year-on-year) as import prices reduced at a faster pace than the reduction in export prices. However, on a cumulative basis, the terms of trade deteriorated marginally by 0.1% during the first eight months of 2019 in comparison to the corresponding period of 2018.

Earnings from merchandise exports declined marginally by 0.4% (year-on-year) to \$ 1,033 million in August 2019, led by a decline in agricultural exports followed by mineral exports while industrial exports grew, supported by higher earnings from textiles and garments. Earnings from textiles and garments increased by 7%, reflecting the higher demand from all major markets especially from the European Union, which recorded a growth of 12.9%.

Export earnings from chemical products, printing industry products, animal fodder and plastics and articles thereof also increased. However, export earnings from rubber products declined due to lower earnings from tyres and surgical and other gloves exports while food, beverages and tobacco exports declined with lower exports of vegetable, fruit and nut preparations as well

as manufactured tobacco. Export earnings from machinery and mechanical appliances, petroleum products, transport equipment, base metals and articles and leather, travel goods and footwear also declined during this period.

Earnings from agricultural exports decreased in August 2019 due to lower earnings from all sub-categories except tea, seafood and vegetables.

Earnings from tea exports increased in August 2019 due to higher export volumes despite the decline in average export prices. However, earnings from spices declined due to poor performance in cinnamon, clove and pepper. In addition, export earnings from coconut declined due to lower export prices in both kernel and non-kernel products.

Export earnings from mineral exports also declined in August 2019 in comparison to August 2018 due to a low performance in all sub-categories under mineral exports. The export volume index in August 2019 increased by 2.9% (year-on-year) while the export unit value index declined by 3.2%, indicating that the subdued performance of exports was entirely driven by the reduction in export prices.

Expenditure on merchandise imports contracted notably in August 2019 for the tenth consecutive month by 16.6% (year-on-year) to \$ 1,574 million, registering a decline across all major categories of imports.

Expenditure on consumer goods imports declined in August 2019, reflecting the reduction in both food and beverages and non-food consumer goods imports. Lower imports of spices, dairy products, vegetables and seafood mainly contributed to the decline in imports of food and beverages while lower imports of personal motor vehicles resulted in the contraction in non-food consumer goods imports.

“Import expenditure on personal motor vehicles declined by 46.2%, year-on-year, continuing the trend observed since December 2018 despite an increase seen in July 2019 over the preceding months, reflecting the impact of a backlog of concessionary permits being used for importing vehicles.”

However, expenditure on sugar and confectionary, medical and pharmaceuticals, cereals and milling industry products imports has increased during August 2019.

Expenditure on imports of intermediate goods reduced in August 2019 mainly due to lower expenditure on petroleum products as a result of lower import volumes and prices. Expenditure on textiles and textile articles, chemical products, paper and paperboard and articles thereof and mineral products also declined. However, expenditure on fertiliser imports increased more than twofold on a year-on-year basis in August 2019 due to higher volumes imported targeting the coming Maha season while the import of base metals, wheat and maize also increased.

Imports of investment goods declined in August 2019 due to lower imports of machinery and equipment and building material. However, transport equipment increased significantly, driven mainly by the importation of railway equipment. The import volume index dropped by 9.3% while the unit value index dropped by 8%, indicating that the decline in imports was driven by the combined effect of lower volume and prices when compared to August 2018.

Foreign investments in government securities recorded a net outflow of \$ 156 million in August 2019. On a cumulative basis, net outflows from the government securities market amounted to \$ 285 million during the first eight months of the year.

Foreign investments in the Colombo Stock Exchange (CSE), including primary and secondary market transactions, recorded a net outflow of \$ 12 million during August 2019. Nevertheless, financial flows to the CSE recorded a net inflow of \$ 22 million during the first eight months of 2019.

Further, long-term loans to the Government recorded a net inflow of \$ 83 million during August 2019. There were significant project loan inflows to the Government in August 2019, with a number of social development and infrastructure projects receiving disbursements.

Gross official reserves stood at \$ 8.5 billion by end August 2019, equivalent to 5.1 months of imports. Meanwhile, total foreign assets, which consist of gross official reserves and foreign assets of the banking sector, amounted to \$ 11.3 billion as at end August 2019, which was equivalent to 6.8 months of imports.

Source: ft.lk- Oct 15, 2019

[HOME](#)

Pakistan: CPEC Authority - a potential game changer?

The president of Pakistan recently promulgated ordinances to establish the China-Pakistan Economic Corridor Authority (CPEC Authority) and grant tax concessions to Gwadar Port and its free zone.

The aim of the government is to reinitiate the CPEC project and achieve its goal of not only greater economic development in Pakistan but also integrating the national economy into regional and global economies.

The purpose of the CPEC Authority and the new tax laws is to oversee and implement CPEC projects and ensure that Gwadar and its free zone are provided with necessary tax and tariff concessions.

The authority will have considerable autonomy and vast financial and administrative powers. It will ensure that CPEC projects are completed without major bottlenecks that otherwise plague development projects in the country.

However, it is important that the major objective of the authority encompasses an increase in overall exports from Pakistan and improved competitiveness of domestic firms, for which it must be kept insulated from lobbies with a protectionist mindset.

Along with the establishment of the CPEC Authority and tax concessions, the government has also realised the importance of fast-pacing the development of Special Economic Zones (SEZs) and providing incentives for small and medium enterprises (SMEs) to widen the industrial base and ramp up exports.

The cooperation with China is critical for developing the SEZs across Pakistan as China boasts of over 2,500 SEZs, which constitute approximately 50% of all SEZs around the world. The Chinese are likely to aid the development of SEZs in Pakistan.

The World Investment Report 2019 says Pakistan has seven SEZs. They exhibit minimal participation in global value chains. Pakistan is planning an additional 39 SEZs. It is important to improve the existing infrastructure in industrial areas along with developing the new SEZs.

Owing to high trade and production costs that are likely to accumulate as a product moves through the value chain, Pakistan is unlikely to produce products that undergo a transformation in different countries, regionally and globally.

The recently published World Competitiveness Index of the World Economic Forum indicates further deterioration in Pakistan's ranking, primarily driven by macroeconomic instability. Therefore, it is essential that the Pakistan government not only undertakes significant reforms in its trade costs but also ensures better economic conditions and facilities to boost production in the SEZs as well as by the SMEs.

The World Bank's World Development Report 2020: Trading for Development in the Age of Global Value Chains emphasises the importance of product fragmentation across country borders or participation in global value chains (GVCs), such that firms within a country specialise in a particular production process rather than manufacturing an entire product. The key message of the report is that a 1% increase in GVCs participation boosts per capita income levels by more than 1%, which is estimated to be twice the benefit from participation in conventional trade.

Furthermore, GVCs enhance sustainable and inclusive development in developing countries if such states adopt trade and investment reforms as well as improve connectivity. Unfortunately, Pakistan has been plagued by the lack of participation in GVCs.

Challenges

The World Bank's report gives certain examples of challenges faced by the exporters. Pakistan's exporters have faced significant challenges to receiving concessions on imported intermediates that almost eliminate their ability to buy crucial inputs to boost the quality of their products.

Although the government has made changes to the duty and tax remission schemes, higher constraints on accessing desired inputs can damage export competitiveness. On the other hand, exporters in Bangladesh are granted approval for duty exemptions within 24 hours and more than 90% of their textile exporters avail the scheme.

The report also highlights the fact that Pakistan's exporters are likely to be the most exposed to automation in production in developed countries, which may eventually result in the displacement of several exporters.

Furthermore, the report highlights the importance of robust national certification and testing agencies to ensure that Pakistan's products comply with international standards. It cites an example of how the fishing industry was able to overcome the ban on fish exports by improving on services of the testing agency in Pakistan.

Trade linkages

The new phase of CPEC can help boost industrial activity and economic development in Pakistan. It is highly recommended that the CPEC Authority does not limit itself to the promotion of trade and investment between Pakistan and China but also ensures increasing export activities with important destinations in the European Union and the United States.

Although China as a manufacturing hub of the world is known for its exports of finished goods and products, it is also a major exporter and importer of intermediate goods. China is a major origin country for imports for several of the large exporting powerhouses in the Southeast Asian region.

Policies for promoting trade linkages with Chinese firms, which involves increasing exports to other markets, is likely to benefit Pakistan. For instance, an analysis of the data borrowed from the ITC's Trademap.org shows China is by far the largest exporter of woven fabrics of cotton, manmade filaments, and manmade staple fibers. These inputs can help boost downstream textile production in Pakistan.

Furthermore, with the demand for new machinery and appliances likely to increase with the advent of CPEC-related industrialisation, the imports of such equipment may also get a boost.

China exported more than \$1 trillion worth of machinery and electrical appliances in 2018, more than the combined sum of exports of machinery and electrical appliances from Germany, the US, and South Korea. China exported approximately \$100 billion worth of data processing machines.

China is also the world's largest exporter of textile machinery, followed closely by Germany and Japan. China is now the most significant source of textile machinery imports into Pakistan.

Germany and Japan, along with China, were the major sources of textile machinery imports in the previous surge between 2004 and 2007. The relocation of Chinese factories in Pakistan can boost textile exports.

In essence, another potential game-changer is in the making. However, trade and investment reforms need to be prioritised to ensure success.

Source: tribune.com.pk- Oct 15, 2019

[HOME](#)

Pakistan: Cotton – good intentions are not enough

It is cotton-picking season, and the domestic market could not have been more out of sync with global trends. Seed cotton price has climbed eight percent in the last twelve months according to the daily price bulletin. This at a time when commodity spot price has fallen thirty percent in international markets since last year, with futures market auguring further downward pressure.

And why shouldn't prices drop. Global raw cotton stocks are projected to improve by a healthy five percent, even as demand is feared to slow down no thanks to recessionary reverberations amid on-again, off-again tariff slinging between the two giants.

So, what is keeping domestic dynamics out of step with the international salsa? With the change of reigns at the centre last year, earnest efforts at curtailing trade deficit by staging a coup d'état textile signaled to the markets that the crop of past glory was back in vogue.

Federal Cotton Committee's annual acreage target was finally taken seriously for a change. As a result, actual sown area for MY20 is 96 percent of targeted, compared to last year when it was missed by nearly 20 percent.

Read in isolation, improved crop outlook both domestic and globally should have made this raw material cheaper for the processing industry. That, after all, is the idea behind raising textile competitiveness on the back of cheaper inputs. Yet, so far there have been no signs of double-digit growth in off take by mills that would indicate serious demand side pressures. Rather, both Karachi Cotton Association and Textile Commissioner's Organization confirm that domestic consumption is very much stable at 16 million bales per annum.

Alarm bells set off last week over possible decline in output due to news of crop damage seem in part based on hyperbole. Estimate of 7-8 million bales (against revised official estimate of 10.2 million bales) appears to have come from USDA, which uses the 1bale=480lb conversion factor (approx. 217kg), against the 170kg per bale factor used by official quarters such as Central Cotton Committee and PBS.

Market pundits also usually quote the lower number – especially since the 480lb per bale is the relevant standard for brokers & investors dealing in foreign trade – adding to the confusion. Nevertheless, since the difference is consistent, the crop should technically not see a decline going by either measure.

If the Textile Commissioner and KCA's estimate of annual mill consumption (see illustration Fig-1) is not wide off the mark, the culprit is the secular decline in seasonal inventory over the past decade. The marketing year, it turns out, has begun with opening stocks close to dead level, and the situation has never been so bad in recent memory.

Thus, if the processing sector's raw cotton import are to remain restricted at last year's level of 2.5 million bales, all bets are now on yield coming in at 800 kg/ha minimum, given the already sown area of 2.66 million hectares. And this too will only ensure that demand from mills is contained at last year's level- a level at which textile value-add exports had barely inched forward.

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Source: breccorder.com- Oct 14, 2019

[HOME](#)

NATIONAL NEWS

How India can enter global supply chains

India should engage with the world by inviting investment, rather than entering into FTAs. Labour rigidities need to be addressed

In the context of the growing trade friction between the US and China, one view often expressed is that it provides India with a major economic opportunity. But this opportunity, as of now, is more theoretical than real. For some years, wages in China have been rising rapidly, and consequently, low-wage jobs have been moving out — just as they did from the high-wage economies of the US, Europe, Japan, Korea and Taiwan a generation earlier — as a part of mobile global supply chains.

These jobs, whose numbers are not insignificant, are going to other destinations, rather than India, which are more attractive to investors. To get these jobs into India as part of global supply chains, we need more than ‘business as usual’.

Labour reforms

The government’s intention to move forward with the proposed four labour codes to replace the 40-plus labour laws is a welcome development. The easy one on wages has already been enacted. The complex one is on social security. Here, the intention is to provide universal coverage. The challenge would be to provide sufficient resources. Further, considerable ingenuity would be required to design a seamless transition of benefits in case of movement from self-employment to casual employment in micro and small enterprises, and then to the organised sector, and vice versa.

The code on industrial relations providing for labour market flexibility should be easier to navigate politically, if universal social security is in place. A modest initial step has been taken with the notification on Fixed Term Employment. It is not well-known that German Chancellor Otto von Bismarck introduced comprehensive social security in Germany in the 1880s, not because he was a socialist at heart, but because he felt that this would facilitate rapid industrialisation and the rise of Germany.

Indian firms have been able to manage the system and have allowed for de facto labour market flexibility by increasing the share of casual contract labour. This naturally appears daunting to a potential investor considering locating some part of his global supply chain in India, especially if it is labour-intensive. Labour market flexibility is intrinsic to global supply chains, given the increasing uncertainties in the global market driven by the faster pace of technological change.

Given India's reputation for not being an easy place to set up a factory and employ a large number of workers in, it suited the commercial interests of MNCs to encourage India to get into FTAs, starting with Thailand, in the first decade of this century. Growing Indian demand could then be met from existing efficient supply chains in these countries and there was no commercial need for relocating these to India. The theoretical case for preferential regional trading arrangements is a bit nebulous in any case.

It is also worth recalling that China was given conditional entry into the WTO only in 2000. But by then, it had already become the factory of the world, using a wide range of measures to succeed. Competitive advantage in the globalised industrial economy is not a natural endowment. It is created by firms. Intelligent state action can and does make a huge difference.

Attracting investment

The dominant ideology in India of the virtues of free trade comes in the way of considering pragmatic, WTO-compatible measures for getting investment into specific sectoral supply chains. In recent years, there has been some feeble discovery of the potential of policy. The result is the impressive number of mobile phones that are being assembled in India. But getting the supply chain for IT hardware manufacturing in India is turning out to be not easy. Nudging the process with changes in import duties appears attractive. But this goes against the principle of having low, predictable uniform tariffs across the board.

One unorthodox way around the problem would be to rework the idea of Special Economic Zones. Sales from these into the domestic tariff area should attract the lowest import duty applicable on these goods under any FTA. These Zones may have the benefit of duty-free imports of capital goods as well as raw materials, and components with the same value addition requirement that apply to FTA partner countries. Exemptions for taxes on

profits need not be provided. Investment decisions in the brick-and-mortar economy are rarely taken on the consideration that there would be no taxes on profits. In any case, the recent reductions in corporate tax rates have been steep enough. The requirement of being net foreign exchange earners may also be dispensed with. Sales to the domestic tariff area would replace imports from other destinations and reduce foreign exchange outgo.

For this to work, the state would need to develop these Zones with private partnerships to the extent feasible. The infrastructure and logistical connectivity to the ports and the National Highways could be made to match those of competitive destinations in South-East Asia. Such quality infrastructure would need Central government financing. There is a good precedent of Central funding in the development of the Delhi-Mumbai Industrial Corridor. Land and infrastructure of a quality and price that is comparable with those of alternative destinations is naturally essential for success.

Art of negotiation

State governments in India have traditionally been competing for investments and have been negotiating attractive terms to get high-profile investments, such as the Nano car plant of the Tatas in Gujarat.

The Central government has been liberalising the FDI policy, but has not showed belief in negotiations. It is time for the Central government to adopt this approach selectively.

Negotiating with Walmart, Amazon, Apple, Sony and Samsung to get their supply chains to India is worth attempting. It was a negotiating process which brought Suzuki and its supply chain of auto components for the Maruti car into India; it was the last successful example in India of creating competitive industrial capacity through state policy. For companies like Amazon and Walmart, some changes in the e-commerce policy could work.

The key lies in determining how best to leverage the size of the Indian market.

Source: thehindubusinessline.com- Oct 14, 2019

[HOME](#)

US lists rise of China as challenge before India; wants free flow of goods, capital, data

Trade between the US and India in 2018 touched USD 142 billion but the economic partnership is yet to realise its full potential.

As India and the US negotiate a free trade agreement, Washington on Monday said it wants free and fair trade along with free flow of goods, services, capital, and data as it went on to list rise of China alongside dealing with terrorism and promoting economic growth as challenges before India.

US Ambassador to India Kenneth I. Juster speaking at the India Energy Forum of CERAWEEK, said there have been from time to time "challenges, frustrations, and ups and downs" in India-US relations but the two nations have made remarkable progress.

Trade between the US and India in 2018 touched USD 142 billion but the economic partnership is yet to realise its full potential "due in part to frictions related to trade and investment," he said.

"We look forward to Minister of Commerce Goyal and US Trade Representative Lighthizer continuing their efforts to resolve some of our differences. We sincerely believe that an increasingly open Indian economy will produce more jobs for Indians, help integrate India into the global supply chain, accelerate economic growth, and promote India as an attractive destination for investment in the Indo-Pacific region, particularly as companies reconsider their ties to China," he said.

Last month, the two nations failed to announce a limited trade deal in New York during the meeting of Prime Minister Narendra Modi and President Donald Trump, due to still prevailing differences over the package including access Washington sought to Indian markets for medical devices, such as stents and knee implants, information and communications technology (ICT) products and dairy products with the removal of price caps.

India is keen on a fair and reasonable trade deal in which its request for market access is secured while also addressing the trade deficit issue raised by the US.

The US Ambassador said some of the strategic challenges India will face over the next decade include managing the rise of China, dealing with terrorism, modernizing the military, promoting economic growth, and ensuring secure supplies of energy.

"One of the most important developments in international affairs is the rise of China as a global power. A rising China, under any scenario, presents challenges to India and the Indo-Pacific region. As the leaders of the United States, India, and like-minded countries such as Japan have thought about the future of this region, they have each articulated a vision and set of principles for a free and open Indo-Pacific," he said.

The principles, he said, include "an open and inclusive rules-based order, which respects the sovereignty and territorial integrity of all countries" and "guarantee freedom of navigation, freedom of overflight, and freedom of commerce."

"We want free and fair trade, and the free flow of goods, services, capital, and data," he said. "We want territorial and maritime disputes to be resolved peacefully, in accordance with international law. And we want a region with private sector-led growth, transparent commercial practices, and secure supplies of energy."

Based on these principles, the United States, India, and other like-minded countries will need to work together over the next decade to build out a supporting architecture for the Indo-Pacific region, he said.

On terrorism, he said the US and India have both suffered terrible terrorist attacks in recent years, as have too many other countries.

"Now, state-sponsored terrorism by Iran is affecting the security of India's energy supplies. Iran's recent attacks on refineries in Saudi Arabia and shipping in the Gulf present a new threat, and it is in the interest of the United States, India, and others to address it. In short, eliminating the scourge of terrorism is a key challenge for a free and open Indo-Pacific region, and for ensuring energy security," he said.

Stating that India is projected to spend as much as USD 150 billion on military modernization over the next decade, he said the nation will find no better defence partner than the US.

"The United States does not just offer great hardware. We also have the software and integrated networks needed for national defence. After all, it is no longer the case in today's world that armies fight armies or navies fight navies," he said.

The diplomat said India can only generate the resources necessary for its military modernization through sustained economic growth and secure supplies of energy. "And the United States wants to be a major partner in India's economic growth and development."

On energy cooperation, he said about 5 per cent of total US LNG exports over the past three years have gone to India and there is "much more room" for growth.

"Finally, we are hoping that Westinghouse will be able to conclude an agreement with the Government of India for the construction of six nuclear reactors, which also could have a significant positive impact on India's energy supply, environment, and security," he said.

For India to nearly double its size of the economy to USD 5 trillion in the next four to five years, it needs secure sources and sufficient amounts of energy, he said.

"We look to expand our trade and economic relationship with India and build a more comprehensive energy partnership. These actions will benefit not just our two countries, but the broader region and the world."

Source: economictimes.com- Oct 14, 2019

[HOME](#)

RCEP members to sort out issues hindering trade agreement by Oct 22

Among these issues, six are specific to India and that includes data related matters under e-commerce; auto trigger concept which can be used to stop sudden surge in imports

A ten-day work programme has been prepared by the 16-nation RCEP grouping, which is negotiating a mega free trade agreement, to sort out pending 14 issues by October 22 that are hindering the conclusion of talks, sources said.

These 14 points, which are yet to be resolved, were shared on October 12 during the ninth ministerial meet in Bangkok.

Among these points, six are specific to India and that includes data related matters under e-commerce; auto trigger concept which can be used to stop sudden surge in imports; change in base year from 2014 to 2019; and tariff differential under which India has to limit the number of goods over which it would offer different duty rates to the member countries.

The other issues include ratchet mechanism, under which a nation can not go back on the commitments made under the agreement.

The RCEP (Regional Comprehensive Economic Partnership) agreement is being negotiated among 10 ASEAN members (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and their six trade partners -- Australia, China, India, Japan, Korea and New Zealand.

The developments assumed significance as some sections of Indian industry have raised concerns over the presence of China in the grouping. Various sectors, including dairy, metals, electronics, and chemicals, have urged the government to not agree on duty cuts in these segments.

The agreement is expected to be concluded by November and signed in 2020.

Any of the issues that could not be resolved will be taken up at the leaders summit, scheduled for November in Bangkok, the sources said.

They said India has sought change in base year for implementation of duty cuts under the pact from the proposed 2014 to 2019 as it has raised customs duties on over 3,500 products since 2014.

No joint statement was issued after the last ministerial-level meeting. An official delegation will be assembling again in Bangkok to hold technical talks on issues like rules of origin.

India is expected to reduce or eliminate duties on about 80 per cent of goods imported from China under the proposed agreement.

India may also cut customs duties on 86 per cent of imports from Australia and New Zealand, and 90 per cent of products from ASEAN, Japan and South Korea, with which India already has a comprehensive free trade agreement.

The cut or elimination of these duties could be implemented over a period of 5, 10, 15, 20 and 25 years.

There is a plan for an auto-trigger mechanism, wherein India will have the option to increase customs duties if there would be a sudden surge in imports of a specific product, particularly from China, to protect the domestic industry.

As many as 28 rounds of talks have been held at chief negotiators level and no more rounds are scheduled now.

India has registered trade deficit in 2018-19 with as many as 11 RCEP member countries including China, South Korea and Australia.

The agreement aims to cover issues related to goods, services, investments, economic and technical cooperation, competition and intellectual property rights.

Source: business-standard.com- Oct 14, 2019

[HOME](#)

AEPC appeals to FM to direct banks to pass on rate cut, recast their debt

While apparel exporters believe the time is ripe to penetrate deeper into the export market, they perceive that the lack of support from banks –be it in recasting debt or passing on rate cut to end users – has continued to hamper growth.

A Sakthivel, Acting Chairman, Apparel Export Promotion Council (AEPC), while thanking Union Finance Minister Nirmala Sitharaman for the initiatives such as insisting banks not to declare stressed loan account of MSMEs as NPA till March 2020 and recast their debt said “banks seem disinterested in recasting the debt and continue to categorise loans to MSMEs as NPA”.

Many units would be eligible to run if allowed debt reconstruction with additional working capital, evaluated and sanctioned on merit basis. Reduction of powers to the branch heads is causing enormous delay in sanctioning of loans, he felt.

Export is a time-sensitive business, Indian apparel exporters can capitalise on the trade uncertainty between the US and China, as many US companies have started to look at India, Sakthivel said. He appealed to Sitharaman to instruct banks to support the MSMEs from the deteriorating situation.

He further stressed the need to consider job-working units that cater to export manufacturing companies on priority basis as without them, exports would not grow.

Source: thehindubusinessline.com- Oct 14, 2019

[HOME](#)

WPI inflation for apparel up 1.9% in September 2019

India's annual rate of inflation, based on monthly wholesale price index (WPI), for September 2019, stood at 0.33 per cent over September 2018. The index for textiles dipped 0.3 per cent while for apparel it rose 1.9 per cent in September, according to the provisional data released by the Office of the Economic Adviser, ministry of commerce and industry.

The official WPI for all commodities (Base: 2011-12 = 100) for the month of September 2019 declined by 0.1 per cent to 121.3 from the previous month's level of 121.4, the data showed.

The index for manufactured products (weight 64.23 per cent) for September 2019 rose by 0.1 per cent to 117.9 from 117.8 for the previous month. The index for 'Manufacture of Wearing Apparel' sub-group also increased by 1.9 per cent to 138.9 from 136.3 for the previous month due to higher price of manufacture of woven apparel, except fur apparel, and knitted and crocheted apparel (1 per cent each).

The index for 'Manufacture of Textiles' sub-group, however, declined by 0.3 per cent to 117.9 from 118.3 for the previous month due to lower price of synthetic yarn (2 per cent), cotton yarn, and knitted and crocheted fabrics (1 per cent each). However, the price of other textiles and made-up textile articles, except apparel (1 per cent each) moved up.

The index for primary articles (weight 22.62 per cent) declined by 0.6 per cent to 143.0 from 143.9 for the previous month. The index for fuel and power (weight 13.15 per cent) also declined by 0.5 per cent to 100.2 from 100.7 for the previous month due to lower price of furnace oil, naphtha, petroleum coke, bitumen, ATF and petrol. However, prices of LPG and kerosene moved up.

Source: fibre2fashion.com- Oct 14, 2019

[HOME](#)

Karnataka textile policy failed to hit Utopian target: CAG

The Karnataka Textile Policy 2013-18 failed to achieve its target on investment and employment, according to the Comptroller and Auditor General of India (CAG). The policy had aimed at attracting investments worth ₹10,000 crore and creating jobs for five lakh over five years. But the shortfall was around 63 per cent for investments and 76 per cent in job creation.

The CAG report on economic sector for the year ending March 2018 was tabled in the state legislature recently.

The targets had been fixed without proper assessment of the potential and that it was 'Utopian', the report noted.

Imparting of skill development training to unemployed youth was reduced from 2.96 lakh to 1.09 lakh citing inadequate budgetary support, according to media reports from the state.

Six textile parks with integrated facilities planned in different areas of the state with the involvement of private sector had either remained non-starters or were far behind the schedule, the CAG document said.

But ₹6.35 crore had been released to a special purpose vehicle in Kalaburagi, though it had not fulfilled the prescribed conditions. An amount of ₹84.53 crore released for implementation of various schemes had remained 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, the report added.

Source: fibre2fashion.com- Oct 15, 2019

[HOME](#)

The key to Indian economy is in better wages for the masses

In the prequel to this article, we had argued that to get the Indian economy back on track and for it to remain resilient, both the government and the business need to carry out reforms that will lead to better wages for all Indian workers. Therefore, an important point that was raised was how to balance labour welfare with competitiveness.

To understand this better one needs to dissect the concept of competitiveness in somewhat greater detail. Competitiveness can be seen in the context of a product, a firm or a particular sector with regards to domestic as well as international market. It essentially depends on the cost and quality of factors of production at all levels of a manufacturing business. These factors can be normally clubbed into categories like raw materials, energy, technology, logistics and labour.

We had argued that since labour is the only factor directly under the control of the firm, it is also usually the one that gets compromised most easily in the interest of greater competitiveness – a fact that other industry insiders have also mentioned elsewhere. For instance, Anurag Behar of Azim Premji University also wrote in a candid foreword to the State of Working India report that industries have for years minimised the labour component, not so much because of draconian labour laws or shortage of trained labour, but simply because of the better quality, productivity, and safety of automated systems.

In this context, the key point that was raised was that with deep sectoral analysis, we may be in position to better understand how to retain competitiveness while ensuring that wages and working conditions are also better. Our research in the Textile and Apparel sector, the second largest employer in India, throws interesting insights in this regard.

What we have learnt is that in the textile sector labour costs—at an enterprise level across the country—is usually in the range of 8-10%. The major chunk of the cost, about 60% is on account of raw materials, while power and logistics costs are about 15% and 10% respectively. On the apparel side though, the wages form about 30 percent of overall cost whereas raw material forms 60% and power and logistics are within the remaining 10%.

Several of these costs like raw material and power can be substantively reduced through measures like raw material pricing at international parity and by reducing inefficiencies in power tariffs and sincere implementation of open access policy. Further cost reduction can be effected through interest subsidies, capital subsidies and credit financing mechanisms, among other things. Like in China or USA, these subsidies should be provided to the ecosystem rather than the textile or clothing producers so that they do not attract action under WTO laws.

In the context of raw materials, pricing at international parity can alone contribute very significantly. For instance, in Tiruppur, a famous knitwear export town, potential savings accrued can be to the tune of Rs 26 crores per day for 750 odd knitwear enterprises if they can get cotton yarn at international prices.

Similarly, logistics can also have a significant potential to improve competitiveness. Our own research reveals that on an average a truck in India travels at almost one-third of its capacity in a year because of infrastructural barriers and collusive anticompetitive practices by truck union. Digitization of compliances, standardization of state regulations and enforcement of competition law could lead to reduction in actual and opportunity costs incurred on the transport side as well.

With such improvements in place, even doubling of average wage rates will have no significant impact on the economic viability of an enterprise. A simple break-even analysis for a new unit reveals this clearly.

For instance, a power loom enterprise that would otherwise break-even in five years in a place like Surat would take just three years to break-even if raw material is made available at international prices. Interestingly, this is despite higher wages. Competitiveness could further improve with streamlining of other factor costs like power and logistics.

Our research also reveals great disparity amongst different clusters. For example, the Bhiwandi cluster in Maharashtra engaged in weaving seems to be fading away while Tiruppur has been flourishing consistently. A prominent feature observed for those that are in better health is a more compact value chain, integrating garmenting with textiles, and availability of raw material in proximity.

Be that as it may, what can also be observed rather uniformly across all clusters is the presence of very few large firms and many small ones doing job work for larger enterprises for much less the cost. This pattern or 'few big and many small' is something that can be observed at an economy wide scale too where the outcome usually is that the big takes it all!!!

Making this more interesting is the fact that most of these clusters have labour coming from the same states namely UP, Bihar and West Bengal. Odisha has joined the club but for few select clusters only.

On a different note, a key question to ask, therefore, is why can't similar enterprises be located in those states where these workers are coming from? If this question has not been asked before then it may just be the moment to ask for it could address several issues that are at the heart of economic inequality in general.

To name a few, it can prevent saturation of a cluster but particularly can address the issue of surplus labour in a cluster which drives down the labour value. Secondly, through horizontal spread of enterprises the question of scale, a factor linked to productivity, can also be addressed.

The other two aspects of productivity i.e. speed and quality can then be handled through better connectivity and focussed skill training mainly through apprenticeship. Lastly, horizontal growth of enterprises can create better political agency for workers with their respective local and state governments.

At an overall level, this can not only improve enterprise well-being but also worker well-being – the two aspects with which the economy can function better.

Source: economictimes.com- Oct 15, 2019

[HOME](#)

Prime Minister Modi may have to take a final call on RCEP next month

Issues pending beyond Oct 24 will be placed before the Leaders Summit on November 4 in Bangkok

Prime Minister Narendra Modi may have to take a final call on whether India will participate in the proposed Regional Comprehensive Economic Partnership (RCEP) trading bloc when he represents India in the Leaders Summit early next month with his counterparts from 15 other member countries, including China, and the ASEAN as all pending issues will be placed before the leaders.

“India has time till October 24 to sort out all pending issues with member countries bilaterally, including tariff differentials, rules of origin (ROO), e-commerce, the auto-trigger mechanism, the base-rate for tariff cuts, local measures and ISDS (Investor State Dispute Settlement). All issues that are pending beyond the deadline will be placed before the leaders at the RCEP Summit on November 4 and they will take a final call,” a person close to the negotiations told BusinessLine.

The decision of putting in place a 10-day work plan to sort out all loose ends was taken after the RCEP Trade and Economic Ministers, who met in Bangkok last week, were not able to work out compromises in most of the contentious areas of the negotiations.

While India has the largest number of unresolved problems that need to be bilaterally worked out, there are other members too such as Japan, South Korea, Philippines and Malaysia that have issues to settle with the larger membership.

“Commerce & Industry Minister Piyush Goyal stressed at the RCEP Ministerial in Bangkok that the concerns that Indian industry and farmers had, especially about increased competition from China hurting their livelihoods, had to be addressed fully in the pact. Therefore, it was important for India to have tight rules of origin rules and a vibrant auto-trigger mechanism to check against import surges among other safeguards,” the official said.

Officials from RCEP countries will meet this week in Bangkok to sort out ROO which are put in place to ensure that third countries don't route their exports through another country. India is in favour of tough ROO so that Chinese goods cannot be routed through ASEAN countries into India. But there has been huge opposition to India's proposal from other members, including China and the ASEAN.

New Delhi's other proposal of putting in place an auto trigger mechanism for automatic imposition of safeguard duties once imports cross a given threshold limit has also been met with a lukewarm response. Most members are insisting that it be restricted to just a handful of items (about 100) and be implemented for a short period.

It is important for India to have effective safeguards against import surges as the RCEP will be an ambitious pact with tariff elimination taking place for more than three-fourths of traded goods.

Source: thehindubusinessline.com- Oct 14, 2019

[HOME](#)

Will ask firms to clear Rs 40,000-cr MSME dues fast: FM Nirmala Sitharaman

The government will ask big corporates to expedite clearing dues worth Rs 40,000 crore to micro, small and medium enterprises (MSMEs), Finance Minister Nirmala Sitharaman said on Monday.

The government will also tweak a scheme for providing a one-time credit guarantee to public sector banks (PSBs) for purchase of pooled non-banking financial companies' (NBFC) assets to allow more NBFCs to participate in it.

"The corporate affairs ministry has a complete list of companies, which have stated that they owe MSMEs nearly Rs 40,000 crore. We are taking a two-pronged approach so that before Diwali, MSMEs will get the dues," Sitharaman said.

Corporate Affairs Secretary Injeti Srinivas will write to these big corporates, who have reported this information in their returns, to expedite the payment of dues to the MSMEs, Sitharaman said.

Finance Secretary Rajiv Kumar said the public sector banks (PSBs) have been requested to reach out to MSMEs to provide bill discounting to them against their dues “since they suffer the most from shortage of cash due to non-receipt of dues”.

Banks will compile a list of MSMEs who are willing to avail the bill discounting facility and those who declined it and send it to the finance ministry by October 22.

Through the bill discounting facility, banks will provide capital to MSMEs based on the invoices that they have raised.

To aid NBFCs, the government will allow NBFCs with “investment grade” to participate in the credit guarantee scheme, under which government provides a one-time partial credit guarantee to PSBs for first loss of up to 10 per cent for purchase of high-rate pooled assets of NBFCs totaling Rs 1 trillion, notified in August.

NBFCs with a minimum rating of ‘AA’ are allowed to participate in the scheme. The pool of assets should also have a minimum rating of ‘AA’, through credit rating agencies accredited by the Reserve Bank of India, according to the norms.

“There are two types of ratings. One is on the pooled assets and the other one on the NBFCs itself. Some NBFCs have good pooled assets, but do not have ‘AA’ and above rating so that banks have suggested that NBFCs with rating of investment grade be included in the scheme,” Kumar said.

Economic Affairs Secretary Atanu Chakraborty said the PSBs demanded the change in the norms since rating agencies tend to be strict in their ratings. The finance ministry will soon issue a clarification to banks to this effect, Chakraborty said.

Banks have identified pooled assets worth Rs 15,455 crore under the scheme, according to a press release issued by the finance ministry.

Source: business-standard.com- Oct 14, 2019

[HOME](#)
