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The Cotton Textiles Export Promotion Council (TEXPROCIL)
Engineering Centre, 5th Floor, 9, Mathew Road, Mumbai 400004. Maharashtra State. INDIA
W. www.texprocil.org E. ibtex@texprocil.org T. +91-22-23632910 to 12 F. +91-22-23632914

IBTEX No. 99 of 2019 May 21, 2019

USD 69.71| EUR 77.75 | GBP 88.68 | JPY 0.63

Cotton Market		
Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
21340	44600	**81.52**
Domestic Futures Price (Ex. Warehouse Rajkot), May		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
21310	44538	**81.40**

International Futures Price	
NY ICE USD Cents/lb (July 2019)	67.91
ZCE Cotton: Yuan/MT (September 2019)	13,955
ZCE Cotton: USD Cents/lb	91.57
Cotlook A Index – Physical	**76.60**

Cotton Guide: Finally a rise was seen in the ICE Future contracts almost at the close of the day. A rise of almost 2 cents/lb was seen in the ICE July contract. The ICE December contract emanated good changes in positive figures of +127 points. The ICE July contract settled at 67.91 cents/lb with a change of +192 points almost after a big gap of 10 days(the same figure was seen on May 10, 2019) whereas the ICE December contract settled with +127 points at 67.65 cents/lb. We are again now into Backwardation with ICE December showing a discount.

This morning ICE July is trading even higher and has crossed 68.08 cents/lb. The main reason for these escalations in price were attributed to stormy weather in the West Texas region which were considered adverse for the cotton belt. Also planting delays and concerns about lesser than expected crop yields have pushed prices up. ICE total volumes increased by around 4000 contracts to 29,906 contracts as compared to the previous total volumes. Total Open interest was also seen high at 218,318 contracts that means it has increased by 1053 contracts. The July OI increased by 1,184 contracts to 103,545 while December OI decreased by 639 contracts to 89,275 contracts.

The MCX contracts on the other hand emanated slight price rises in the range of +40 and +60 for three contract months including the nearby month. The MCX May contract settled at 21,310 Rs/bale with a change figure of +40 Rs. The MCX June and MCX July contract settled at 21550 Rs/bale and 21730 s/Bale with change figures of +40 and +60 respectively. This morning MCX has opened the day with a bang. MCX May is trading at 21,450 Rs/Bale. The MCX Contract have been certainly positive as compared to the ICE. With an increase in prices of ICE the MCX contracts are expected to show more inclination towards the positive end.

The Cotlook Index A has been adjusted negatively at 76.60 cents/lb with a change of -0.75. The Cotlook Index A for 2019/2020 has been adjusted to 76.65 cents/lb with a change of -0.75 cents/lb. The prices of Shankar 6 are around 44,400 Rs/Candy and might trade in the range of ±500 Rs.

For ICE, it will be interesting to see the intensity of this price rise, whether the bulls will be able to sustain it or not, and whether will they be able to take the prices to breach 70 cent/lb or not. If the prices breach 70 cents/lb then we can expect some kind of stability in the market. For today, the International Market still seems to be highly volatile while the domestic markets are still tilted towards the positive end therefore rising steadily.

On the technical front, Prices pullback with a bullish candlestick pattern and closed above the 5 day EMA- 67.51.Lower tops and lower bottom formation is still suggesting the base trend is down. Prices are trading in a value zone of EMA(5,9) indicating the sideways momentum. Immediate support level is at 65.80 and the resistance is placed at 70 levels. Relative strength index (RSI) is at 35.69 made a low of 17.09 recovered from the oversold zone suggesting the short term pullback. For the day we are recommending to trade in the range of 68.60-66. In the domestic market cotton (May) trade in the range of 21650-21250.

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

WTO warns trade weakness to continue in Q2 as global indicator remains at 9-year low

The latest quarterly indicator from the WTO showed that global goods trade growth was likely to remain weak, with a reading of 96.3, unchanged from February, the lowest in nine years.

The WTO had last month cut the global trade growth forecast to 2.6% in 2019 from 3% in 2018 on account of rising trade tensions and increased economic uncertainty.

Global trade weakness will extend into the second quarter and the outlook for trade could worsen further if heightened trade tensions are not resolved, the World Trade Organization said on Monday.

The global watchdog's latest quarterly World Trade Outlook Indicator (WTOI) showed that global goods trade growth was likely to remain weak, with a reading of 96.3, unchanged from February, the lowest in nine years.

"The outlook for trade could worsen further if heightened trade tensions are not resolved or if macroeconomic policy fails to adjust to changing circumstances," the WTO said, adding that the latest indicator did not reflect major trade moves in the last few days.

The WTOI combines several component indices of trade-related data into a single composite index that anticipates turning points in world merchandise shipment volumes.

"The latest result was driven by declines in all but two component indices," the organisation said.

As per the indicator, indices for international air freight (92.3), automobile production and sales (92.2), and agricultural raw materials (92.4) fell further below-trend. The index for container port throughput (101.0) also declined but remained above 100, suggesting growth in line with recent trends. Indices for export orders (96.6) and electronic components (96.7) appear to have bottomed out, even as both remained firmly below-trend.

Readings of 100 indicate growth in line with medium-term trends; readings greater than 100 suggest above trend growth, while those below 100 indicate the opposite.

The WTO had last month cut the global trade growth forecast to 2.6% in 2019 from 3% in 2018 on account of rising trade tensions and increased economic uncertainty.

Source: economictimes.indiatimes.com- May 20, 2019

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One-third of EU firms hit hard by US-China trade war

The ongoing trade tensions between the world's two largest economies and tit-for-tat tariffs have adversely affected the fortunes of many European companies in China, a new survey reveals. The outlook remains gloomy.

The increasingly bitter trade dispute between the US and China is hurting one-third of EU companies operating in China, the European Union Chamber of Commerce in China said on Monday. The industry body commissioned a survey to find out how recent tariff hikes were affecting business.

The study, which received replies from 585 firms, was conducted in January and February, as trans-Pacific trade tensions eased following a truce between US President Donald Trump and his Chinese counterpart Xi Jinping.

How much damage are Trump's tariffs doing to the Chinese economy?

But the tensions ratcheted up again in early May with Washington and Beijing slapping steep increases in tariffs on each other.

The survey said its results are "contrary to expectations that European companies would benefit" from the duties.

"The European chamber disagrees with tariffs," said Charlotte Roule, the chamber's vice president. Nevertheless, she added, China needs to further open its market to foreign companies.

Forced tech transfers on the rise

Europeans say they share many of the grievances raised by the Trump administration regarding trade with China. "The fundamental issues driving the trade war need to be resolved by addressing market access barriers and regulatory challenges while also tackling state-owned enterprises (SOE) reform and forced tech transfer," Roule stressed.

Will Chinese investments in the EU keep plummeting?

One of the key problems European companies are confronting is forced technology transfers, the survey showed. The problem has worsened over the past year, with some 20% of respondents saying they felt compelled to transfer technology in order to maintain market access, up from 10% in 2017.

For almost a quarter (24%), such transfers were currently under way. This state of affairs was "not acceptable," Roule said. "The authorities are saying there are no technology transfers any more but this is not what we see in our survey," she added.

Unfair technology transfers were reported predominantly in the fields of chemicals and petroleum, medical devices, pharmaceuticals and automotive.

Furthermore, over half of the companies said legal protection of intellectual property was "inadequate," and 45% say they suffer "unequal treatment" compared to their Chinese counterparts. State firms and their subsidies are the main bone of contention.

Besides the US-China trade conflict, EU firms said they were concerned about China's economic slowdown, the global economic slowdown and rising labor costs.

Source: dw.com- May 20, 2019

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'Gotex 2019 a platform for global textile sourcing

The 7th edition of Gotex, an international fair for textile products, from September 10, will be a hub for global textile sourcing enabling participants to meet differentiated products, designs, trends, innovations and services. The 2-day trade show in Brazil will host visitors from several countries namely China, Italy, US, India and Singapore among others.

The show will enable retailers, manufacturers, industry and designers to meet new suppliers, strengthen exchanges between companies and textile professionals from different countries, promoting the exchange of information and technology, fair organising committee said in a press release.

The Indian Chamber of Commerce (ICC) along with the support from the department of commerce, ministry of commerce & industry, government of India will be forming an India Pavilion.

The pavilion will showcase its technological advancements, manufacturing capabilities and investment opportunities to Latin America and the world along with the limitless potential of India as a design, innovation, manufacturing and export hub. The exhibitions and interactive installations in the textile sector will demonstrate the depth of what India has to offer as a manufacturing and investment partner, a vast pool of resources, unstoppable entrepreneurial energy and a highly investor-friendly business environment. The pavilion will be positioned as India's advancements across industrial sectors on the bedrock of its rich culture and idiom, the release added.

The fair aims to strengthen the exchange between small and medium-sized companies, textile professionals from various countries, promoting the exchange of information and technology. Gotex unites all the latest trends and trends in the market, encompassing several segments namely fabrics, clothing, lingerie, beachwear, fitness, accessories, home fashion, bags and suitcases among others.

Source: fibre2fashion.com- May 20, 2019

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Democrats should seize the day with trade agreement

The growing unilateralism and weaponization of trade policy by President Trump have turned into the most grievous risk for a rules-based international system that ensures fairness, reciprocity and a level playing field for global trade. If this trend continues, trade policy will end up being decided by interest groups with enough access to influence and game the political system. This corrupting influence will irreparably damage the global economy.

The impending approval process of the United States-Mexico-Canada Agreement (USMCA) provides a unique opportunity for Democrats in Congress to redress the situation and claim an important victory. The U.S. International Trade Commission (ITC) has released its assessment of the economic impact of the USMCA, a procedural step that clears the way for Congress to debate ratification of the agreement. It nonetheless looks increasingly likely that the process could become acrimonious and politically charged; leaders of both parties have been pushing the Trump administration with specific demands in exchange for supporting it.

A good number of House and Senate Democrats have insisted that the USMCA lacks an effective enforcement mechanism to guarantee compliance with its new labor provisions. They are right; as negotiated, the deal does indeed lack an effective dispute resolution and enforcement mechanism. The main gripe Democrats have had for a long time with the original North American Free Trade Agreement (NAFTA) is that its labor side-agreement is not part of the trade agreement itself and that, therefore, labor violations are not subject to the same level of disciplines.

The USMCA makes significant progress by not only incorporating labor and environmental provisions into the core text, but also by significantly expanding the coverage of labor disciplines. This is an important Democratic achievement.

However, bringing labor into the fold is useful only if the dispute resolution mechanism of the USMCA is effective. It is not. The position of the United States Trade Representative in the past few years has been not to strengthen but to weaken the dispute resolution mechanism in NAFTA, the World Trade Organization (WTO) and other agreements. This is profoundly mistaken and counterproductive and, going forward, is potentially a self-inflicted wound for the three North American economies.

If they could get their way, President Trump, U.S. Trade Representative Robert Lighthizer and White House adviser Peter Navarro apparently would rather implement unilateral enforcement mechanisms to continue abusing the imposition of import duties, as was evidenced by the tariffs on steel and aluminum imposed a year ago by the administration on Mexico and Canada.

By claiming that they were needed because of national security, they not only were a slap in the face of two neighboring countries, which closely collaborate with the United States precisely on security issues, but they also unnecessarily created a roadblock to USMCA approval — and in the process hurt American consumers and businesses, mainly in the Midwest, because of retaliatory tariffs imposed by Mexico and Canada. The long overdue elimination of Section 232 tariffs is a welcome burst of momentum for the USMCA in Congress.

That is why the USMCA will function properly only if the dispute resolution is effective not just on labor and the environment, but also for trade issues. And unilateral U.S. certification of Mexican labor compliance, as being discussed on Capitol Hill, should not and cannot be the solution. It is asymmetrical and violates the principle of reciprocity and equality key to any trade agreement.

Democrats could solve the conundrum by introducing language — preferably in the implementing bill, but potentially also in a trilateral side letter to Chapter 31 of the agreement — to ensure that dispute resolution works properly. To do so, Congress can instruct the executive, via implementing legislation, to present by a certain date the names of the panelists for dispute resolution proceedings, to avoid frequently-used delay tactics, and to respect panel rulings whenever these occur.

Moreover, Congress — in reclaiming back authority over trade matters — can state that for the United States not to adhere to a ruling (and thus be subject to retaliatory measures from other parties), a vote is required by the legislative branch. Finally, members of Congress could agree that Section 232 cases — such as current tariffs on aluminum and steel imports — would be subject to a panel review so that the system is not abused and retaliation is implemented only after the ruling. Of course, Canada and Mexico would have to agree to the same terms.

If Democrats were to leverage the ratification process of the USMCA and their core objective to seek and ensure effective enforcement of labor provisions, in order to reinstate a working and effective dispute resolution system, this would become a model for dealing with other pressing issues in WTO and in negotiations with China.

The main objective of NAFTA was to increase trade and investment between the United States, Mexico and Canada. This largely happened. Mexico just surpassed China to become the United States's largest trading partner, and Canada is its largest market (Mexico is second and growing). The challenge now is how to structure trade and investment so that North America becomes more competitive in global markets, particularly Asia and Europe. This is much more likely to happen with the three countries working together and becoming a model for the international trading system.

If North America shows, through the revamped USMCA, that the rule of law and effective enforcement can underpin a profitable and competitive deeper integration, the impact will be felt worldwide.

Timing and political calculations — and miscalculation by the president — could potentially further complicate USMCA ratification. A good crisis should never go to waste. Democratic members of Congress have a unique opportunity they did not expect to encounter and should see approval of the USMCA not as a problem but as an opportunity to show leadership on an issue in need of constructive thinking. Now that Mexico has approved agreed-upon and groundbreaking labor amendments, the approval process can — and should — begin in Congress.

Democrats could get the credit by ensuring that, at the end of the ratification process, North America has a gold-standard regulatory framework to address 21st century challenges. This is the right time for Democratic leadership to push for a proposal commensurate with the leverage it has. In Shakespearean terms, 'tis a tide they should not lose.

Source: thehill.com- May 20, 2019

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Malaysia's textile industry can bounce back, say German industrialists

Several German exhibitors at the Techtextil & Texprocess 2019 international trade fair here believe that Malaysia's textile industry, seen by many as a "sunset industry", can reassert its position in the global markets.

Helmut Gottzmann, an indenting agent near Frankfurt, said Malaysia can benefit from the US-China trade war, which has led some manufacturers to leave China for such countries as Vietnam, Indonesia, Bangladesh and even Ethiopia.

"As long as China continues to offer cheaper and low-end textiles, other countries with higher labour and production costs will find it difficult to compete even though they produce better quality material.

"However, China's production and labour costs have risen sharply over the years. The trade friction with the US has provoked a migration by some manufacturers out of China to countries including Vietnam, Indonesia, Bangladesh and even Ethiopia.

"Malaysia, in the circumstances, can benefit from this development and assert its position in the global markets, thanks to its better quality material despite slightly higher prices," he told Bernama at the recently concluded show.

Sascha Dehl, director of product and innovations at Veit GmbH, a Bavaria-based company which supplies "smart machines" for the textile and garment industries, said that among their major markets in Asia are Bangladesh, China, India, Indonesia, Malaysia and Vietnam.

He said his company's products have been sought after by textile maufacturers from several Asian, African and Latin American countries because they cut production and labour costs.

Some of the features of the machines, he said, provide maximum protection for workers, shielding them from heat transfer.

"Given the uncertainties that presently characterise global trade, Malaysia can bounce back in textile manufacturing because of the superior quality of its products," he said, adding that the shortage of workers can be replaced to a not insignificant level by automation, "which is a key to our future survival".

Dietrich Eickhoff, chairman of DA Group of Kaiserslautern, said the company serves the entire value chain of the textile industry through its innovative machines, technology and digitalisation.

He said their latest product, Delta, is equipped with Industry 4.0 features.

"Delta is not just a sewing machine, it is revolutionising the sewing process. Delta has the capability to communicate with the operator, making the latter more efficient.

“Such a system would be most appropriate for countries with labour shortage like Malaysia. It will be a perfect fit for the country’s textile, automotive and aerospace industries.

“Malaysia and Indonesia are very important. Indeed, Asean is an opportunity as well as a challenge for us,” he said.

The four-day Techtextil &Texprocess 2019 was touted as the world’s largest combined trade fair for technical textiles and textile processing.

Source: freemalaysiatoday.com- May 21, 2019

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Pakistan: Cotton production to recover in 2019/20

The textile sector is the largest industrial sector in Pakistan and accounts for about 40 percent of the industrial labor force and employs 10 m people.

The cotton crop is planted on 15 percent of arable land. The sector also generates 8 percent of Gross Domestic Product and over 50 percent of foreign exchange earnings, largest of any other product. The integrated cotton and textile sector includes 1,050 ginneries, 430 textile mills, and 350 cottonseed crushers and oil refiners.

Pakistan’s 2019/20 cotton production is forecast at 1.74 m metric tons (MMT), up 109.000 tons from the revised 2018/19 estimate. This year, the area devoted to cotton is projected to increase to 2.5 m hectares (MHA) as forecasts of firmer global cotton prices and new Government support for planting seed purchases and minimum support prices are expected to encourage some farmers to shift to cotton production.

Sufficient water availability and new seeds

Cotton yields are expected to recover from the last year based on improved water and certified seed availability to the farming community. Based on sufficient rainfall during February- March and heavy snowfall, the water availability is expected to remain normal for ensuing summer crops.

2019/20 yield is projected at 697 kg per hectare, 3 percent higher over the current year's estimate of 680 kg per hectare. Seaons's 2018/19 production is estimated at 1,6 m tons. This production was realized from 2.4 m hectares, 11 percent down from the last year's level.

Consumption

MY 2019/20 consumption is forecast at 2.3 MMT. Consumption is largely unchanged over the past decade and the modest year-to-year increase reflects a higher domestic crop tempered by higher cotton prices. Pakistan is a net importer of cotton, primarily due to strong demand for better grades of cotton for blending and for producing export-oriented quality textile products. Pakistan's imports during 2019/20 are likely to remain at the last year's level of 650.000 tons.

Source: todayonline.com- May 21, 2019

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Singapore's economy slows to decade low as trade war bites

Singapore's annual economic growth slipped to the lowest in nearly a decade in the first quarter as manufacturing contracted in the wake of a protracted US-China trade war, prompting a downgrade to the Southeast Asian country's full-year growth forecast.

Gross domestic product (GDP) expanded 1.2 percent year-on-year in the three months ending March 31, final official data showed on Tuesday, down slightly from the 1.3 percent seen in the government's advance estimate and the fourth quarter's revised 1.3 percent pace.

The result, which was below the 1.5 percent growth forecast in a Reuters news agency poll, marked the slowest annual expansion for any quarter since April-June 2009, when GDP shrank 1.7 percent from a year earlier, government data shows.

As broad economic momentum cooled, policymakers downgraded their 2019 growth forecast to 1.5-2.5 percent from 1.5-3.5 percent previously.

"Uncertainty from the trade tensions [between the United States and China] have already affected the sectors Singapore has relied on in the last two years," Jeff Ng, head of Asia research at Continuum Economics, told Reuters.

"The outlook is quite cloudy at the moment."

Singapore, like many of its trade-reliant counterparts in the region, has been hit hard by the trade war which has disrupted global supply chains in a blow to business investment and corporate profits.

'Challenging external economic backdrop'

Gabriel Lim, the permanent secretary for trade and industry, told a news briefing that slowing China growth and the trade dispute between Washington and Beijing were expected to weigh on Singapore's output, while slack global demand for electronics was already hitting its manufacturing sector.

"Against this challenging external economic backdrop, key outward-oriented sectors in the Singapore economy are expected to slow this year," Lim said.

"In particular, the electronics and precision engineering clusters ... are expected to face strong headwinds on account of a sharper-than-expected downturn in the global electronics cycle, as well as uncertainties arising from the ongoing trade conflicts."

The construction sector grew for the first time in 10 quarters on an annual basis, led by private and government sector work.

On the flip side, manufacturers bore the brunt of weakening global demand - it was the worst performing sector in the city state on a quarter-on-quarter basis, contracting 7.1 percent in the first quarter.

The deteriorating global conditions forced Singapore to also downgrade its 2019 forecast for non-oil domestic exports to a contraction of 2.0-zero percent as shipments in the first quarter shrank 6.4 percent on an annualised basis.

A central bank official said its monetary policy stance, which was kept unchanged last month after two rounds of tightening, remained appropriate.

Some economists are already betting that the central bank will be forced to make it easier to borrow money when it next meets for its semi-annual policy review in October.

Source: aljazeera.com- May 21, 2019

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Italy's fashion industry growth stalls due to trade tensions

Italy's fashion industry increased revenues by just 0.2% in the first quarter of 2019, held back by trade tensions between the United States and China, the national sector body said on Monday.

The industry, whose annual revenues account for around 4 percent of Italy's gross domestic output, has grown by 3% on average every year in the last decade, said Carlo Capasa, chairman Italy's National Fashion Chamber (CNMI).

"We hope to recover in the second part of the year," Capasa told reporters at a press conference to present Milan's Men Fashion Week, which will take place on June 14-17.

Turnover in the Italian fashion industry rose 2.8% to 66.6 billion euros (£58.3 billion) in 2018, according to CNMI estimates. Including textiles, leather and shoes, sales reached 89.3 billion euros, up 2.3% year on year. Exports accounted for over 75% of sales.

Capasa urged the Italian government not to raise the sales tax on fashion goods.

Speculation the government could hike VAT on targeted products, including luxury items, has increased amid concerns Rome could struggle to manage deteriorating public finances in the second half of the year.

Source: todayonline.com- May 21, 2019

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NATIONAL NEWS

The national focus needs to be on the economy now

More than 50 different exit polls in Australia were proved wrong in the surprise victory of the coalition led by the Conservatives. This is in a country whose population is barely 2% of India's. Three years ago, the outcome of the Brexit poll in Britain also shocked most of the forecasters. Not only did the pundits get it wrong, but even the punters, who put their money where their mouth is, got it completely wrong. Apparently, five times more money was riding on a non-Brexit outcome.

After Brexit came the surprise victory of US President Donald Trump, who defied all experts in not only defeating competitors from his own Republican party, but also a strong and well-funded rival from the opposition Democratic party. There's a lesson in all these outcomes, but it is not obvious. Is it that people have started being coy of truthfully answering the questionnaires of exit pollsters? Is there a deep distrust of the so-called elites, who dominate and control the narratives on media, and even social media? Is this a sort of revenge of the silent majority, the unseen undercurrent? This is enough fodder for political scientists and sociologists for years to come.

As of writing this column, it appears most likely that the National Democratic Alliance will cruise to an easy victory in the Lok Sabha elections just concluded, and Prime Minister Narendra Modi of the Bharatiya Janata Party will return to power for a second term. If so, it would be an unprecedented outcome, much like the one in 2014, which was also unprecedented. This would be the first time in the post-Jawaharlal Nehru period of Independence that a party is given a second strong mandate by voters in the absence of an extraneous factor like a sympathy wave or a single dominant theme. A second term would be a time for consolidation and for reaping the gains of investments, physical, social and financial, for the ruling party. However, it should be clear that the economy needs urgent attention and top priority.

The latest monthly economy report published by the department of economic affairs in the finance ministry highlights a highly worrisome three-year trend. Gross domestic product (GDP) growth has been steadily declining from its peak of 8.2% three years ago. The last quarter figure was 6.7%, and if it declines further, this would be a four-year trend. This is at a time when world growth is quite steady and improving. Second, the country's investment-to-GDP ratio has remained stagnant at 28% for nearly four years. It was at a peak of 38% in 2008. Clearly, we need to move it up at least a couple of percentage points, which would translate into investments of nearly ₹3 trillion. The challenge, of course, is that this has to come mostly from the private sector. That would mean urgently addressing debt issues in such large sectors as power, telecom, and civil aviation. It also means ensuring that the contribution of mining in GDP doubles.

India is rich in mineral wealth, but all of it lies beneath the land or sea and does not translate into jobs, investments, and incomes. The manufacturing sector is seeing tepid growth because of lack of perceived demand, pressure from imports, debt-stressed balance sheets, and most importantly, still-unwieldy regulations that hurt the ease of doing business. State and local regulatory requirements are still a significant drag. Labour- intensive sectors such as textiles and garments, construction, agro-processing, footwear and tourism need a leg up. The footwear industry was disrupted by new laws on cattle slaughter and transportation. This needs to be modified.

The third trend evident from the ministry's monthly report is on the current account deficit. It has risen steadily in the past three years and is closing in toward 3% of GDP. The net growth in exports over the past five years was zero. This can be attributed to a variety of factors, not all oaf which can be fixed easily. However, surely zero-rating of the Goods and Services Tax (GST) on exports is essential. Or at least instant refunds. The cost of delayed refunds completely wipes out profits and this especially hurts small and medium entrepreneurs. The still-strong rupee is also an export impediment. All of East Asia and China rode their export-led growth for decades on the back of an undervalued currency. Surely there's a lesson in that?

India must also aggressively explore the possibility of rupee-linked trade with Iran. Paying for imports of Iranian crude oil in rupees does not give the sellers access to hard currency dollars, so this should not displease the US, if that is what is preventing rupee trade. India must also aggressively woo tourists, especially from China, as this will also go some way towards reducing the bilateral trade deficit.

The fourth trend in the monthly report is the decline in agricultural output, or gross value added (GVA), over three years. We have to aggressively promote farmer producer companies with downstream linkages with farm production, with the use of tax and other incentives.

Lastly, India's current fiscal situation is quite bleak, as the headline numbers hide the true picture. This is slow acting poison, but is surely detrimental to medium and long term growth. The dust will soon settle on election outcomes and celebrations and a honeymoon period will begin. That's the time to move decisively ahead and spend some early political capital on hard decisions that need to be taken on economic reforms.

Source:livemint.com- May 20, 2019

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Warning signals from the external front

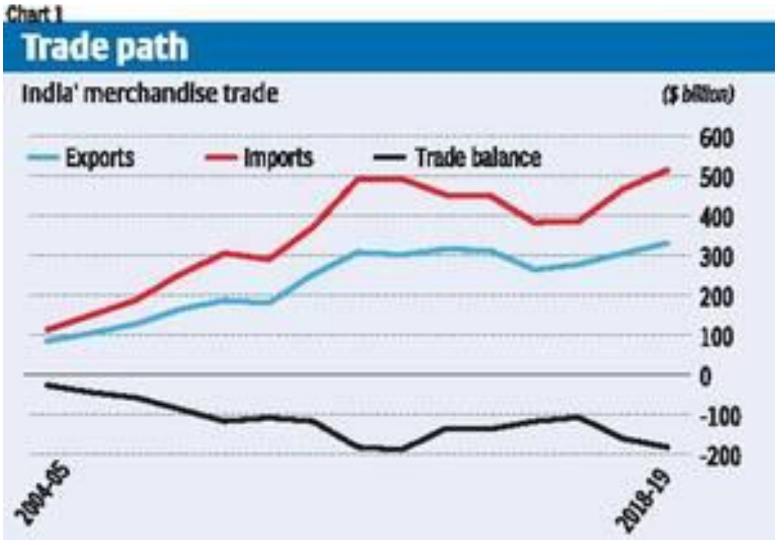
The significant rise in gold imports has been the most worrying aspect of the rising trade deficit. The new government will have to sort out the mess in foreign trade

As if all the bad news from the domestic economy were not enough, foreign trade data suggest worrisome trends on the external front as well. The latest report of monthly trade data from the Ministry of Commerce and Industry indicates that merchandise exports (in US $ terms) in April 2019 increased by only 0.64 per cent over April 2018, while imports grew by 4.48 per cent.

This stagnation of exports is truly worrying because it is well below the rate of growth of world exports in the same period.

But is this just some current problem, or have external trade concerns been building for a while? Figure 1 considers the movement of the trade balance over the past 15 years, since the start of the first UPA-1 government.

Chart 1

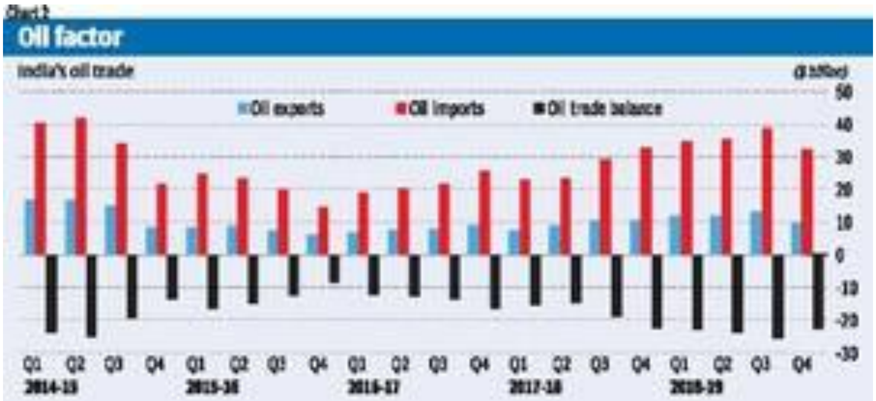


The year 2014-15 showed a seriously large merchandise trade deficit for India, at $138 billion. This declined in the subsequent two years, but then started rising again so that in 2018-19 it reached as much as $184 billion — or a whopping 6.7 per cent of the estimated GDP!

In normal times, this would have been ringing alarm bells for any government, and when combined with the bad news within the economy such as falling investment, clear evidence of sagging demand, falling employment and historically high open unemployment rates, it should have been seen as another indicator of economic emergency. But the government has been adept at deflecting attention from this, to the country's detriment.

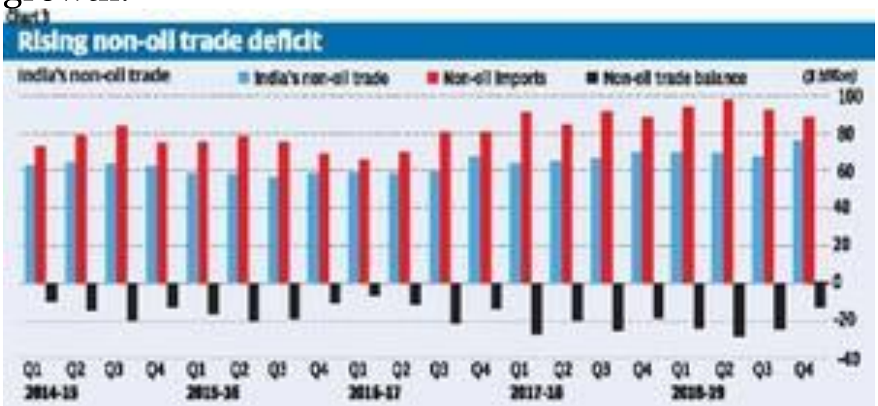
Consider then how the trade indicators have performed under the tenure of the Modi government. It is often argued that India's external trade balance is hugely driven by the world oil price, since India remains a significant net importer of oil and petroleum products.

Figure 2 shows that for the first half of its tenure at least, the Modi government was a major beneficiary of the decline in global oil prices. By mid 2016-17, these had caused the oil import bill to fall to less than half of its level in the first quarter of 2014-15, when the government assumed office.



Rising oil imports

Thereafter, as oil prices have risen, so has the oil import bill. But this increase was not as much as could be expected, because domestic demand has not been rising in sync with the supposedly high GDP growth.

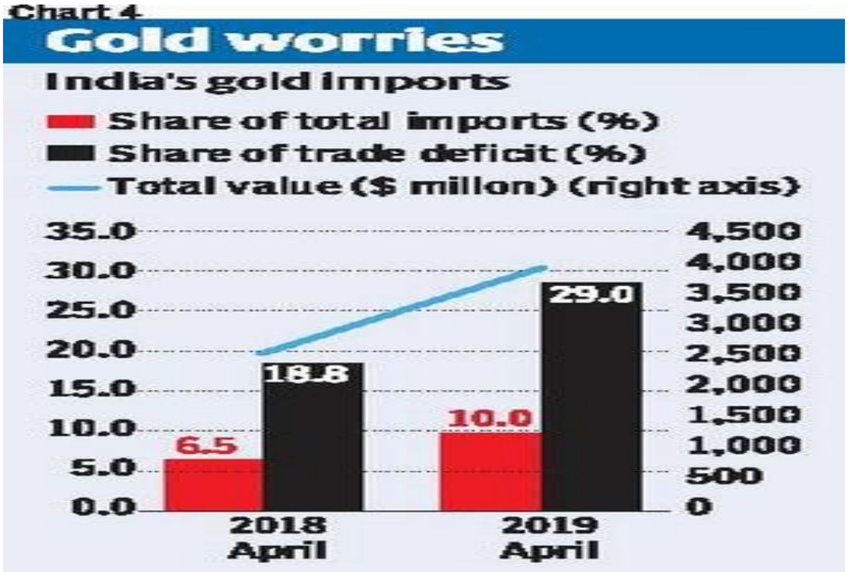


What may be more alarming is the continued increase in the non-oil deficit. As Figure 3 indicates, non-oil exports have been growing sluggishly if at all, except for an apparent spurt in the most recent quarter. However, non-oil imports have continued to increase suggesting greater substitution of domestic production in a situation of already stagnant demand. This bodes ill for domestic producers, especially small producers that are more threatened by cheaper import competition, and therefore it is no surprise to learn of survey data pointing to significant declines in manufacturing output.

Indeed, the latest monthly trade data suggest that the sectors showing the most rapid increase in imports in April 2019 are precisely those manufacturing sectors that also include many small and medium sized enterprises: pulp and waste paper; textile yarn and fabrics and made-up articles like garments; leather and leather products; dyeing, tanning and colouring materials; machine tools; electronic and professional goods; chemicals and pharmaceuticals.

In such a context, we can hardly be surprised that employment in such manufacturing activities has been declining.

But one of the biggest reasons for the rising trade deficit is also one of the least desirable: the significant increase in gold imports. Figure 4 shows how these have exploded in the past year, with the value in April 2019 as much as 60 per cent higher than in the previous year.



In fact, non-oil non-gold imports actually declined by 2.2 per cent in April 2019 (year-on-year) which shows how significant the role of gold imports has been in causing this ballooning trade deficit. By April 2019, gold imports alone accounted for nearly 30 per cent of the trade deficit.

The gold factor

India has always been "a sink for precious metals" as Keynes described it nearly a century ago, but gold imports tend to rise particularly in periods of domestic economic uncertainty. But these completely unnecessary imports can also be controlled through appropriate policy action, which has unfortunately simply not happened recently. This is one more economic problem that could be quite simply and effectively dealt with by a proactive government, yet nothing is being done about it.

It is surprising — and speaks volumes for the subservience of India media — that, while the last few years of the UPA-2 government were condemned for their "economic policy paralysis", there has thus far been very little negative commentary on the economic mismanagement of the Modi regime. Problems created within the country by incompetent economic policies are being multiplied by headwinds from the global economy.

As a result, whichever government is formed after May 23 will face many major challenges in dealing with the economy, including in sorting out the mess in the foreign trade account.

Source: thehindubusinessline.com- May 20, 2019

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Creating jobs through garment exports

The state must play a greater role in creating manufacturing jobs. Setting up more textile SEZs is an option

Rapid creation of productive and better paying jobs reduces poverty. It also mitigates inequality. One can actually have high GDP growth rates with modest employment generation. One can also have higher expenditure on anti-poverty and welfare measures, without having a major impact on jobs.

Job creation should, therefore, be the key development goal. States, instead of signing MoUs for thousands of crores of investment, should be seeking job creation commitments in their Investment Summits.

Seeing the economy through the prism of job creation would bring into focus labour intensive sectors and generate discussion around policy instruments which could be used to get these sectors to grow more rapidly.

This would require fresh thinking beyond the traditional macroeconomic parameters such as inflation, the fiscal and current account deficits, and interest rates on the one hand, and, on the other, infrastructure development; power, highways, ports and airports.

To illustrate, the garment industry is a classic labour intensive sector.

India fought hard in the WTO negotiations for the phasing out of the quota system which used to govern textile exports and where (presumably for geopolitical reasons) the Chinese had a quota which was many times that of India's. It was felt that once quota restrictions ended, apparel exports from India would rise rapidly and catch up with Chinese exports.

After the quota regime ended in 2005, textile and garment exports from India did not rise more rapidly. China's per capita income and wages are now about five times that of India's. Yet its textile exports are over $270 billion whereas India's are around $40 billion.

India's growth rates remain modest whereas Vietnam and Bangladesh have been having sustained export growth of over 20 per cent per annum. Fresh thinking on feasible measures to achieve a breakthrough is overdue.

Garment exports, given India's low wages, should be covering the whole range of products for the global market rather than being restricted primarily to cotton apparel as is the case now.

Given the nature of the global supply chain of ready made garments with rapidly changing designs and fashions, hassle-free zero duty imports of synthetic fabrics specified by designers of global brands is an essential prerequisite for becoming part of global supply chains.

This is not the case now. The mechanism of advance licensing on input-output norms for exports works for standard industrial products, but not for garments. One radical option would be to do away with the duty protection available to the domestic synthetic fibre and fabric industry.

However, a viable approach which does not hurt the upstream domestic industry would be a dispensation where garment exporters exporting more than ₹100 crore per annum are given the freedom to import fabrics duty free, maintain records of usage for exports and be subject to annual audit to ensure that there is no misuse.

Bangladesh runs such a scheme. India could easily do so. This would enable garment exporters across the country to attempt diversification using imported fabric and accessories.

Textile SEZs

A more ambitious approach would be for the government to develop large integrated textile and apparel Special Economic Zones, where there are no import duties, and invite investors from India as well as overseas to put up plants.

There is one good precedent in the 1,000-acre Brandix textile SEZ, promoted by a Sri Lankan entrepreneur near Vijayawada.

It has specialised in women's underwear and is a major supplier to the global luxury brand Victoria Secret. They claim that 60 per cent of the bras sold by Victoria Secret in the US are made here. It has been growing and now employs over 18,000 women from nearby villages who come in chartered buses for two shifts in the day.

The Andhra Pradesh government provided land in 2007 at a nominal rate in the expectation of the creation of a large number of jobs. But since then no other such SEZ has come up.

The allotment of land at reasonable/nominal/subsidised rates for industrial parks for job creation has to be the guiding principle if labour intensive organised sector manufacturing jobs for global supply chains are to be created.

Expensive land can undo the cost advantage of low wages. The SEZ regime could also be tweaked to treat sales to the domestic market on normal import duties as meeting the foreign exchange earning obligation of units in the SEZ. Some production for the growing Indian market would shift to the SEZ creating jobs for Indians.

Incubation centres

Another bolder approach would be for the state to finance the creation of Incubation Centres of plug and play garment manufacturing units in Textile Parks.

This would mean that work sheds with state-of-art stitching machines are provided at a token rent to a start-up, say, a fresh graduate from a fashion/ design institute with the agreement that as she succeeds, she would pay higher rents and even buy the garmenting unit paying the full cost.

Those who fail, and some would fail, could leave and look for jobs without any liabilities. The cost of the failures could over time be borne by the successes so that the Incubation Centre could grow and nurture an increasing number of entrepreneurs. To have global scale, the Textile Parks need to be large. These may be promoted by the state directly, or, through innovative public-private partnerships.

These could also break new ground by developing rental workers housing which has so far been missing in industrial area development.

However, staff housing is intrinsic to the IT SEZ development. Decent housing at a reasonable distance from the work place makes a huge difference to worker productivity. These ideas are equally relevant for other labour intensive sectors ranging from toys to shipbuilding. The state needs to assume a larger responsibility than it has so far been prepared to do for India to begin creating manufacturing jobs for global supply chains on the scale needed. It also needs strategic thinking, patience and willingness to take risks.

Source: thehindubusinessline.com- May 19, 2019

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Delay in cotton sowing may hit dept's target

Though the Agriculture Department last month revised its target area for cotton cultivation at 4 lakh hectares, experts say it is unlikely to achieve the same, particularly in view of the fact that the cotton sowing has already got late due to delay in harvesting of wheat in the state. As per PAU recommendations, the ideal time for sowing cotton is before May 15.

Interestingly, the department had earlier set a target of 3 lakh hectares, but later increased it in view of increase in cotton prices at the fag-end of the season. The department felt that it may persuade more farmers to opt for cotton farming in the Malwa region.

However, talking to The Tribune, former North India Cotton Association president Ashok Kapur said, "Cotton sowing has been a rather low key affair this time, primarily due to delay in harvesting of wheat crop in the aftermath of a spell of rainfall last month. Besides, the election too seems to have taken a toll on sowing activity."

He felt that the Agriculture Department has pegged the target area on the higher side, as he doesn't expect the area to increase from 2.84 lakh hectares in 2018-19 to 4 lakh hectares in 2019-20. He, however, said the area might cross 3 lakh hectares this time. "It is true the farmers fetched a price of above Rs 6,000 per quintal when the season was coming to close, but they were the ones who had holding capacity. Not all the farmers can hold their produce for long and a majority of them sell it off early in the season. However, I still feel it will prompt more farmers to opt for cotton, but only time will tell to what extent," he added.

PAU's senior farm economist Dr GS Romana admitted, "Cotton sowing is comparatively slow this year, as rough estimates suggest that only 50 per cent sowing has taken place till May 15, which is the ideal period for it."

He said another factor that delayed cotton sowing was delay in repair of canals and release of water in them. He said the farmers still have few days left for sowing cotton, though that too would be late.

He said the risk would further increase from June 1 onwards due to hot weather conditions, as it would affect the growth of cotton plant. He also opined that the target area of 4 lakh hectares seemed “unachievable”.

Incidentally, though the area under cotton cultivation was 2.56 lakh hectares in 2016, the cotton produce fetched prices up to Rs 6,500 per quintal, which encouraged more farmers to go for the cotton crop in 2017 and the area under it rose to 3.83 lakh hectares. However, it again declined to 2.84 lakh hectares in 2018. Cotton is primarily cultivated in Bathinda, Mansa, Muktsar, Faridkot, Fazilka, Sangrur, Barnala and Moga districts.

Source: tribuneindia.com- May 21, 2019

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