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IBTEX No. 245 of 2019 December 17, 2019

US 70.97 | EUR 79.11 | GBP 94.33| JPY 0.65

Cotton Market		
Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
18708	39100	**70.18**
Domestic Futures Price (Ex. Warehouse Rajkot), December		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
19210	40149	**72.06**

International Futures Price	
NY ICE USD Cents/lb (March 2020)	66.97
ZCE Cotton: Yuan/MT (May 2020)	13,305
ZCE Cotton: USD Cents/lb	86.29
Cotlook A Index – Physical	**75.95**

Cotton Guide- The deal announced on Friday between Washington DC and Beijing, will reduce some US tariffs on Chinese goods in exchange of increased Chinese purchases of US goods worth $200 Billion for the next 2 years. We need to note that this agreement is verbal and is not yet inked on paper. The signing is expected to be done in early January 2020. Till then the market participants are still digging out information for more clarity on the way forward.

While speaking about speculators, it is noticed that speculators in the international markets are cutting their short positions. As the overall sentiments using Fundamental, Technical and Geopolitical analysis show signs of positivity. Especially for Cotton, we need to not forget the chunk of money that is invested in by the Fund houses which are heavily aided by machine learning and algorithms which could push take the prices higher.

On the other hand, with the ICE Cotton turning positive, the Indian exporters might finally get a sigh of relief. The basis are narrowing down and approaching lesser numbers. The basis is now at 700 on [based on actual prices CIF Far Eastern Ports]. This could create immense buying interest [demand] by Asian Buyers as Indian Cotton has regained its title of "Cheapest Cotton in the World".

While speaking about US Cotton being harvested at 90% and increasing demand from the Far East, this week's US Export Sales would be interesting. We may even see record figures. Also, these export figures could be supported with the news of 3.5% y-o-y decline in the Chinese Crop.

The ICE March contract settled at 66.97 cents per pound with a change of +17 points. The ICE May contract settled at 68.13 cents per pound with a change of +16 points. The spread at the time of settlement was a contango of 118 points. Volumes again dipped back to the twenty thousand figures.

On the Fundamental front, the MCX figures, though they have shown positive increments, the figures would not take big jumps as that of ICE as the Indian Arrivals are in full swing thus applying counter pressure on bullish sentiments. We can expect consolidation in MCX soon. On the other hand, the ICE contract may continue with positive increments till a certain stage where prices are forced to take a dip or remain consolidated.

On the technical front, in daily chart, ICE Cotton March has broken through the range bound manner & formed a Double Bottom formation, implying bullish momentum for the price. However, price took the resistance of the lower end of the channel (67.50) & retraced back, which would act as an immediate resistance for the price, along with 61.8% Fibonacci extension level (67.92). Meanwhile, price is above the daily EMA (5, 9) at 66.60, 66.29 with a positive crossover acting as an immediate support for the price. The momentum indicator RSI is at 57, also supports sideways to bullish bias.

The immediate support would at 66.30/66.00 (38.2% Fibonacci extension level & breakout of double bottom). Thus for the day we expect price to trade in the range of 67.50-66.30 with positive bias. In MCX Dec Cotton, we expect the price to trade within the range of 19100-19250 with a sideways bias.

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

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INTERNATIONAL NEWS

USITC Reaches Unanimous Decision in Case of Poly Imports from China, India

The U.S. International Trade Commission (USITC) reached a unanimous affirmative decision in the final injury investigation on imports of polyester textured yarn from China and India.

As a result of the USITC's final affirmative determination, the Commerce Department will publish anti-dumping duty (AD) and countervailing duty (CVD) orders covering the imports involved in the investigation. The AD and CVD orders are expected to be published in early January 2020.

The orders will put into place the Commerce Department's final dumping and subsidy margins that were published on Nov. 14. Importers must post cash deposits for each shipment of the subject imports. Importers' liability could increase or decrease depending on the extent of dumping and subsidization the Commerce Department finds when it conducts a review of the level of dumping and subsidies, which is expected to take place in 2021.

The USITC did not find "critical circumstances" with respect to imports of certain polyester textured yarn from China. Those imports will no longer be subject to retroactive AD and CVD duty deposits that were first imposed in the preliminary determinations.

Petitioners are closely monitoring whether polyester textured yarn from China or India is being shipped through third-party countries and then entering the U.S. market, according to Kelley Drye & Warren, an international trade law firm that represents the petitioning companies–U.S. synthetic yarn producers Unifi Manufacturing of Greensboro, N.C., and Nan Ya Plastics Corp. of Lake City, S.C.

The companies had filed petitions with the Commerce Department and the USITC in October 2018, alleging that dumped and subsidized imports of polyester textured yarn from China and India were causing material injury to the domestic industry. The Commerce Department initiated the investigations in November 2018 and the USITC preliminarily determined in December 2018 that imports from China and India are causing injury to the U.S. domestic industry.

The product covered by the investigation, polyester textured yarn, is synthetic multifilament yarn produced through a texturing process that imparts special properties to the filaments of the yarn, including stretch, bulk, strength, moisture absorption and insulation.

U.S. imports of polyester textured yarn totaled $78.1 million in 2018. The top suppliers were China, Mexico, India, Indonesia, Malaysia and Taiwan.

Source: sourcingjournal.com - Dec 16, 2019

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US-China trade deal: what's in and what's missing?

The US and China announced Friday that they reached a Phase-1 trade deal but provided little detail on what exactly will be part of the agreement.

US Trade Representative Robert Lighthizer brought a print-out of the 86-page agreement to a briefing with reporters Friday afternoon as a show-and-tell to prove that its all done and written up.

Lighthizer said its an important step forward for the two countries, while acknowledging that a lot of big issues are outstanding, and need to be addressed in future negotiations.

Here's what we do and don't know:

Tariffs

As part of the deal, the US will halve its 15 per cent tariff on about $120 billion in Chinese goods. It will also suspend indefinitely planned duties that were set to take effect on Sunday that would have covered consumer favourites such as smart phones and laptops.

That leaves roughly $250 billion taxed at 25 per cent and $120 billion that will be subject to a 7.5 per cent duty once the agreement takes effect.

Any further tariff reductions by the US will be linked to the conclusion of future phases, Lighthizer said.

China, on the other hand, did not agree to specific tariff reductions in the deal. Instead, the nation's obligation is to make the purchases and to have an exclusion process for its tariffs. The country has in recent months lowered some retaliatory tariffs including some on cars imported from the US.

Purchases

A USTR fact sheet refers to this part of the deal as the 'Expanding Trade' chapter.

According to the US, China has agreed to increase its total purchases of US goods and services by at least $200 billion over the next two years. Also included is a commitment by China to increase its buying of US agricultural products to $40 billion to $50 billion in each of the next two years.

Lighthizer told reporters these are numbers that are realistic and that we arrived at together. The specific breakdown of targets for individual commodities will be classified and not disclosed to the public.

IP, forced tech transfer

The deal will centre around what a senior administration official called state-of-the-art IP commitments and a breakthrough on forced technology transfer.

Those issues are also at the heart of an investigation that led President Donald Trump to raise tariffs on China in the first place.

Among the specific commitments USTR announced Friday: China has agreed to end its long-standing practice of forcing or pressuring foreign companies to transfer their technology to Chinese companies as a condition for obtaining market access, administrative approvals, or receiving advantages from the government.

China also commits to provide transparency, fairness, and due process in administrative proceedings and to have technology transfer and licensing take place on market terms.

Enforcement

The agreement will include a dispute-resolution mechanism that will serve as the enforcement arm. That process is in line with how other US trade agreements are enforced.

Complaints of one party will be brought to a US-China working group and if officials cannot resolve their dispute, a decision will be made at the ministerial level of what action to take. That action could include tariffs or other measures, Lighthizer said, though he sounded optimistic that he thinks China will keep their promises.

What comes next?

Lawyers are now reviewing the text so that its ready to be signed in the first week of January. Its also being translated. Lighthizer and his counterpart Vice Premier Liu He will likely do the signing in Washington. Once its inked, the deal will take effect roughly 30 days later.

Phase-2?

The US President announced on Friday that negotiations for the next phase would start immediately, though his trade chief said no date for future talks had been set.

The first phase leaves contentious issues unresolved, including US demands that China curb subsidies to state-owned firms. The US says future talks will also focus on digital trade, data localization, cross-border data flows and cyber intrusions.

Source: thehindubusinessline.com - Dec 16, 2019

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How China can gain from trade headwinds

"US-launched trade war against China is turning into a protracted one, but we have been prepared," Yang Jinghui, chairman of a technology company in Hongmei, a town of Dongguan in South China's Guangdong Province, told me. As over half of the products that his company makes are sold to the US, his business has been deeply influenced by the tariffs slapped by the superpower. However, what I saw was his optimism and positivity, instead of anxiety and despair.

This was the fourth time I did field research in the Pearl River Delta over the last half a year, during which I met dozens of business owners. Like Yang, the majority of them were busy negotiating with US importers, and attempting to offset the negative effects of tariffs imposed by US President Donald Trump by either improving technology, or opening up a broader international market.

Dongguan is home to 25 percent of smart phones, 20 percent of sweaters, 30 percent of toys and 10 percent of glasses and trainers in the global supply. The impact that the China-US trade frictions have had on it is considerable. The situation in Dongguan reflects what Chinese enterprises are undergoing amid the ongoing trade spat.

Dongguan's value added of industries above designated size expanded 6.8 percent year-on-year between January and July 2019, and the rate for import and export was 4.4 percent, much higher than the national level. It's a mixed blessing for firms in Dongguan in the context of a complex situation at home and abroad.

The value added of advanced manufacturing and high-tech manufacturing sectors above designated size grew at 10.4 percent and 17.3 percent respectively. The year-on-year growth rate of the electronic and information technology sector reached 17.8 percent.

But the textile, clothing, footwear, headwear manufacturing sector witnessed a negative growth, dropping by 3 percent. And the papermaking and paper product sector declined by 0.7 percent.

A senior executive of Huaqin Communication Technology Co Ltd, the world's leading multi-category intelligent communication terminal R&D design company, said that in the era of 5G, US technology is not superior and cannot beat Chinese enterprises.

Chinese mobile phone companies have plenty of alternatives. But he admitted the production and sale of laptops may be more deeply affected due to the impact on chip technology.

In the middle of August in 2019, a survey of 587 key enterprises in Dongguan shows that after US imposed 10 percent tariffs on another $300 billion worth of Chinese goods, 24.6 percent of companies held it would not affect their order volume, 34.3 percent anticipated a slight drop (within 10 percent), and only 6.5 percent thought of a severe slump (over 30 percent).

"The tenacious character of people in Dongguan determines there must be a way out in spite of difficulties." Jiang Bo, a lecturer in charge of training local entrepreneurs, said. "Trump's attempt to utilize the trade war to achieve a quick victory over China totally failed in front of Dongguan entrepreneurs."

In Shenzhen firms such as DJI and Hytera, I also came across the determination of many business people. In the Shenzhen Stock Exchange, 60 percent of investors believed the trade war would last for a long time.

Eighty percent of respondents said they would take trade war into consideration when making investment decisions, but only one-third of them chose to sell stocks.

In China (Guangdong) Pilot Free Trade Zone Qianhai & Shekou Area of Shenzhen, the average growth rate of registered enterprises hit 62.7 percent between 2012 and 2018.

In the first half of 2019, the value added of registered enterprises in the area increased 19.3 percent, the tax revenue achieved 23.7 percent growth and the actual use of foreign capital rose by 12.1 percent. Up to 2019, the number of companies from Hong Kong, Macao and Taiwan which Qianhai had nurtured reached 190.

Based on my research, I found the China-US trade war has had a diverse impact on different industries. Sectors such as finance, energy and raw materials have been hit, while the industries like consumption, information technology and telecommunications, and healthcare are hardly affected.

China and the US signed a phase one agreement related to the trade war on Friday. It has been widely discussed who the winner is. According to the results of my research, I believe that China has not lost, nor has the US won. It is too early to draw a conclusion.

However, if China can weather the test of the trade war with the US, improve the quality and efficiency of development, accelerate the impetus for reforms, tackle the vested interests and institutional shortcomings and reap the benefits of a new round of reform and opening-up, the trade war is not a curse, but a blessing.

Source: globaltimes.cn- Dec 16, 2019

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USA: Cotton Acreage Plunge in 2020?

How deep a dip for cotton acreage in 2020? With producers saddled by anemic prices and the ongoing U.S.-China trade dispute, a cotton cut up to 3 million acres is a possibility.

Despite cotton reaching almost 14 million planted acres in 2019 (2.7% less than 2018 acreage), the white blanket may not cover 11 million acres in 2020. Two leading cotton analysts offer perspective on major 2020 production issues, potential acreage and market wild cards.

Below 11 Million?

Texas A&M University Extension cotton economist John Robinson projects the big picture for 2020 centered on dual pillars—China and acreage cuts. First, the tariff clash with China has hit U.S. producers in both a direct and indirect manner; a one-two punch, as Robinson describes: “Will there be resolution in the U.S.-China dispute in 2020? It’s had direct effects where Brazil has picked up market share, but that doesn’t necessarily hurt the fundamentals of the market. Still, the indirect effects of the trade are a drag on demand that raises prices on consumers, and places cotton shippers and merchants in a very uncertain business climate.”

What might be the effects on U.S. cotton if the China clash is settled in the early months of 2020, or even at any point in the calendar year? Resolution would mean the beginnings of repair, and not a quick jump to health, Robinson contends. “If the trade war ends, I don’t think markets will go up and stay up. I think they’ll go up and probably come back down. It’s a longer-term fix to get us back to a good situation. This has been an issue the last couple of years and it will be an issue in 2020. China is a market wild card and the situation could get worse; it could get better.”

Second, a looming acreage cut may play a heavyweight role in 2020. “More than anything, reduced acreage has potential to raise prices in 2020, and right now, I believe acreage may drop 2 to 3 million acres,” Robinson says. “If it happens, we’re going to wind up reducing our leftovers—our end stocks—by a couple million bales and that should be price supportive. I could see as few as 10 or 10.5 million acres, from almost 14 million acres in 2019. Certainly, I could see acreage somewhere below 11 million.” The single most important question for 2020 cotton growers, according to Robinson: “How much will other producers cut back and how much of a dent will it make in the leftover supply?”

Extent of Decline?

For over a decade, China has been a crucial market for U.S. cotton fiber exports. With cotton prices down approximately 30% since the beginning of the U.S.-China trade dispute, Jody Campiche, vice president of economics and policy analysis for the National Cotton Council, provides a detailed look at the clash and its implications. “For the 2018 and 2019 crop years, U.S.-origin cotton has been less competitive relative to growth from countries such as Australia, Brazil and India due to the imposition of the 25% tariff,” she explains.

“The current trade dispute with China and the resulting retaliatory tariffs on U.S. cotton and cotton yarn are increasingly harming the U.S. cotton industry and long-term market share in China. The immediate impact has been a decline in market share of China’s cotton imports from 45% for the 2016 and 2017 crops, down to 18% for the 2018 crop, while Brazil’s market share increased from 7% in 2017 to 23% in 2018,” Campiche continues. “This lost market share has reduced overall export sales and shipments, further depressing U.S. cotton prices.”

The retaliatory tariffs and uncertainty facing the textile supply chain reduced global cotton demand for the 2018 and 2019 crop years, Campiche notes. Prior to the U.S.-China trade dispute, USDA was estimating a record level of world mill use near 128 million bales. “Since September 2018, USDA has lowered, and continues to lower, world mill use projections. For the 2018/2019 crop year, world mill use is estimated to be just over 120 million bales, almost 8 million bales lower than earlier estimates.”

“Mill use for the 2019/2020 crop year is now currently estimated at 121.5 million bales, more than 4 million bales lower than USDA’s previous projection announced in May 2019, and could be further reduced as world mill use continues to struggle,” she adds. “Without a resolution to the U.S.-China trade dispute in the near future, merchants could be faced with additional cancellations and defaults for the 2019 marketing year.”

Although export sales and shipments were reduced for the 2018/2019 crop year, “Sales for the 2019/2020 crop year are currently very strong, but we could see cancellations or the sales could be shifted to the 2020/2021 crop year from China if the tariffs remain in place,” Campiche says.

She forecasts a decline in 2020 planted acres, contingent on the path of the 2020 December futures contract: “The cotton to corn and cotton to soybean price ratio is generally a good indicator of changes in planted cotton acreage. Based on current November/December 2020 futures prices, the ratios are lower than the 2019/2020 crop year, so a decline in cotton acreage is likely for 2020. However, the extent of the decline will depend on the path of the 2020 December futures contract, which is currently trading close to 68 cents per pound.”

In conclusion, Campiche offers three possibilities as wild card factors. One, a resolution to the U.S.-China trade dispute, and potential purchases of U.S. cotton. Two, an increase in cotton demand if trade resolution is achieved. Three, any significant production issues in foreign cotton-producing countries.

Source: agweb.com- Dec 16, 2019

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Portugal textile and clothing exports up two per cent

Portugal's textile and clothing exports increased about two per cent in September 2019 compared to the same month last year.

However, the country's textile and clothing exports have fallen 0.9 per cent since the beginning of the year. Knitwear exports fell 2.7 per cent.

Exports of cotton raw materials, including yarns and fabrics, fell 9.8 per cent. The fall in exports, combined with the 3.1 per cent increase in imports of textiles and clothing, has led to a deterioration of the trade balance of the sector.

Even so, the balance remains quite positive, with a coverage rate of 121 per cent.

Turkey, Canada, India, Trinidad and Tobago and Vietnam are Portugal's main non-EU destinations. As a part of strategic plan for the textile and apparel sector, Portugal has made pointed commitments in sustainability and digitization to keep the country competitive. The increase of the production scale assisted by digital technologies allows flexibility in the Portuguese textile business model.

Flexibility is among Portugal's key competitive advantages. Besides that, the country is one of the worldwide leaders of the private label, in what is an essential differentiator in the textile market.

Portugal is bringing its competitive offerings to light at a time when sourcing has been upset over changing trade relations, and companies are looking for new places to manufacture product.

Source: fashionatingworld.com- Dec 16, 2019

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Colombian fashion brands eye Spain's market

Colombian companies are planning to enter Spain. One is Studio F. This fashion retailer will combine four channels in its development in the market: directly operated stores, concessions, multibrand and e-commerce.

The first directly operated stores will arrive at the end of 2020, and the company is already looking for opportunities both in shopping malls and on the main street, working with real estate agents.

In three years the company plans to have a store network of forty corners and 18 directly operated stores in Spain. Instead of competing with Spanish retailer giants like Zara or Mango, Studio F will bet on positioning itself in Spain in a higher segment and focusing on denim as a differential element.

Studio F does not plan to adapt its collections to European styles or its patterns to European physiognomy. The company will land in the Spanish market with its women's wear offer.

Leather goods specialist Cueros Vélez has similar plans. In recent years, it has diversified with the launch of fashion and footwear collections for men and women.

Until now, Latin American fashion companies mostly focused on international expansion within the region. For their approach to the European market, the natural first step is Spain, which is close to their culture and language.

Source: fashionatingworld.com- Dec 16, 2019

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Checks to revive production of 100 cotton Egyptian cotton

Egypt's most famous export, the silky soft cotton prized by makers of luxury bedding and clothing, has become scarce as production fell and most supplies sold under its brand name last year were, fake. But a surge in local cotton prices ahead of next month's planting season, and a crackdown on ersatz Egyptian cotton worldwide, is reviving interest in cultivating the long-neglected crop.

Farmers, spinners, and exporters say the weakness of the Egyptian pound following its flotation in November and a scandal over the alleged sale of falsely labelled Egyptian cotton has increased demand for the real thing, injecting life into a historic industry on its deathbed.

Last year, agricultural production of Egypt's high quality long-staple cotton hit a more than 100-year low. In a bid to save its historic crop, Egypt in 2016 banned all but the highest quality cotton seed, dramatically shrinking the area under cultivation but restoring quality.

With global stocks low, some foreign suppliers have mixed lower grade lint into yarns and fabrics, passing them off as Egyptian cotton, spinners and exporters said.

The Cotton Egypt Association, which provides an official logo to suppliers of 100 percent Egyptian cotton, estimates that about 90 percent of global supplies of Egyptian cotton last year were fake.

Its return to world markets could provide a lucrative export opportunity at a time when Egypt has a huge trade deficit and is seeking to relaunch its stagnant economy.

Source: fashionatingworld.com- Dec 16, 2019

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Vietnam: Textile sector stuck at bottom of value chain

The textile industry, Vietnam's key exporter, faces hurdles to further development since it is stuck in the low-value segment of the supply chain.

Nguyen Thi Xuan Thuy, director of the Ministry of Industry and Trade's Centre for Supporting Industrial Development, said at a recent forum that Vietnam's textile industry is still dependent on import of production inputs.

The country plans to have 30,000-76,000 hectares under cotton crops in the 2015-2020 period but had only 1,000 ha in 2017, and cotton production that year was only 1,000 tons against a target of 20,000-60,000 tons, she said.

The country targets annual fabric production of one billion meters but there is no allocation of funds for it, and so most material has to be imported for production, Thuy noted.

Vietnam imports half the raw material for production from China, and this means its textile products would not enjoy zero import tariffs under the trade pacts it has signed, she added.

But local feedstock producers struggle to sell domestically. Vu Huy Dong, CEO of thread producer Dam San, said 90 percent of his output is exported to China.

"Chinese importers buy the threads, dye them and sell them back to Vietnam at higher prices."

Textile firms are concerned that Vietnam's environmental protection regulations create challenges for businesses.

Pham Xuan Trinh, CEO of HCMC-based textile firm Phong Phu Corp, said some localities only provide 700 cubic meters of water a day to his company while the need is three or four times that.

Government officials admitted that local authorities are reluctant to license textile production, especially dyeing, due to fear of pollution.

Thuy said that Vietnam's environment criteria for the textile industry are now even higher than Japan's.

Whether Vietnam continues to keep them to ensure clean manufacturing or lowers them to boost production of textile feedstock, there needs to be an orientation for development, she added.

Vietnam exported $30.4 billion worth of textile products last year, up 16.6. percent from 2017, according to the General Statistics Office. It imported $12.9 billion worth of fabrics, up 13.5 percent.

Source: boswelltimes.com- Dec 16, 2019

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Zimbabwe, Brazil sign agreement on cotton production

Zimbabwe and Brazil recently signed an agreement to boost cotton production in the former, which will receive the latter's production expertise in capacity building and technology.

The project will start in January. Agriculture is the mainstay of the Zimbabwean economy, which needs diversification to create more opportunities for value addition.

Speaking at the signing ceremony, Zimbabwe's secretary for foreign affairs and international trade James Manzou said the project comes soon after signing of the livestock and development project on November 1.

The validation mission on cotton production is critical to the Zimbabwe's economic growth and will help improve livelihoods, strengthen the economy and realize Zimbabwe's Vision 2030, a newspaper report from the country quoted him as saying.

Source: fibre2fashion.com- Dec 16, 2019

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EU preparing to revoke Myanmar's GSP status: UMFCCI

The European Union (EU) may be preparing to revoke the generalised system of preferences (GSP) status for Myanmar, according to U Zaw Min Win, chair of Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), who said he was informed of the development by the EU and UK ambassadors but did not know the extent of pressure for that.

He told this during a meeting with vice president U Myint Swe earlier this week, according to a report in a Myanmarese newspaper.

The EU began considering a withdrawal of the GSP, granted to Myanmar in 2013, after reported incidents of violence against Muslims in the Rakhine state at the end of 2018. These privileges grant Myanmar duty-free trade with the EU, which mainly consists of garments. Later, a EU GSP study team also visited Myanmar.

Source: fibre2fashion.com- Dec 16, 2019

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Pakistan: Duty-free import of cotton: MoC to send summary to ECC

Ministry of Commerce (MoC) is to send a summary to the Economic Coordination Committee (ECC) of the Cabinet for duty free import of cotton aimed at bridging gap between demand and supply, sources close to Commerce Advisor told Business Recorder.

This agreement, sources said, was reached between the Commerce Advisor and All Pakistan Textile Mills Association (APTMA) last week. The sources said, this year cotton crop has failed drastically and a total of less than 9 million bales are to be the final production figure.

Under these circumstances, the industry requires a mammoth six million bales plus of imports to maintain even last year's production and export level. According to sources, Commerce Division will submit another summary to the ECC to allow import of cotton from Torkham border.

In November 2018, the ECC had decided to allow import of cotton for one year from Torkham border which was a big relief for the textile industry because it not only reduced the cost of imported raw material but the quality of this cotton was far superior to Pakistani cotton and could be used to produce a better yarn.

Textile industry requested many times in letters for extension in time for import of cotton from Afghanistan, Mozambique, Mali and other Central Asian countries for a period of five years to ensure smooth flow of raw material.

APTMA also requested to move as summary to ECC for approval of the proposals but now custom authorities have stopped processing cotton from Torkham border. In the meantime, the Plant Protection Department (PPD) has visited Afghanistan and submitted a report clearing the imports.

Commenting about the import of yarn from Oman, the sources said, yarn imported from Oman is not of Omani origin and is most likely banned Indian yarn. The government is expected to issue necessary instructions to customs officials at Karachi for not processing any yarn import from Oman.

“Commerce will write to Customs authority to investigate the matter and block flow of Indian yarn through Oman in the country," the sources added.

Commerce Ministry has also agreed to submit the long-awaited draft long term national textile policy within a few days to the federal cabinet or lose their competitive edge given that Pakistan's exports have shown growth of 26 per cent in volume terms and are set to contribute an additional $ 2 billion to Pakistan exports.

Last month textile exports increased 8 per cent in quantitative terms; and by 4.10 per cent in value term.

There is an impression that the government is jeopardizing investment growth and an increase in quantity and value of exports through non-implementation of the agreed energy tariffs, non-availability of raw material and credit squeeze due to severe issues with the new GST refund system as well as the extremely high rate of 17 per cent GST. All these are possible only with a long term textile policy.

In reply to a question regarding rehabilitation of closed capacity, the sources said, revival of closed units for quick capacity encashment is crucial to enhance exports. Bankruptcy law shall also be introduced which is considered necessary for development and revival of textile industry.

It was decided in the meeting between APTMA and Abdul Razak Dawood that a committee will be formed to consider the cases and a proposal will be moved to make Shaukat Tareen, former Finance Minister, as Chairman of the rehabilitation committee.

Source: brecorder.com - Dec 17, 2019

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Pakistan: Govt releases Rs81.132 million for Textile Industry sector development projects

The Ministry of Planning Development and Reforms has so far given the authorization to release Rs81.132 million for various Textile Industry sector development projects under its Public Sector Development Program (PSDP) for the financial year 2019-20 as against the total allocation of Rs 202.828 million.

According to the data PSDP releases , issued by the Planning Commission of Pakistan, the authorities concerned had given the authorization of release of Rs2.828 million for the overall developmental projects of Faisalabad Garments City Training Centre, Faisalabad under its PSDP 2019-20 as against the total allocation of Rs2.828 million.

The authorities concerned had also given the authorization of release Rs78.304 million for 1000 Industrial Stitching Units (All over Pakistan), as against the total allocation of Rs100 million in order to water conservation.

The federal government has so far released Rs297.278 billion for various ongoing and new social sector uplift projects under its Public Sector Development Programme (PSDP) 2019-20, as against the total allocation of Rs701 billion.

Source: brecorder.com - Dec 16, 2019

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Pakistan's National Tariff Policy - a positive step

There is no constituency for free trade in Pakistan. While the rest of the developing world has largely embraced free trade, notwithstanding recent protectionist tendencies in the United States, Pakistan has not made much progress in that direction.

According to the National Tariff Policy (NTP) 2019, Pakistan has been unable to even match its progress with that of its neighbours. It states that since 2003 the global market share of China, India, Iran and Afghanistan has increased by 216%, that of Saarc region by 186% and Economic Cooperation Organisation (ECO) by 127%. However, Pakistan’s share has decreased by 19%.

Unlike other successful developing countries, Pakistan has been unable to integrate its economy with the rest of the world. One primary reason for a lack of integration remains high tariffs and other taxes on imports.

Consequently, Pakistan has still not become part of the global value chains through which most of the international trade is now conducted. However, the cherry on top remains the high tariff barriers the government of Pakistan keeps introducing.

According to NTP, by FY14 average tariffs had been reduced to 8.9% from 23.1% in financial year 2000, leading to a 173% increase in exports. By FY19, the tariffs had again been increased to 11.6%, which also saw a decline of $2.1 billion, or 9.1%, in the value of exports, though the direct attribution of export performance to the tariff levels is debatable.

The policy mentions that under the false pretense of protecting the local industry, which has remained “infant” even after several decades, tariffs have eroded competitiveness and breed incompetence.

Over the past five decades, Pakistan’s performance has remained way below its potential. Till the 1960s, Pakistan was a relatively open economy and its economic activity was more integrated with the rest of the world.

In 1980, with similar export baskets, Pakistan’s exports were approximately the same as those of Turkey at $3 billion. Today, Turkey’s exports are over $166 billion while Pakistan is at a mere $24 billion.

A reason for this stark contrast stems from the fact that Turkey started its reform process to be able to become part of the European Union and its tariffs are now at an average of 2-3%.

On the other hand, Pakistan adopted a protectionist path and now has one of the highest tariff levels in the world and the results are before us.

High tariffs have led to rapid de-industrialisation as well. Over the past decade, industrial production, as a percentage of gross domestic product (GDP), has gone down from 26.4% in financial year 2000 to 20.3% in FY19. Resultantly, the contribution of exports to GDP decreased from 13.5% to 7% over the same period.

Taxes on international trade amounted to 24% of total taxes in the first two quarters of FY19, a ratio that is amongst the highest in the world.

Pakistan currently has five duty slabs – 0%, 3%, 11%, 16% and 20%, with a large number of tariff lines subject to additional customs duties. Also, some sectors such as automobiles and auto parts are not covered by these slabs and are subject to much higher duties ranging from 60% and more.

Under the 1973 Federal Government Rules of Business, the tariff policy and protection regime is the mandate of the Commerce Division. NTP rightly observes that tariff-setting has been taken over by the Federal Board of Revenue (FBR), which views it as a revenue instrument.

As an instrument of revenue generation, regulatory duties have also been imposed on a large number of goods, in addition to the customs duties.

NTP is a good step forward by acknowledging the problems. It clearly states that tariff protection has created inefficiencies in the manufacturing sector, an anti-export bias, increased complexity in the process, intra-sector anomalies and discrimination, and unpredictability hindering investment decisions.

Furthermore, its defined objectives are admirable. It sets increasing competitiveness, jobs, consumer welfare and harmonisation as objectives with which it is difficult to disagree.

However, its principles are less clear and amenable to a variety of interpretation. These include “strategic protection”, “cascading” and “competitive import substitution”.

NTP recommends government action for the protection of infant industry. It allows the government to provide support under time-bound arrangements.

This creates room for lobbying by specific industries to be included in the nascent industry, which will be provided some kind of protection.

Adding the prefix “competitive” before import substitution does not alter the old policy fundamentally and only provides a new justification.

Past experience clearly shows that such protection is never time bound. Those who enjoy political influence and higher lobbying powers remain “infant” for decades as has happened in the case of auto, sugar and paper industries.

Despite these shortcomings, there is some hope that we may finally be moving in the right direction. In the last budget, we saw removal of duties from 1,600 raw materials, which is a positive move towards decreasing anti-export bias and increasing competitiveness of the manufacturing sector.

We hope that with this new arrangement, the tariff policy would not be used for revenue purposes but more as a tool for promoting trade and industrial policies.

The government would be well advised to benchmark its tariff policies with other successful countries and make up for the lost time. No policy is perfect when it is launched.

Source: tribune.com.pk- Dec 16, 2019

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Vietnam textile industry orders hit by African competition

Vietnamese textile manufacturers are seeing orders decline with buyers moving to others, cheaper developing countries.

Normally, by the end of a year they would have enough orders for the whole of the following year, Nguyen Van Thoi, chairman of TNG Investment and Trading JSC, which makes garments, said. But this year many businesses have said they do not have enough orders for 2020, with some reporting a 20 percent drop in orders from last year.

Besides, many have not signed long-term contracts for products, only monthly or quarterly, Thoi said.

A Vietnam Textile and Apparel Association (VITAS) official, who did not wish to be named, said many orders have shifted to emerging countries in Africa, while competition with textiles superpowers like China, India and Bangladesh is becoming increasingly fierce.

“Even China’s orders are being transferred to countries with preferential tariff rates such as Bangladesh and Cambodia.”

Not only Vietnamese textile and garment producers, but also its fiber industry is facing increasing competition from foreign businesses and rivals in countries such as India, Thailand and Indonesia, he added.

Experts had forecast at the beginning of the year that the U.S.-China Trade war and new free trade agreements (FTAs) signed by Vietnam would help it increase textile exports, but had done a U-turn by mid-year to say there would be a lack of orders, VITAS said.

This is due to a slowdown in the global economy, affecting consumer demand, and failure by Vietnamese enterprises to adopt radical solutions to comply with FTAs’ rules of origin, VITAS explained.

In June Vietnam signed the Vietnam-EU Trade Agreement (EVFTA), which has strict rules of origin like requiring domestic value to account for at least 42.5 percent of the ex-works price of a final textile product.

If this condition is met, goods exported from Vietnam to the EU would be tax-free once the EVFTA comes into effect whereas the average tariff levied by the bloc now is 9.6 percent.

Some 70 percent of the fabric used to produce garments in Vietnam is imported from mainland China or Taiwan, VITAS chairman Vu Duc Giang said.

Other difficulties being faced by Vietnam's textile industry include rising costs of raw materials from China and lower prices demanded by foreign buyers.

Vietnam is losing its low labor cost edge over other countries even as its use of technology in production remains limited, leading to reduced competitiveness, VITAS said.

Garment exports in the first 11 months of this year were up nearly 8 percent year-on-year to $30 billion, according to figures from the Ministry of Industry and Trade.

Source: retailnews.asia - Dec 16, 2019

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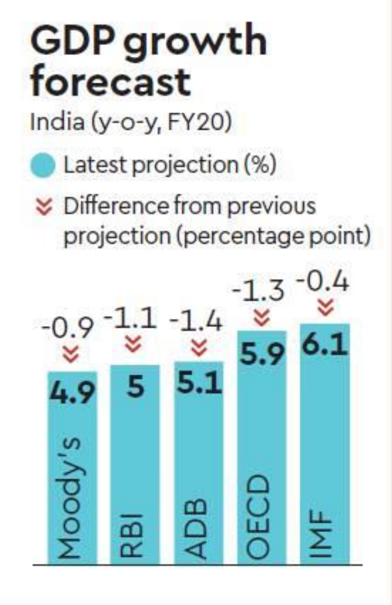
NATIONAL NEWS

Moody's cuts India growth forecast

Observing that what was once an investment-led slowdown has now broadened into weakening consumption, Moody's on Monday cut its FY20 GDP growth forecast for India steeply to 4.5% from 5.8% predicted in October, reports FE Bureau in New Delhi. The agency had predicted India's growth this fiscal to be 6.2% in August.



The slowdown, according to Moody's, is driven by financial stress among rural households on the back of stagnating agriculture wage growth, constrained productivity and weak job creation.

Last Wednesday, S&P Global Ratings published an FAQ where it said India's GDP growth would decelerate to 5.1% this fiscal, adding that the year would "be a particularly difficult one for the general government's fiscal position…"

On November 8, Moody's had cut India's sovereign credit rating outlook to 'negative' from 'stable' — the first step towards a downgrade —, citing "increasing risks that the country's economic growth will remain materially lower than in the past" and the resultant gradual rise in an already-high debt burden.

The agency said on Monday that credit crunch among NBFCs exacerbated the slowdown. It said the government measures to stimulate domestic demand — income support to farmers and low income households, monetary policy easing and a broad corporate tax cut — would be "limited in offsetting the slowdown" and added that a modest recovery was expected for next year.

"While the income shock to households has been unfolding over several years, it was not visible on headline growth as long as households could borrow from (NBFCs). With the materialization of a credit supply shock, we now see the impact of these twin shocks on growth," Deborah Tan, a Moody's assistant vice-president and analyst, wrote.

Stating that India's long term economic out-performance remained intact, S&P's credit analyst Andrew Woods wrote last week, "If this recovery does not materialise, and it becomes clear that India's structural growth has significantly deteriorated, we could lower the (sovereign) rating".

Official data showed that almost all sectors of the Indian economy save the government continued to slide further in the September quarter to report an overall expansion rate of just 4.5%. That was the lowest quarterly growth for the country since Q4 of FY13, or a 26-quarter low. The economic growth for the first quarter of the current year was registered at 5%, a 25-month low, in the midst of elections-related disruption in government spending.

At just 1%, growth in gross fixed capital formation in the September quarter was the lowest since the third quarter of FY15 and its share in GDP (31.3%) was the meanest since the second quarter of FY18.

Nominal GDP grew just 6.1% in Q2, the lowest in decades, posing additional challenge to the government in adhering to the fiscal glide path, as per which the Centre's fiscal deficit is to be 3.3% of GDP in FY20.

Most analysts feel that real GDP growth for FY20 could be 5% or slightly above that. This will be a series low, even with the benefit of a favourable base for the second half.

Source: financialexpress.com– Dec 17, 2019

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India's stand at RCEP to help vulnerable sectors: Commerce Ministry

India's stand not to join the Regional Comprehensive Economic Partnership (RCEP) deal will help vulnerable sectors, including dairy and farmers as well as small manufacturers who would have been "threatened" by the RCEP rules, the Commerce and Industry Ministry said on Monday.

"In order to ensure interests of the Indian industry and farmers in FTAs India successfully laid out its stand in Regional Comprehensive Economic Partnership (RCEP). India's key concerns were not addressed. India took a strong stance to protect the interest of domestic producers.

"This decision will help vulnerable sectors including farmers and the dairy sector as well as small manufacturers, who would have been threatened by RCEP rules," the ministry said in a statement highlighting its initiatives and achievements of the 2019 year.

It said India has also secured agreement for review of ASEAN FTA (ASEAN-India Free Trade Area-AIFTA) after repeated follow up, which will help in removing rules that affect Indian producers and exporters and will also promote Indian exports and Make in India.

On the India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA), the ministry said its completion of negotiation will enable trade promotion between the two countries.

The ministry also informed that the Multi-Modal Transportation of Goods Bill, 2019 which aims at facilitating the movement of goods for exports, imports and domestic trade, has been finalised for approval and will help to fix accountability and liabilities for violation of its provisions.
Source: financialexpress.com– Dec 16, 2019

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Ahead of Council meet, Centre releases ₹35,298-cr GST compensation to States/Uts

Tomorrow's meeting to focus on boosting revenues to avoid shortfalls in future

Ahead of 38th GST Council Meeting, the Centre on Monday released one more tranche of compensation cess to States amounting to ₹35,298 crore to States and Union Territories.

The Council is scheduled to meet on December 18 and it is expected to be stormy on the issue of compensation. Now, it seems, the Centre has sensed that and accordingly released before the meeting.

Earlier this month, the Opposition ruled States have upped the ante for immediate release of GST Compensation Fund, which they get from the Centre in lieu of revenue shortfall. States claim total dues could be ₹50,000 crore or even more.

According to the GST Compensation Act, States and UTs with Assemblies are guaranteed compensation if the GST revenue growth is less than 14 per cent. The amount is paid bi-monthly.

This fund gets money through compensation cess levied on goods and services which attract 28 per cent GST. The cess rate varies from one per cent to 25 per cent and is levied over and above the GST rate.

A recent communication from the GST Council to States said that the Council in its next meeting on December 18 will discuss the revenue position in detail as lower GST and compensation cess collections have been a matter of concern in the last few months.

"The compensation requirements have increased significantly and are unlikely to be met from the compensation cess being collected," the communication said.

Missing the target

Also, the Council has sought suggestions, inputs or proposals on measures, compliance as well as rates to help augment revenue.

Both the Centre and States are worried about GST collection so far. After two months of contraction, GST revenues witnessed a recovery with a 6 per cent growth in November 2019 year-on-year. However, the total collection during the year so far is still below the estimate.

Though, GST collection on domestic transactions witnessed a 12-per-cent growth, on imports its contraction continued at (-)13 per cent.

Source: thehindubusinessline.com– Dec 16, 2019

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Simplifying the GST

Q: What is e-invoicing?

The Government has announced new e-invoicing systems under GST. This system would help to generate sales invoice in a standard format so that invoice so generated on one system can be read by another system and reporting of such e-invoice to a central system becomes possible.

E-invoice does not mean generation of invoices from the central portal of GST department. The taxpayers would continue to use his accounting system / ERP / excel based tools etc. to generate e-invoice.

He will be required to report e-invoice to Invoice Registration Portal (IRP) of GST. The system of e-invoicing would be made mandatory in a staggered timeline depending upon the turnover of the taxpayers. E-invoicing on trial basis will start from 1st January 2020.

Q: A merchant exporter of goods has received supply of goods from a supplier, who has availed benefits of notification no 40/2017 and accordingly charged GST @ 0.10% of such supply. Can such a merchant exporter export goods with IGST and claim refund of such IGST on such export?

A. In the given case, Merchant Exporter is compulsorily required to export goods under Letter of Undertaking or Bond and not with the payment of IGST.

Q: In above case can Merchant exporter claim refund of GST @ 0.10% paid on Inwards supply?

A. Yes, he is entitled to claim refund of GST @ 0.10% paid on inward supply under the "Refund on account of any other ground" as per circular 125/44/2019 – GST dated 18th November 2019.

Q: We are a charitable institution providing hostel accommodation to students. Is this activity a charitable one, exempt from GST?

A. Maharashtra AAR has held that this activity does not fall within the ambit of charitable activities & hence not exempt. GST would apply.

Q: We propose to come out with sales promotional scheme under which we will distribute articles free of charge. Are we eligible to claim Input Tax Credit of GST paid on purchase of such articles?

A. Distribution of articles in your case is gift. Hence ITC will not be available as provided in s. 17(5).

Q: We are engaged in the business of leasing of immovable properties for commercial purpose. We take refundable deposit from leases. On termination of lease, we refund the deposit after deducting charges against damage etc. Do we have any GST liability?

A. Firstly, you are liable to pay GST on lease rental receipt. Secondly, you are liable to pay GST on charges retained towards damages.

Q: We are engaged in the business of supply of goods which are wholly exempt from GST. We utilise services of goods transport agency for transport of goods. Are we liable to GST & for GST registration?

A. Although you are supplying exempt goods, you are liable to pay GST under Reverse Charge Mechanism (RCM) in respect of goods transport agency. Therefore you are liable for GST registration also.

Q: A Non-Resident Indian (NRI) is holding a commercial property in India and has given on rent. He is incurring certain expenses by way of maintenance charges as well as repairing charges which are subject to GST. Is he liable to apply for GST registration? Can he claim input tax credit on GST paid on maintenance charges as well as repairing charges?

A. Giving property on rent is supply of service under GST law. The non-resident is liable to obtain GST registration and the threshold of 20 lakh is NOT available to him. He is NOT eligible to claim ITC of GST paid on maintenance or repair charges.

Source: freepressjournal.in– Dec 16, 2019

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WPI inflation for apparel up 0.4% in November 2019

India's annual rate of inflation, based on monthly wholesale price index (WPI), for November 2019, stood at 0.58 per cent over November 2018. The index for textiles dipped 0.5 per cent while for apparel it was up 0.4 per cent in October, 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 November 2019 rose by 0.10 per cent to 122.3 from the previous month's level of 122.2, the data showed.

The index for manufactured products (weight 64.23 per cent) for November 2019 declined by 0.1 per cent to 117.8 from the previous month level of 117.9. The index for 'Manufacture of Wearing Apparel' sub-group rose by 0.4 per cent to 138.9 from 138.4 for the previous month due to higher price of manufacture of woven apparel, except fur apparel (1 per cent). The index for 'Manufacture of Textiles' sub-group, on the other hand, declined by 0.5 per cent to 117.1 from 117.7 for the previous month due to lower price of synthetic yarn, and texturised and twisted yarn (2 per cent each) and viscose yarn and cotton yarn (1 per cent each). However, the price of cordage, rope, twine and netting (2 per cent) moved up.

The index for primary articles (weight 22.62 per cent) rose by 0.9 per cent to 147.3 from 146.0 for the previous month. The index for fuel and power (weight 13.15 per cent), however, declined by 0.8 per cent to 101.3 from 102.1 for the previous month due to lower price of furnace oil, ATF, HSD and bitumen. However, the price of LPG, naphtha and kerosene moved up.

Meanwhile, the all-India consumer price index (CPI) on base 2012=100 stood at 5.54 (provisional) in November 2019 compared to 4.62 (final) in October 2019 and 2.33 in November 2018, according to the Central Statistics Office, ministry of statistics and programme implementation.

Source: fibre2fashion.com– Dec 16, 2019

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Budget may rejig duties to boost local manufacturing

The upcoming budget could see another rejig of basic customs duties on select products as the government attempts to push local manufacturing. The commerce and revenue departments are in discussions on the matter and will take a final call closer to the budget, which is likely to be presented on February 1.

Metals including aluminium, copper and steel, select chemicals and plastics are some areas in focus, as are certain consumption goods.

“There have been discussions,” said a government official privy to deliberations on the matter.

There is gap between bound rates and effective rates, an official said, pointing to the scope for increasing tariffs. A bound tariff rate is the maximum allowed by the WTO to any member state for imports from another member state.

The commerce department has said the domestic industry faces a “significant handicap” vis-à-vis imported goods on account of certain internal taxes for which there is no equalising imposition on imported goods, unlike the goods and services tax that places local and overseas goods on an equal footing.

No credits are available for these internal taxes, which are levied on finished products or on the inputs used in their manufacture. These taxes include electricity duty, duties on petroleum, clean energy cess, mandi tax and biodiversity fees.

“Such levies result in increase in cost of production, making the domestic products less competitive or on unequal footing,” the commerce department told the revenue department.

Addressing Inverted Duty Structures

However, the official said there are concerns that an increase in customs duties will result in affected imported goods being routed through free trade agreement countries to benefit from a lower duty regime, which would defeat the purpose of the exercise.

The official said the idea of the rationalisation is to address inverted duty structures, where the import duty on finished goods is lower than that on raw material used to produce such finished goods. A panel on import substitution, headed by the cabinet secretary, is also likely to provide inputs on the matter.

“A detailed examination of goods in respect of duty structures under the free trade agreements is being carried out,” another government official said. India has increased import tariffs or imposed duties by withdrawing the exempt status of goods over the past few years to encourage local manufacturing.

In the previous budget, higher basic customs duties were levied on items ranging from stainless steel to CCTV cameras to outdoor units of split air-conditioners. Customs duty exemption was withdrawn on goods such as switches, sockets and plugs and on capital goods used in the manufacture of electronic items, including cathode ray tubes and plasma display panels.

Experts said a calibrated view needs to be taken to encourage local manufacturing. “The tariff regime needs to give way to incentives to create the necessary manufacturing ecosystem in the country,” said Bipin Sapra, a partner at EY.

Source: economictimes.com– Dec 17, 2019

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Government mulls new duty on imports

Ahead of the Budget, the commerce department has asked the finance ministry to levy border adjustment tax (BAT) on imported goods to offset the impact of levies such as electricity duty, clean energy cess, levies on fuel and royalty that are not part of goods and services tax (GST).

“Such taxes (which are not part of GST), while resulting in an increase in the cost of production of domestic goods, also place them on an unequal footing vis-a-vis imports rendering our exports uncompetitive,” commerce secretary Anup Wadhawan has proposed to the revenue department.

An estimate suggested that coking coal, which faces clean energy cess, constituted 40% of the raw material cost producing steel, officials told TOI. An analysis shared by a steel manufacturer with the commerce department has estimated that the share of non-creditable taxes in the sale price of hot-rolled coil may be as much as 5% of the sale value, while in case of imports it could be around 3% of the price.

The commerce secretary has sought an urgent status report to brief commerce and industry minister Piyush Goyal on the proposal. Since taking charge six months ago, Goyal has been seeking a series of steps to discourage imports, especially of “nonessential” items, to boost local manufacturing.

When GST was introduced in July 2017, a number of levies at the state and the central level were merged into it and some of the taxes, such as those imposed in mandis in Punjab and Haryana at the time of procurement, were done away with.

While some of the levies are back in some form or the other, the commerce department is of the view that many were not included in GST, resulting in a situation where input credit on these taxes is not available.

As a result, two options were considered by the department, with the first one — to levy border adjustment tax — seen to be preferable. This will require amendments to the Customs Act, with an elaborate exercise needed to put in place rules for identification and quantification of such levies.

Officials said that the proposed additional tax of customs is compatible with World Trade Organization (WTO) rules as it can be imposed like taxes on domestic products or on an article from which the imported product is manufactured.

The second option is to allow for refund of non-creditable taxes, which many believe will be possible under Remission of Duties or Taxes on Export Products (RoDTEP). But that only addresses a part of the problem and does not benefit goods being sold in the domestic market.

Source: economictimes.com – Dec 16, 2019

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After GST blow, Gujarat textile units get jitters over incentive scheme

While the government may have announced an incentive scheme to attract new investment in the textile value chain, existing units in the state fear that the same could affect their operations.

Already reeling from sluggish economy, coupled with an accumulated input tax credit under the (GST) regime, existing textile units across the fear incentivising new units would mean stiffer competition for them.

With the state's textile policy expiring on September 3, 2018, the government recently announced a 'Scheme for Assistance to Strengthen Specific Sectors in the Textile Value Chain' effective from September 4, 2018, to December 31, 2023. As against the policy that attracted fresh investments in ginning, spinning and garmenting, the assistance scheme covers segments such as weaving, knitting, dyeing/printing, machine carpeting, technical textile, composite units and other activities in the such as embroidery, winding, sizing, twisting and crimping.

The scheme provides financial assistance through credit-linked interest subsidy of six per cent for micro small and medium enterprises (MSMEs) and 4-6 per cent for large enterprises, with an upper ceiling of Rs 20 crore per annum. Further, the scheme offers subsidy in power tariff of up to Rs 3 per unit for weaving, and Rs 2 per unit for other eligible segments with a validity of five years.

"The assistance scheme for is meant for new units being set up in However, there is nothing for the existing scheme. On the basis of the subsidy, the newer units would be more cost-effective, and compete with us on price difference. Already, the existing textile industry in Gujarat is struggling because of multiple reasons. Hence, we are going to ask the state government for some relief against the new scheme," said Jitu Vakharia, president of South Gujarat Textile Processors' Association (SGTPA).

Already, around 30 textile processing units have been shut in recent months, with the remaining 320 odd units functioning at only 70 per cent of the original capacity. Surat, the biggest textile market in the state, alone has seen daily production fall from 40 million metre per day to 25 million metre per day.

According to industry sources, based on the subsidy under the new scheme, newer units could carry a 15-20 per cent production cost advantage over the existing ones.

Any such policy is for new investment, but this aggravates the scenario for the existing units. Earlier, we were facing competition from outside, but now the competition will be closer home. It is only now that the industry is reviving in terms of growing demand in the last fortnight or so. The move could pull us back unless similar benefits are provided for the existing units," said Ashish Gujarati, president of the Pandesara Weavers' Association.

Apparently, the scheme also offers assistance covering all existing units which are compliant with the government's energy, water and environment conservation norms, and have been in operation for more than three years.

The scheme provides 20 per cent assistance on the cost of with a ceiling of Rs 30 lakh, and 50 per cent assistance for audit fees with a limit of Rs 1 lakh. The benefits can be availed once in two years during the operative period of the scheme.

Further, a one-time financial assistance of up to 50 per cent of cost, with a limit of Rs 25 lakh, is provided for and modernisation in The scheme provides assistance of up to 25 per cent of capital expenditure on common facilities and infrastructure, with a limit of Rs 15 crore for setting up textile parks.

Source: dentondaily.com– Dec 16, 2019

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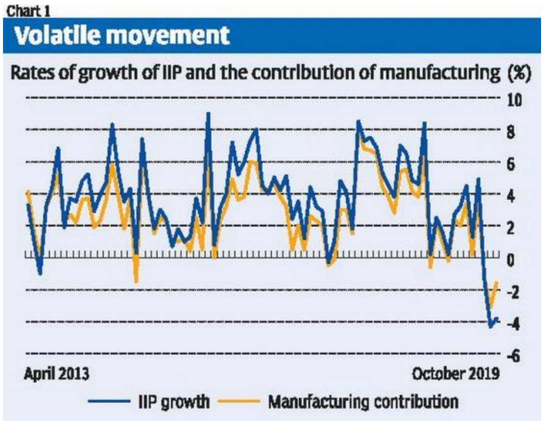
What's brought about the deep crisis in manufacturing?

The slowdown in registered manufacturing draws attention to the structural crisis afflicting the Indian economy, which is both generalised and deep

With the Index of Industrial Production (IIP) registering negative month-on-month annual rates of growth over the three months ending October 2019, the perception — based on trends in individual industries — that the Indian industry is experiencing or is on the road to a recession has gained strength.



It is true that month-on-month growth rates tend to be volatile and are heavily influenced by the base effect. However, trends depicted in Chart 1 suggest that growth decelerated sharply for some recent months before turning negative. Moreover, even the growth of 0.5 per cent during the first seven months of this financial year (April to October) relative to the corresponding period of the previous year points to medium-term stagnation, from which trajectory growth has moved into negative territory.

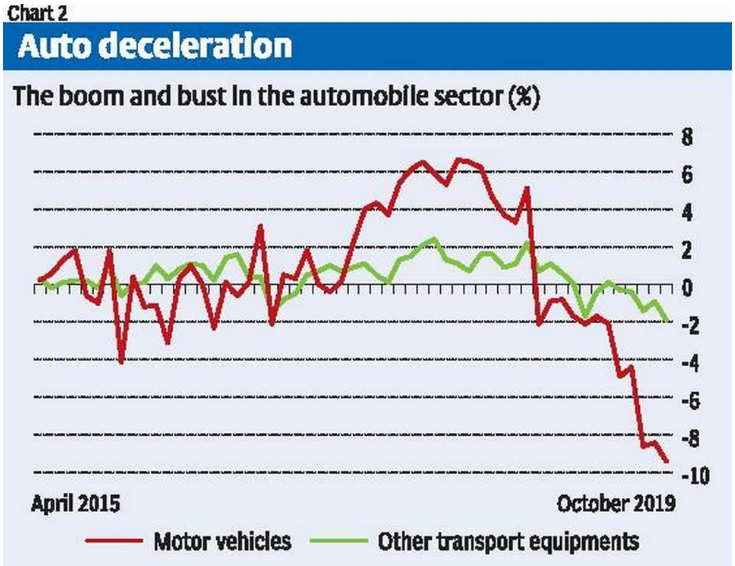
Chart 1 also shows the contribution made by manufacturing to changes in the overall index — computed as the change in the overall index resulting from changes in the manufacturing IIP alone, after accounting for the weight of manufacturing in the overall index (the change in the manufacturing index in any month relative to that index in the corresponding month of the previous year is multiplied by the weight of manufacturing in the overall index, and then divided by the aggregate IIP in the base year).

Shrink in demand

The IIP is predominantly driven by changes in the index for manufacturing, because of lower weights for electricity, gas and water supply. As is widely acknowledged, movements in the IIP reflect trends in in the registered manufacturing sector, since coverage of the index is restricted almost solely to registered firms.

So, the negative growth in that index in recent months suggests that the crisis that has afflicted agriculture for some time and had overwhelmed the informal and unorganised manufacturing sector in the aftermath of demonetisation, has now spread to the corporate sector.

Analyses of the current industrial slowdown have emphasised the role of demand factors in driving the downturn. Defaults on large loans, provided to corporate houses during the credit surge that began in the mid-2000s; the failure of small and medium businesses, adversely affected by demonetisation, to meet their debt servicing commitments; and a crisis in the non-banking financial sector, overexposed to an unsustainable boom in housing, real estate and automobile markets, have combined to cut off credit flow and shrink the demand that it fuelled.



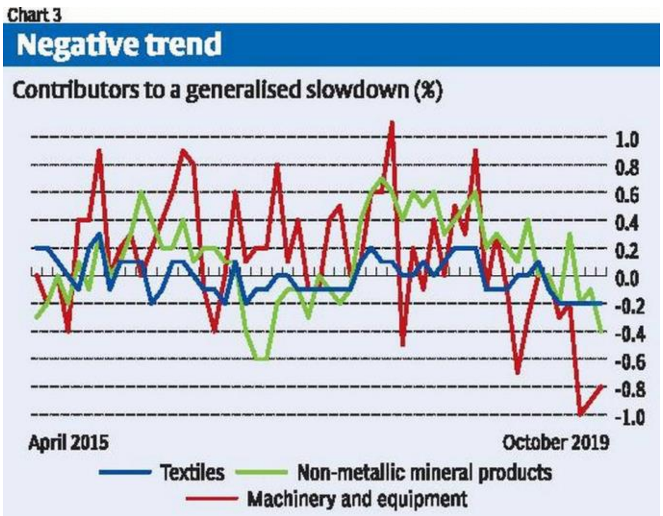
Meanwhile, government expenditure has contracted because of falling revenue growth and an obsessive commitment to a conservative fiscal stance, weakening another important stimulus to growth. The resulting growth slowdown has further worsened the situation, by increasing the probability of default and adversely affecting the revenues mobilised and expenditures undertaken by Central and State governments.

With this combination of factors dampening demand, the crisis in the manufacturing sector is proving to be generalised. Initially, with the credit pipe getting clogged because of accumulating NPAs, the crisis was most visible in sectors like automobiles and real estate, which depend heavily on debt-financed demand.

Chart 2 shows the extent to which the overall industrial slowdown was the result of a deceleration of growth in the automobile sector (with its contribution calculated in the same manner done for manufacturing above).

Driving down growth

There are three features of note in the contribution of these sectors to the overall movements of the IIP. First, changes in motor vehicles production dominate the influence of this sector on movements in the overall IIP, with 'other transport equipment' playing a much smaller role (Chart 2).



Second, the contribution of the motor vehicles product group to overall changes in the IIP (both during periods of boom and of deceleration) is substantial, varying between a positive 7 per cent and a negative 9 per cent.

Finally, before the recent deceleration and subsequent negative growth of the motor vehicles group, that sector had contributed hugely to an acceleration in industrial growth, as captured by the IIP. That boom seems to have occurred in the immediate aftermath of demonetisation, starting around the middle of 2017 and lasting for more than a year, before the slump began.

This boom-bust cycle following demonetisation could possibly be the result of changes in bank lending behaviour. Demonetisation resulted in a large increase in bank deposits, when citizens were required to deposit all notified "high value notes" with banks, but could only take out a limited amount by way of new notes.

Since lending to industry and infrastructure was already excessive and there were clear signs of mounting NPAs, banks possibly turned to retail lending, in which automobiles is the second most important component after housing, as well as lending to NBFCs.

This possibly triggered the post-demonetisation boom (delaying the full realisation of the measure's adverse effect) till overexposure and a tighter credit environment shrunk credit to that sector, squeezing demand. This has now gone to an extent where the motor vehicles group is a dominant driver of the industrial slowdown.

Sectors' movements

While trends in automobiles point to the important role that credit has played in both driving growth and unleashing recessionary trends, the evidence elsewhere points to the industrial slowdown being more generalised and being affected by factors other than credit. Chart 3 tracks the contribution of three varied sectors (textiles, non-metallic mineral products and machinery and equipment) with significant weight in the IIP, to the overall change in the index (as in Charts 1 and 2).

What emerges is that all these sectors have contributed to the negative growth in retcent months. The contribution of textiles to overall growth has been low in general, but it too shows similar movements in terms of contribution as the other two sectors.

The largest contribution to the declines in growth is from machinery and equipment, followed by non-metallic mineral products.

Interestingly, the machinery and equipment sector too appears to have gone through the boom-bust cycle seen in the case of automobiles (and possibly real estate). This is unlikely to be the direct effect of credit, but rather because of the cyclical movement in the derived demand for this sector.

Overall, the generalised nature of the recession suggests that other factors, such as the contraction in public spending, have now kicked in as factors slowing demand and industrial growth, thereby intensifying the crisis.

Source: thehindubusinessline.com– Dec 17, 2019

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E-commerce can spur intra-South Asia trade: World Bank

New report says e-comm can boost firm productivity, diversification of production and exports

E-commerce can become a driver of growth across South Asia and boost trade among the region's countries, but its potential remains largely untapped, says a new World Bank report.

This report, Unleashing E-Commerce for South Asian Integration, notes that although e-commerce has grown significantly in South Asia, online sales accounted for a mere 1.6 per cent and 0.7 per cent of total retail sales in India and Bangladesh, compared to 15 per cent in China and around 14 per cent globally.

Increasing the use of e-commerce by consumers and firms in South Asia could potentially help boost competition and firm productivity, and encourage diversification of production and exports, the report added.

Like the European Union's Digital Single market proposal, South Asia could aspire to have a regionally integrated Business-to-Consumer (B2C) e-commerce market, the report suggested.

"E-commerce can boost a range of economic indicators across South Asia, from entrepreneurship and job growth to higher GDP rates and overall productivity," said Sanjay Kathuria, World Bank Lead Economist and co-author of the report.

"By unleashing its online trade potential, South Asia can better integrate into international value chains, increase its market access, and strengthen commercial linkages between countries across the region."

Reacting to the report, Bipul Chatterjee of CUTS International said that e-commerce can be a good platform for further integration of South Asia. "The report deals with the entire ecosystem around e-commerce, and hence can be looked at as a framework for future regional integration," he said.

A survey of over 2,200 firms in South Asia showed that the top concerns on cross-border e-commerce sales included e-commerce related logistics, e-commerce and digital regulations, and connectivity and information technology infrastructure. These barriers are significantly higher when trading with other South Asian countries.

The main international e-partners of firms in South Asia are China, the UK, and the US, and not other South Asian countries.

Small and medium enterprises in the region reported that removing regulatory and logistical challenges to e-commerce would increase their exports, employment, and productivity by as much as 30 per cent.

Reforms proposed

To overcome these hurdles, the report proposes reforms in areas such as payments, delivery, market access regulations, consumer protection, and data privacy, at the national, regional, and global levels. "Some practical steps to strengthen online transactions include leveraging the reputation of large e-commerce platforms to offer consumer protection, return and redress, and data security as an initial substitute for robust contractual and consumer protection mechanisms, and permitting cross-border e-commerce payments," said Arti Grover, World Bank Senior Economist and co-author of the report.

The report also suggests an incremental approach to taking these steps, if necessary, in order to build confidence.

"While cross-border trade within South Asia represents only 5 per cent of the region's total trade, e-commerce has the potential to stimulate regional trade by bridging the gap between buyers and sellers on different sides of national borders," said Viviana Perego, World Bank Agriculture Economist and co-author of the report.

And apart from firms, consumers in South Asia stand to gain significantly from the potential reduction in costs and availability of a greater variety of e-traded goods and services, the report says.

Source: thehindubusinessline.com– Dec 17, 2019

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This Tamil Nadu-based Raymond Franchisee has Big Plans with the Brand

Padmanabhan has rightly carried forward the legacy of the reputed Golden House Group founded by his father AM Ramalingam in Salem by expanding its horizons with the Raymond business. While continuing his father's fabric manufacturing and multi-brand textile retail businesses, Padmanabhan carved out an organized retail business with Raymond to prove his entrepreneurial mettle.

Starting with his first store in 1996, he has grown the TRS business manifold with presence in cities including Salem, Erode, Namakkal, Vellore, Kanchipuram and Kallakurichi. Excerpts from the interaction…

You have all your TRS in Tier-2 and -3 cities. What is the response you have received for your Raymond business at these locations?

The response for our TRS business has been tremendous. We have observed that consumers in Tier-2 and -3 locations prefer custom tailoring over readymade garments. In fact, a majority of our revenues in our stores in Salem, Erode and Namakkal comes from custom tailoring; in rest of the stores, custom tailoring and apparels contributes equally. Further, custom tailoring offers higher margins as well as great customer loyalty to our business.

You already had an established textile manufacturing and retail business. Why did you partner with Raymond?

Most of the multi-brand retail textile shops in Tamil Nadu are family-run and are unorganized. While I learnt the dynamics of retail business with my association in the family business and my own textile retail shop, I soon understood that future growth in retail is only sustainable in an organized format.

The main reason to partner with Raymond was it is highly structured business and is the leader in the men's fashion segment in India with deep connects among all age groups.

What are the strategies which worked for your growth? What is the support you received from Raymond?

Our focus on customer preferences, changing market trends, selection of seasonal product mix and zero tolerance on customer satisfaction has allowed us to grow over the years. Raymond has always been proactive in supporting us to improve margins and footfalls through marketing promotions in the catchment area based on detailed consumer profile analysis and marketing plan.

To increase sales and revenues, Raymond offers fabrics and apparels as per latest fashion trends backed by its robust supply chain management. In addition, the brand offers extensive and timely training to staff on updated product knowledge and market trends, which goes a long distance in overall employee productivity and satisfaction.

What are your expansion plans?

We are planning to expand our TRS business in a big way. We are targeting to add two new stores every year in Tier- 3 and -4 locations in Tamil Nadu over the next five years.

Source: entrepreneur.com- Dec 16, 2019

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