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IBTEX No. 163 of 2019 August 21, 2019

US 71.56| EUR 79.37 | GBP 86.94| JPY 0.67

Cotton Market

Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm

Rs./Bale	Rs./Candy	USD Cent/lb
20478	42800	**76.18**

Domestic Futures Price (Ex. Warehouse Rajkot), August

Rs./Bale	Rs./Candy	USD Cent/lb
21050	43995	**78.31**

International Futures Price

NY ICE USD Cents/lb (December 2019)	59.14
ZCE Cotton: Yuan/MT (September 2019)	12,865
ZCE Cotton: USD Cents/lb	82.65
Cotlook A Index – Physical	**70.50**

Cotton Guide: Another day has passed by where the volumes indicated lack of cheer in the market. The volumes at the ICE Futures remained under the 20,000 Contract figure. As predicted by us correctly yesterday, the market is taking cues from the better crop production figures expected throughout the world which is weighing on the Cotton market. On the other hand, there is a demand CRISIS existing. In other words, the gap between the supply and demand is still on the rise.

This morning while we write this report at 8 am, the market opened low as compared to the previous close which is again a concern, which is setting the market to move lower. We expected the market to be in the range of 59-61 but the market has now breached the 59 mark and is trading at 58.75 cents/lb.

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The ICE futures yesterday settled mixed across the board yesterday, indicating that the market participants are confused and have not traded well to make profits. The High and low figures were 59.65 and 59.07 cent/lb respectively i.e. the trading range was only 58 points. This was coupled with very low volatility almost making it look like a straight horizontal line, later closing the day lower at 59.07 cents/lb.

Despite the fact of the matter that ICE prices cannot sustain such low levels, the market is still not retrieving back to the levels of 63 cents/lb. Non-commercial participants such speculators have played a big role to drag the market where the data shows that these speculators are record net short at the moment.

The Domestic MCX August contract on the other hand remained positive. This continuous streak of bullishness has now prevailed for more than a fortnight. The MCX August contract settled at 21050 Rs/Bale with a change of +140 Rs.

The Cotlook Index A has been readjusted lower at 70.50 cent/lb with a change of -0.90 cents/lb. The prices of Shankar 6 are averaged out at 42,800 Rs/Candy in India.

For today, fundamentally speaking, we shall keep our stance consolidate in the range of 58-60 for the international contracts; whereas for MCX we shall maintain our positive outlook.

On the technical front, prices are consolidating and trading in a range of 58-60 with a DEMA(5,9) = 59.17, 59.39 flattening suggesting a sideways trend. The recent fall after the breakdown of the bearish flag has completed the 100% (Fibonacci extension) mark at 58.00 also providing an immediate support for price to rebound towards the near term resistance zone at 60.

RSI (Relative strength index) trading below 36.16 indicates the sideways to negative bias for the day. For the day we recommend to trade in the range of 58 - 60 with a sideways to negative bias. Sustaining below 57.50 will intensify its selling pressure and closing above 60.50 will negate our bearish view. In the domestic market MCX Aug future is expected to trade in the range of 20700-21100 with a sideways to positive zone.

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

USA: Tariff rise to impact 77 per cent textile, garment and footwear industries

The American Apparel & Footwear Association (AAFA) says, the 10 per cent tariff raise starting from September 1, 2019, will hit 77 per cent of textiles, garment and footwear. Some articles will be postponed from the first list of tariff rises to mid-December. However, the American fashion industry will still be a part of most categories with the rises in garments.

Wolverine Worldwide, one of the footwear giants, owner of Merrell, Saucony, Sperry o Keds, has started to analyse the transfer of part of its production in China due to the impact of the tariff rise. The company is accelerating its diversification plan for sourcing.

Source: fashionatingworld.com- Aug 20, 2019

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Iran revamps garment units

Iran is revamping the garment and textile industry. There are about 8,000 production units across the country providing jobs to 2,60,000 people. Last year Iran's garment and textile exports rose by 36 per cent and 25 per cent in volume and value terms.

Over the last few years, the industry has been going through tough phase owing to smuggling of garments into the country and sanctions that have badly hit the local textile firms.

Iran is imposing restrictions on imports. The country has taken measures aimed at renewing the country's garment manufacturing industry, in a bid to enter international markets.

Exporting apparel products to neighboring countries, including the CIS and, in particular, Azerbaijan, is on the agenda. There are about 50,000 apparel manufacturing units in the country.

Foreign representatives, branches and distributors of apparel in Iran who seek business licenses have been mandated to produce goods worth 20 per cent of their import value inside Iran and to export at least 50 per cent of this domestic production.

The initiative is aimed at increasing domestic production, creating jobs and reviving Iran's apparel industry. Public interest in domestic products has dramatically surged over recent months.

Source: fashionatingworld.com - Aug 20, 2019

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China expands Shanghai free trade zone to pull in investment

Shanghai's pilot free trade zone on Tuesday added a new area, occupying 119.5 square kilometers of Lingang in the southeastern part of the city.

The Lingang New Area occupies a pivotal geographic position, which has the advantage of being easily accessed by air, sea and rail through its vicinity to Shanghai Pudong International Airport, the Yangshan Port and a planned high-speed railway route. Yangshan Port is the world's top container port.

The area is 75 kilometers away from Shanghai's urban areas.

The area's inauguration was on Tuesday while an approval by the State Council, China's cabinet, was made public earlier in August. According to the State Council, Lingang is expected to become a globally competitive, influential free trade area with special function by 2035.

The Shanghai Municipality hopes to attract advanced industry, including integrated circuits, biopharmaceuticals, artificial intelligence, aeronautics and aerospace, to form industrial clusters in the area. Nearby transportation hubs are expected to support the trade and industrial development set up in the new area.

This is the second time that the Shanghai Free Trade Zone has expanded its domain, and the latest expansion has almost doubled its size.

US electric car maker Tesla's first overseas plant is also located in the Lingang New Area. The new-energy car plant wholly owned by Tesla is set to begin production within the year.

Analysts have said that the development of the New Area could include an experiment in cross-border capital management to better compete for global trade resources and the development of a free trade port, although the plan used the terminology, "internationally acclaimed, most competitive free trade industrial park."
Globally, "free trade ports" refer to Singapore, Dubai and China's Hong Kong.

Leading manufacturing companies such as SAIC Motor, Shanghai Electric Group Co, Siemens and GE have already established themselves in the area.

Source: globaltimes.cn- Aug 20, 2019

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Bangladesh: Exports smash record in July, fetch $3.89b

Exports brought home record amounts in July, in a development that will bring a huge sigh of relief for the government battling sizeable balance of payments deficit.

Last month, overseas shipments fetched $3.89 billion, up 8.66 percent year-on-year, according to data from the Export Promotion Bureau. The amount also exceeded the month's target by $60.86 million.

The amount bested the record for the highest single month export earnings of $3.81 billion logged in May.

Of the sum, garment shipments fetched $3.31 billion, up 9.60 percent year-on-year and $97.48 million more than the target for the month.

“This is a peak month and therefore it is not unnatural for exports to grow,” said Rubana Huq, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

Besides, the US-China trade war is working in Bangladesh’s favour, she added.

The growth in value terms gives a partial picture of the garment trade, said Asif Ibrahim, vice-president of Newage Group, a leading garment exporter.

“We should look at it from the value-addition point of view as well,” he added.
“For now, I think this is a reflection of pre-Eid hurried shipments, and growth in August will not be good.”

Leather and leather products, the next great export hope, also fared well. It raked $106.10 million, up 16.39 percent, and $14.17 million more than the target.

Frozen and live fish exports rose 1.54 percent to $41.60 million, tea 52.00 percent to $0.38 million, vegetables 34.94 percent to $8.38 million, pharmaceuticals 29.95 percent to $11.41 million, plastic goods 37.33 percent to $12.95 million, handicrafts 53.28 percent to $1.87 million and jute and jute goods 0.83 percent to $74.88 million.

Source: thedailystar.net - Aug 21, 2019

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South Africa: Global trade tensions and weak economy hamper cotton prices

South African cotton prices are still declining, despite the second largest cotton yield on record.

According to the latest report by Cotton South Africa (Cotton SA), global cotton production in 2019/2020 was forecast to reach 27,2 million tons, 6% higher than the previous season and the second largest production volume on record.

However, the unabated downward trend in cotton prices was the result of the ongoing trade dispute between China and the US, which had resulted in a lacklustre economic environment, the report said.

“The weakening economic environment and slower economic expansion are negatively impacting cotton demand and consumption growth, exerting additional downward pressure on cotton prices.”

According to the International Cotton Advisory Committee (ICAC), the average global price for the 2019/2020 season was expected to be between US66c/lb (about R22,30/kg) and US102c/lb (R34,47/kg).

The current average price for cotton was around US81c/lb (R27,39/kg).

The expected 1,7% growth in global cotton consumption would not have a significant impact on international stocks, as the ICAC expected that ending stocks would increase in nearly all major cotton producing and consuming countries, apart from China, as global production remained relatively high.

The latest crop estimate for South Africa’s 2018/2019 production season indicated a total crop of 245 641 lint bales, up 31% from the previous season.

The area planted to dryland cotton had increased 42% to about 20 425ha this season, while the area under irrigation was up 22% at 23 502ha.

The total area planted to cotton was thus about 44 000ha this year, compared with the 33 628ha planted during the previous season.

This could be attributed to renewed interest in cotton production, the report said.

Source: farmersweekly.co.za- Aug 20, 2019

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A curious case of Pakistan's export portfolio

The economic growth in Pakistan has remained historically volatile, lacking a steady growth thereby enunciating an uncertainty about the country's economic wellbeing. The meager export portfolio remains one of the major factors that restrain Pakistan from attaining a sustainable economic growth.

According to the World Bank data, exports of goods and services as percentage of the GDP growth in Pakistan continued to exhibit a roller-coaster trend between 1967 (9.17 percent) and 2017 (8.24 percent], whilst attaining the highest growth of 17.34 percent in 1992. A similar non-steady pattern in the GDP growth could therefore be accrued mainly to our history of a small export portfolio.

The Observatory of Economic Complexity (OEC) is a tool that allows users to quickly compose a visual narrative about countries and the products they exchange. The OEC maintains that according to the 2017 statistics, house linens and non-knit suits comprise the largest share of Pakistan's exports, respectively accounting for 13.4 percent and 11.85 percent of the total exports in 2017. Other textile and garment products further increase the portion of textiles in Pakistan's exports' outlay.

According to the World's Top Exports, Pakistan's top ten exports, which account for 75 percent of the 2017 portfolio, mainly include miscellaneous textiles and clothing (US$ 4 billion dollars; 18.1 percent of total exports); cotton (US$3.5 billion;16 percent); knit or crochet clothing and accessories (US$2.5 billion;11.5 percent); clothing and accessories, not knit or crochet (US$2.5 billion; 11.3 percent); cereals (US$1.8 billion; 8 percent) and leather/animal gut articles (US$ 632 million; 2.9 percent). According to the OEC website, Pakistan is ranked as 68th largest exporter in the world on the basis of 2017 export returns ofUS$ 24.8 billion, with an annualised decreasing trend of -0.2 percent since 2012.

The European Union remains one of Pakistan's most important trading partners accounting for 18.4 percent of the total trade (12.8 billion euros with EU and 69.7 billion euros with other countries] by absorbing 35 percent of Pakistan's total exports (6.7 billion euros with EU and 19.0 billion euros with other countries] in 2017.

The total exports of 6,690 million euros from Pakistan to the EU countries in 2017 included 78.6 percent (5,257 million euros) share of textiles and textile articles. However, Pakistan's exports to the EU countries also continued to follow an unsteady pattern between 2007 and 2017. Pakistan's exports to the EU countries fluctuated between 3,474 million euros in 2007 to 6,690 million euros in 2017 whilst depicting an unsteady growth pattern within these years.

Pakistan's trade with the EU is administered by the Cooperation Agreement 2004, which is further supplemented by EU-Pakistan Five-Year Engagement Plan 2012, for enhancing bilateral trade and investment. Pakistan is also one of the beneficiary countries of the EU's Generalised Scheme of Preferences (GSP). Since 2014, Pakistan had also been availing benefits from generous tariff preferences-mostly zero duties on two-thirds of all product categories under GSP+ arrangement.

Additionally, the European Commission has been providing several grants to international organisations and development partners for two-year pilot-projects in GSP, GSP+ and EBA beneficiary countries, which also included projects in Pakistan. Such projects endeavoured to help Pakistan, and other countries, improve national abilities that are instrumental in maintaining GSP+ eligibility criteria especially the status against 27 GSP+ relevant international conventions on human and labour rights, environmental protection and good governance. However, Pakistan remains a subject of EU's regular biennial review indicating that the country is required to make satisfactory progress to attain the International Labour Standards.

In the recent past, the US-based Disney Corporation decided on the basis of its policy of ethical sourcing to revoke purchasing from Pakistan based firms. The primary reason that Disney gave was Pakistan's low score on the Worldwide Governance Index, which among other things also includes country's achievement of the international labour standards.

Exports may continue to face serious challenges due to debilitated compliance with the national labour laws. An enfeebled compliance with the national labour laws not only precludes achievement of the international labour standards but also restricts high labour productivity.

Therefore, Pakistan's unsteady economic growth pattern that is crucially dependent on textile exports mainly to the EU countries should be viewed from a compliance perspective. Only a greater compliance with the national labour laws could help Pakistan achieve international labour standards vis-à-vis improved productivity of labour. Labour inspection, as a statuary apparatus to ensure compliance with the national labour laws, is the panacea thereof.

According to the Labour Force Survey, Pakistan is the sixth most populous country in the world with an estimated labour force of 61 million, out of which 57.42 million are employed.

However, this big bulge of labour is employed in an enormously large sized industrial and economic sector yet remains vulnerable to infringements pertaining but not limited to the fundamental principles and rights at work and working conditions.

The magnitude and severity of fatal accidents in Pakistan is also appalling. Provision of meager occupational safety and health (OSH) standards to labourers is also an issue.

All of these are factors that hamper well-being of workers, further restricting labour productivity, and ultimately dissuading Pakistan from becoming a competitive exporter in the international market.

Source: dailytimes.com.pk- Aug 21, 2019

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Pakistan: Government urged to devise effective export promotion policy

The PTI-led government is yet to come up with an effective export promotion policy given the continued sluggish export growth during the last one year. The representatives of different manufacturers and exporter associations told Business Recorder that Pakistan exports would have increased to $26 billion instead of remaining stagnant at $23 billion if export-friendly policies were introduced during the last one year.

They further challenged the government claims of giving incentives to the industrial sector maintaining that the substantial increase in their input costs would result in a further decline in exports.

The government has acknowledged that overall textile exports were $13.29 billion during July-June 2018-19 - a -1.42 percent in comparison to the comparable period in the year before.

Pakistan's exports netted around $23 billion last year while the trade balance improved by 19 percent due mainly to lower imports as the rupee depreciated against the dollar; the trade deficit declined from $37.6 billion to $30.6 billion.

Notwithstanding industry claims, the government announced rationalization of gas price at Rs 600/mmbtu for export oriented sectors against Rs 1600mmbtu; RLNG price for export oriented zero-rated sectors was reduced to $6.5/mmbtu from 10 to 12/ mmbtu and electricity at US cents 7.5/kwh for export oriented zero-rated sectors whereas previously it was Rs 12 Kwh. Talking to Business Recorder Muhammad Zubair Motiwala, Chairman Council of All Pakistan Textile Associations said that the government has withdrawn all these incentives, adding that recently gas prices for industry was increased by 31 percent, water rates by 29 percent while subsidy on electricity has been withdrawn.

A 17 percent GST has been imposed on the export sector, alleged Motiwala, adding that all these measures would result in high input cost and would render the exports sector uncompetitive in the international market. The country's exports would witness a sharp decline in coming months, he predicted.

Chairman Pakistan Readymade Garments and Manufacturers and Exporters Association (PRGMA) Ijaz Kokar said that the incumbent government has yet to come up with an aggressive marketing plan which would fuel export growth. The government has recalled around 37 commercial counselors and most of the positions are vacant, resultantly exporters are facing hardships, he added.

He further said that refund claims of around Rs 250 billion are still stuck and the government has not yet devised any viable mechanism for early releases which is resulting in liquidity crunch for export-oriented sectors. Kokar said that the government has withdrawn zero-rating facility for the five-export sectors which would result in further decline in exports in the coming months. The government is facing geopolitical and economic challenges and has yet to take measures to deal with the crisis, he added.

Source: fp.brecorder.com. - Aug 21, 2019

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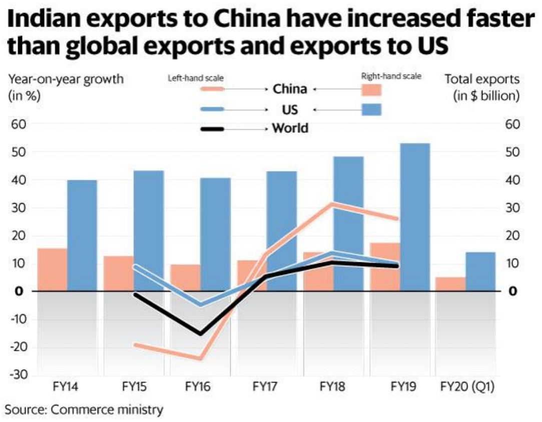
NATIONAL NEWS

The Chinese conundrum facing Indian policymakers

Peeved by China's attempts to drag the Kashmir issue to the United Nations Security Council, a traders' guild in India has issued a call to boycott Chinese goods and services and to raise tariff walls on them. This is not the first time such calls have been made, and this is unlikely to be the last.

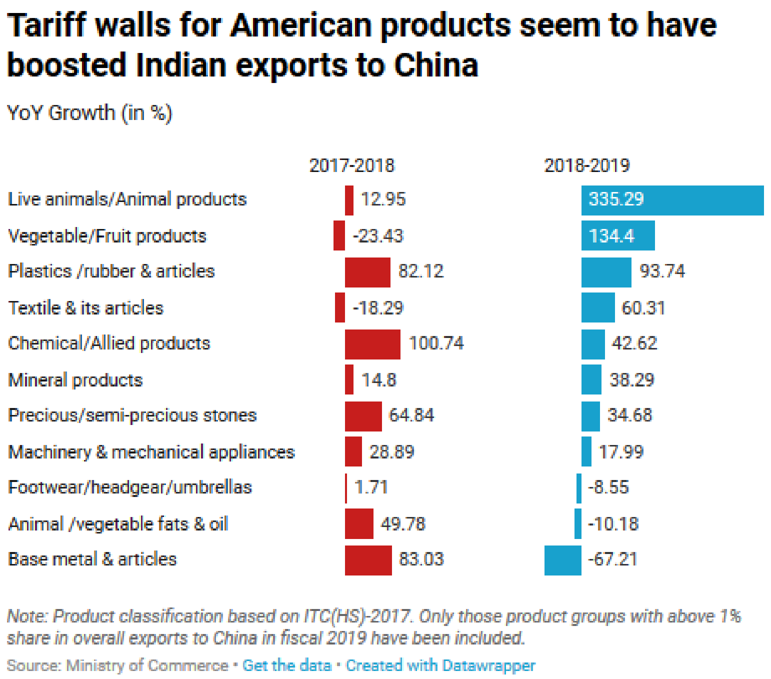
However, there are several reasons why India should be cautious about taking drastic steps on the trade front that may end up being counter-productive for the Indian economy.

The data on recent trade patterns show that the trade conflict between the US and China has actually helped India gain a bigger toehold in the Chinese market. Although exports to the US haven't gone up much, exports to China have ballooned over the past year, as a 29 July SBI research report pointed out.



Although value of Indian exports to China are still much lower than that of exports to the US, the importance of China as an export market has gone up over the past few years. As the trade war intensifies and China boosts its domestic consumption to rebalance its economy, this market would continue to be an important one for Indian producers.

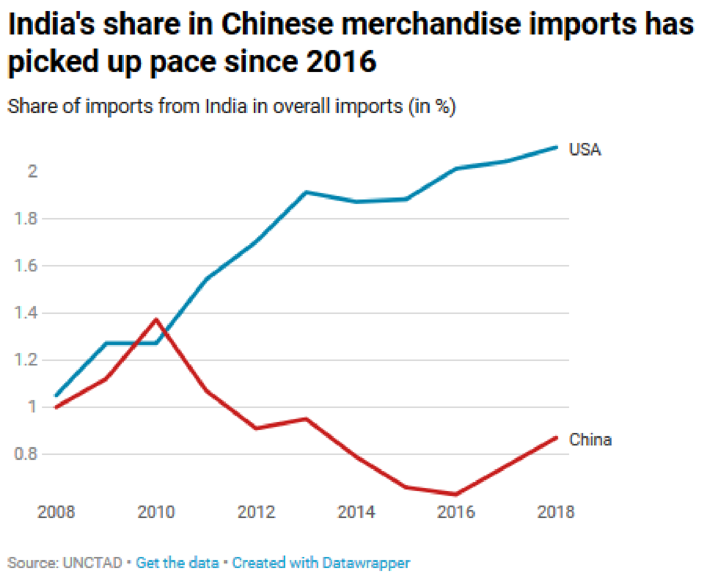
Part of the increase in exports to China could be linked to the newly erected tariff barriers. In sectors where China imposed tariffs on US goods and services in the past fiscal year such as live animals and animal products, vegetable products, and plastic and rubber, Indian exports to China grew by 335%, 134%, and 93.7% respectively in 2018-19 compared to 2017-18 although it is worth noting that in sectors such as base metals which also saw the imposition of retaliatory tariffs, Indian exports fell. In sectors where such tariff walls have not been raised such as gems and jewellery and footwear, Indian exports either fell or grew at a relatively slower pace.



Although India's share in Chinese imports is rising, it still remains small, accounting for less than 1% of Chinese imports in 2018, the latest year for which such data is available from UNCTAD.

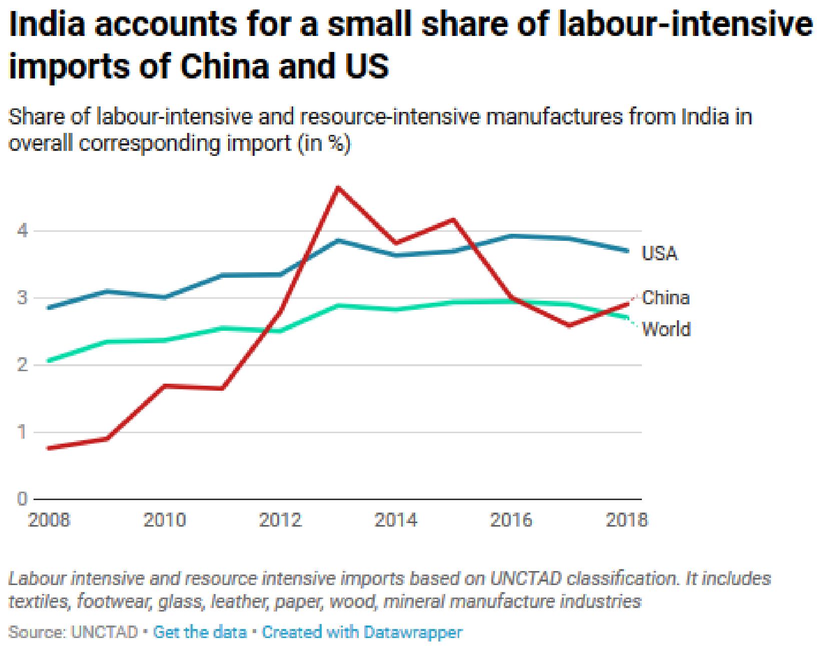
India's share in American imports was slightly higher at 2.1% for the same year.

Given that the US accounts for a large share of Indian exports in labour-intensive manufacturing (22%) goods, the failure to expand in the US has meant that India's overall share in global labour-intensive manufacturing exports has not moved up. As countries such as Bangladesh and Vietnam have moved in to occupy the markets China has vacated, India's share in such exports saw a small dip in fiscal 2018. This is despite an increase in exports of such goods to China, which still accounts for only a small share (3.6%) of India's labour-intensive manufacturing exports.



The classification of labour-intensive industries here is based on UNCTAD's classification of labour-intensive and resource-intensive imports, and includes such industries as textiles, footwear, and leather.

This also denotes an opportunity for India to raise both growth and employment over the long run, albeit one that it has consistently missed.



Will the Chinese market be more lucrative for such exports in the coming years as India increasingly becomes the target of protectionism from advanced economies including the US? We shall have to wait and see how that plays out but as an earlier Plain Facts column had highlighted, fellow emerging economies have been less unkind to India compared to the advanced economies when it comes to protectionist measures.

This is not to suggest that India should abandon hope of capturing a greater pie in advanced markets. However, India's recent trade performance does indicate that markets such as China could offer additional opportunities as the trade war intensifies even though India's trade deficit with China still remains large at $53.6 billion in fiscal 2019 (compared to $63.1 billion in fiscal 2018).

This also suggests that India should be cautious in endorsing the US-sponsored clampdown on Chinese tech firms such as Huawei as part of its overall trade-cum-tech warfare against the emerging superpower in the neighbourhood.

What complicates matters further for India is that several Indian internet firms which have mounted a challenge to the dominance of American tech companies in India's internet economy are being backed by Chinese firms (e.g. Ola, backed by Chinese ride-sharing firm Didi, which is taking on Uber, and Alibaba-backed BigBasket which is battling Amazon).

Moreover, much of manufacturing in India is dependent on China for capital goods and industrial supplies, as a previous Plain Facts column had pointed out.

To be sure, India must also keep a close eye on currency movements which can change the cost-benefit matrix for the economy significantly. For instance, if the yuan continues to depreciate, the rupee might need to fall in tandem if Indian exports are to remain competitive vis-a-vis Chinese goods and services in both Chinese and global markets.

As the two largest global economies intensify their trade and geostrategic conflict and abandon the WTO rulebook, the road ahead won't be easy for countries such as India. But the conflict also opens up new opportunities for India.

To survive and thrive in this brave new world, India must avoid policy adventurism and think through the costs and benefits for the economy as it frames new rules of engagement with its trade partners.

Source: livemint.com- Aug 20, 2019

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India needs to gear up for stronger economic partnership with old ally Vietnam

India puts great emphasis in developing closer economic ties with the Association of South-East Asian Nations (ASEAN) because the region is a major hub of manufacturing activities and its share in global output, foreign direct investments, exports, and imports have grown consistently.

Within the ASEAN, Vietnam, a small country with a population of only 95.4 million persons, is an export powerhouse and has often been dubbed as a miracle economy.

Its gross national income per capita (in PPP terms) trebled from $2,160 in 2000 to $6,460 in 2017 and there was a massive reduction in poverty (at $1.90 a day) from 38% to 2% during the same period.

The country has achieved enormous economic success in the last few decades on account of a booming manufacturing sector. It is currently the third-largest garments exporter after China and Bangladesh with an export turnover of over US$ 30 billion and has emerged as the preferred choice of electronics and mobile phone companies trying to move out of China due to the US-China trade war.

India and Vietnam have historically shared friendly relations and India enjoys substantial goodwill in the country. In 2016, the Strategic Partnership between the two countries was upgraded to Comprehensive Strategic Partnership.

Defence ties form the bedrock of India’s relations with Vietnam because of convergence in strategic interests and mutual concerns about China but economic relations remain much below potential. India’s total trade with Vietnam currently stands at about US$ 12.2 billion.

Meat and fish products are India’s largest export items to Vietnam and electrical machinery and equipment are India’s main import items from Vietnam. India currently ranks 27th among all foreign investors in Vietnam with a total investment capital of US$ 756 million. Indian investments are much smaller in magnitude as compared to other Asian countries like China, Japan, and South Korea and only a handful of large Indian firms such as ONGC Videsh, Marico Industries, TATA Groupetc dominate India’s portfolio.

India has undertaken several initiatives in recent years to boost its economic ties with Vietnam under the Mekong-Ganga Cooperation and its engagement with the CLMV (Cambodia, Laos, Myanmar, and Vietnam) sub-region. Several delegations from India have also visited Vietnam to explore investment opportunities and held consultations with Vietnamese officials to develop closer ties in the textiles and garments industry. Such efforts have not met with much success.

This is largely because the Indian textile and garments industry is in bad shape. Many Vietnamese officials and researchers interviewed by this author during her field work, revealed that textiles and garments industry is not an appropriate sector for collaboration between India and Vietnam because the Indian textile sector is not globally competitive.

India’s product quality is not at par with other countries and Indian firms typically fail to meet the tight schedule of the value chain. Given the importance of the textile sector in India’s organised sector employment, this is bad news.

To facilitate Indian investments in the CLMV countries in the manufacturing sector and help Indian companies get integrated with the regional value chains, the Indian government set up the Project Development Fund worth Rs 500 crore in 2016.

his was undoubtedly the most important initiative by the Indian government but many analysts have expressed their anguish over the operationalisation this fund. Also, data from the EXIM Bank reveals that so far only one project, the possibility of setting up a pharmaceutical manufacturing unit, has been identified in Vietnam. Textiles and manufacturing sector, one of the main sectors in which India sought to engage with Vietnam has been ignored.

India’s development cooperation strategy in Vietnam has also not been very helpful in promoting India’s economic engagements in the country. The Exim Bank of India has extended concessional credit lines worth US$ 691 million to Vietnam for various infrastructure projects. The largest project is the US$ 500 million credit line to procure defence equipment from India.

Although defence cooperation is an essential component of India’s relations with Vietnam, this project has suffered from many delays. One of the main reasons behind the delay is Vietnam’s concern about its rising public debt.

The country’s current public debt-to-GDP ratio is about 63.9% which is close to the ceiling of 65%. Moreover, Vietnam finds India’s lines of credit programme unattractive because of the relatively higher rate of interest of 1.75% and the mandatory procurement of 75% of the materials from India. The country can access funds from China, Japan, and South Korea at much cheaper rates.

With an underperforming manufacturing sector, sluggish export growth, and job losses in the manufacturing in the last couple of months, business as usual can not be an option for India.

To achieve the target of increasing manufacturing share in GDP to 25%, India needs to learn from the experience of other countries in Asia like Vietnam which have industrialised very rapidly in a short span of time and get integrated into regional value chains because over three-quarters of global trade takes place through value chains.

India should also try to make its development cooperation more effective and make sure that instruments lines of credit deepen India's economic engagements with partner countries like Vietnam. In a nutshell, stronger strategic partnership with Vietnam is good news but we also need stronger economic partnership with Vietnam.

Source: economictimes.com- Aug 20, 2019

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Yarn, fabric exporters seek help from Centre as shipments fall, mills close down

Commerce, Textiles Ministries promise support; exporters hope rebate on taxes will be extended to the sectors

Yarn and fabric exports have taken a big hit this financial year with shipments falling sharply in the first quarter and large-scale job-losses reported in mills. Exporters say the delay in extension of the new scheme for rebating input taxes has made things worse and further eroded competitiveness but the government has promised help.

"The drop in cotton yarn exports by 50 per cent in June has forced about 15-25 per cent drop in working of mills and some mills have fully closed down. In the spinning sector alone, more than two lakh workers would have lost their jobs across the country," Sanjay Jain, Chairman, Confederation of Indian Textile Industries (CITI), told BusinessLine.

In the April-July 2019-20 period, export of cotton yarn and fabric declined 10.5 per cent to $3.3 billion while exports of man-made yarn and fabric fell 3.8 per cent to $1.55 billion. The fact that garments exports have increased in July while exports of yarn and fabrics have fallen could be directly attributed to the 'Rebate of State and Central Taxes and Levies (RoSCTL)' for apparel and made-ups announced by the Centre in March.

Tax reimbursement

"The RoSCTL scheme has been introduced to provide reimbursement of Central and State taxes to make sure that taxes don't get incorporated into the export price. Unfortunately, the yarn and fabric segments have been kept out. Therefore, although garments exports have increased in July, exports of yarn and fabric are suffering," said Jain.

Estimates made by CITI show that cotton yarn and fabrics have not been refunded taxes worth 5-6 per cent of value, and Indian products were hence losing their export competitiveness to immediate competitors like China, Vietnam, Indonesia, Sri Lanka and Bangladesh. The good news, says Jain, is the fact that the government is seized of the situation and has assured the industry that it will take immediate steps to redress the situation.

"We have met officials in both the Commerce Ministry and the Textile Ministry and we have been promised help. The Textiles Minister has assured us full support," Jain said, adding that the industry is hopeful that the RoSCTL will be extended to yarn and fabric soon.

Big crisis

According to the Northern India Textiles Mills Association (NITMA), the crisis being faced by the cotton and blends spinning industry is as big as the one suffered in 2010-11 when the government had to announce a debt restructuring package of ₹35,000 crore to bail out the ailing spinning sector.

The State and Central level taxes and levies being exported in prices, high interest rates, high cost of raw material and cheaper imports of garments and yarns from Bangladesh, Sri Lanka and Indonesia were all making Indian exports non-competitive in global markets, according to NITMA.

This has resulted in closure of about one-third of spinning capacity across the country and mills are not in a position to buy and consume Indian cotton, the association said.

Source: thehindubusinessline.com- Aug 21, 2019

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Finance ministry reviewing India's free trade agreements

Move follows negative feedback from industry and view that FTAs have hurt Indian manufacturing.

The finance ministry has initiated a review of India's free trade agreement framework to assess the impact of such pacts on the overall economy. The view has been gaining ground among policymakers and industry that these free trade agreements (FTAs) brought little tangible benefit to India, while helping the partner country.

There is also a sense that FTAs have adversely impacted India's manufacturing, which the government is trying to boost through 'Make in India'.

"The idea is to assess how these agreements really benefitted the country's economy," said a government official aware of the development. The review is being carried out by the department of economic affairs along with the departments of commerce and revenue, among others.

The move comes as India is engaged in talks on the proposed Regional Comprehensive Economic Partnership (RCEP), which comprises the 10 Asean members (Brunei, Cambodia, Indonesia, Malaysia, Myanmar, Singapore, Thailand, the Philippines, Laos and Vietnam) besides China, Japan, South Korea, Australia and New Zealand.

The review could decide how India negotiates FTAs. The government is keen to ensure trade agreements don't undermine its efforts to step up manufacturing. It aims to lift the share of manufacturing in the economy to 25% from about 16% (at current prices) by 2022.

Additionally, the authorities have found that sometimes imports are being diverted from the normal domestic tariff route to FTAs after the government has raised customs duty. This has run counter to the government's policy steps aimed at discouraging imports of a particular good.

Industry has pointed out that FTAs have a broad impact on manufacturing and investment in the country. "The objective is to look at concerns expressed by industry and the impact on these agreements on investment," said the official.

Blatant Violation

The departments of economic affairs and revenue have in the past flagged concerns over the impact of these trade agreements on revenue and manufacturing.

A particular concern highlighted by the revenue department relates to blatant violations of rules of origin and value addition norms under these trade agreements to export products to India.

Essentially, imports from non-FTA countries are labelled as originating from such nations to claim treaty benefits. Intelligence agencies and customs authorities have in the past highlighted how the rules were violated even by large companies, undermining the 'Make in India' initiative.

In 2013, the department of economic affairs had asked the Indian Institute of Management-Ahmedabad to study the impact of FTAs after the currency crisis highlighted the country's vulnerability on account of the widened current account deficit.

Separately, commerce minister Piyush Goyal has already reviewed individual FTAs with Japan, South Korea, Asean and Sri Lanka.

Source: economictimes.com- Aug 21, 2019

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Indian textile sector losing edge in international market: CITI

'The space vacated by China is largely occupied by the least developed countries'

India ranked fifth in the global textile and clothing exports in 2018 though it was in the second position between 2014 and 2017, according to the Confederation of Indian Textile Industry.

Sanjay K. Jain, chairman of the Confederation, has said in a press release that the space vacated by China was largely occupied by the least developed countries, including Vietnam and Bangladesh. India has not been able to tap the opportunities because of its competitive disadvantages and trade barriers in the international markets.

Meanwhile, textile and clothing imports by India are increasing. Between 2015 and 2019, Indian imports grew 22.8 %, he said.

Analysing the export and import data of the textile sector, Mr. Jain pointed out that in July this year, apparel exports grew 7.06 % compared to the same month last year. However, cotton yarn and cotton fabric exports declined 9.98 % and 10.54 %.

This is mainly because the Central Government announced in March this year a scheme for Rebate of State and Central Taxes and Levies for the apparel and made-up sector. This helped the garment exporters be competitive in the global market.

"It is pertinent to note that some categories like cotton yarn has seen a year-on-year fall of 35 % in exports," he said.

The reasons include lack of export competitiveness in the international mraket because of high cost of raw materials and embedded taxes that these exporters pay. It is estimated that cotton yarn and cotton fabric have nearly 5% of FOB value as non-refunded taxes.

The immediate competitors including China, Vietnam, Indonesia, Sri Lanka, and Bangladesh have the 5 % cost advantage over Indian exporters.

Hence, the Union Government should extended the benefits of the scheme to the yarn and fabric segments and boost the competitiveness of the Indian textile sector, Mr. Jain said.

Source: thehindu.com- Aug 21, 2019

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1.2 lakh textile jobs in Tamil Nadu lost in one year?

The textile industry, which is the second-largest employer in the country, is reeling under a severe crisis similar to the one witnessed in the automobiles sector across India.

The textile industry, which is the second-largest employer in the country, is reeling under a severe crisis similar to the one witnessed in the automobiles sector across India. In the April-June quarter, export of cotton yarn plunged steeply to (-)34 per cent.

“In the past one year alone, 300 spinning and open-end mills in Tamil Nadu have shut down for various reasons. Some of them have been sold out,” says M Jayabal, president of TN Open-end Spinning Mills Association (OSMA).

As per Jayabal’s estimates, close to 1.20 lakh workers have lost jobs due to the crisis in the last one year. While many of them have found work in other sectors, a good chunk are still struggling for employment. “As per official data, till March 2017, 605 spinning mills shut down across India, of which 225 were in Tamil Nadu. There are many spinning mills up for sale, but no one is coming forward to buy them as it costs around Rs 500-Rs 1,000 crore. Equipment in these mills are now lying unused,” says Jayabal.

“The industry is witnessing a crisis similar to the one in 2010-11,” says the Northern India Textile Mills Association (NITMA), while blaming it on the high State and Central taxes and levies, which have made the Indian yarn ‘non-competitive’ in global markets.

The high cost of raw materials and the import of cheap yarn from countries such as Bangladesh, Sri Lanka and Indonesia have also affected the business, resulting in an approximate loss of Rs 20 - Rs 25 per kilogram for Indian mills.

Combined, these factors have allegedly resulted in the closure of one-thirds of spinning mills across India in the last one year, says NITMA. The ones that have managed to survive are incurring huge cash losses.

NITMA has appealed to the centre to extend the scheme for rebate of State and Central taxes and levies (ROSCTL) to cotton and blended yarns, and an interest subvention on yarn exports. It has also appealed to the government to pay the difference between minimum support price and the market price of seed cotton to farmers via direct transfer.

China, Pakistan have a role to play

Industrialists from Tamil Nadu say that under normal circumstances, a minimum of 100 million kilos of cotton yarn is exported every month. However, in June this year, only 57 million kilos were exported, the lowest in the last two years. Sector specialists attribute the slump in demand to the trade standoff between the US and China, and the free-trade agreement between China and Pakistan.

Betting big on the demand from Chinese markets, major industrial expansion activities were carried out in the recent past. However, over the last decade, China has switched to buying from Bangladesh and Vietnam, cutting off the supply from India almost fully, pushing the sector here into a state of chaos.

Despite the slump in exports, production of cotton yarn witnessed an increase of 6.3 per cent this year. Production of blended and 100 per cent non-cotton yarn grew 18 per cent. Overall, production of spinning mill yarn grew 9.6 per cent this year. “The high cost of raw materials is affecting Indian yarn in export markets,” says D Prabhu, convenor of Indian Texpreneurs Federation.

“India must use the US-China trade standoff to its advantage, and aggressively push our apparel exports to US markets. That apart, banks must be directed to pass on full benefits of cuts in key lending rates by RBI, to industries. These measures could revive the sector,” says Prabhu, adding that festival season could boost demand in domestic markets in October.

Source: newindianexpress.com- Aug 21, 2019

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Textile industry going through bad times: Biz body

The textile industry is passing though its worst phase in the past decade, said Munish Bagrodia, president, Northern India Textile Mills Association (NITMA).

"The country has a large and vibrant textile industry, employing millions of people in the value chain. But presently, the industry is passing through a bad phase," he added.

Munish Bagrodia and Sanjay Garg, senior vice-president of NITMA, in a press release issued here, said India had a potential of grabbing a major portion of the global textile trade, which might eventually shift from China in the aftermath of US-China changing equation.

"But here, the challenges are completely home-grown and hampering the growth of Industry. The biggest problem is that basic raw materials, such as cotton and polyester, are not available at global prices that are lower.

The Indian government should adopt market-driven agri-commodity markets and stop the practice of buying kapas by CCI and Nafed under the MSP operations. The government should instead support farmers by direct cash transfers in such scenarios. It will help the industry in sourcing the raw material at global prices," office-bearers of NITMA said.

Another big issue is the interest rates as compared to competing countries, such as China, Vietnam and Indonesia where it is around 5 per cent. However, in India, it is around 10-12 per cent, which increases the cost of operations and makes the industry non-competitive, they added.

Another major problem is the state and central level taxes, which have not been subsumed in GST. These are mainly Mandi Tax and electricity duty at state level and excise duty on petroleum products at the central level.

The labour reforms are another area where the government should look immediately. There is a large potential of employing less educated and unskilled masses with minimal training. The Prime Minister Skill Development Scheme is a step in the right direction.

It should be implemented directly by Central government in participation with industry. The Employees State Insurance (ESI) scheme is putting a huge burden on industry but not benefitting the labour force due to lack of adequate hospitals and dispensaries, they said.

Simultaneously, the neighbouring countries like Bangladesh and Sri Lanka should not be allowed to misuse the bilateral FTAs by dumping goods made out of Chinese raw materials.

India at large is facing the problem of joblessness and if the government can resolve these issues, the textile industry can largely help the nation on the job front, said NITMA.

Source: tribuneindia.com- Aug 21, 2019

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Drop in orders across sectors worries MSMEs

'All sectors are facing a 30 % drop in production'

For the Micro, Small and Medium-scale Enterprises (MSMEs) that are hit by the slump in the auto sector, the other sectors too do not offer any hope.

"It will take six to nine months to prepare for an entirely different product line. The automobile sector might revive by then. So, it is a risk to invest and diversify now," says a foundry owner in the city.

A small-scale job working unit at the Kurichi SIDCO Industrial Estate was machining components for the automobile sector. With the slowdown in the sector, machines remain idle at the unit.

"We tried to get orders from other sectors. But even textiles is facing a slowdown. So it is not easy.

It is just that the slowdown in automobile sector is known to all now. Other sectors are also facing problems," says the unit owner.

MSMEs that were so far focusing on the automobile sector can look at other sectors in Coimbatore - valves, textiles, and general engineering verticals. But, prices will have to be competitive and the volume of orders may not be high. All sectors are facing a 30 % drop in production, says president of Coimbatore District Small Industries' Association R. Ramamurthy.

The industry can make a turnaround with the right policies of the government. The MSMEs were hit hard in 2008 when there was an economic slowdown.

The government came out with a special package to improve fund flow to the units. This government should also come out with a scheme. What the industry needs now is funds to manage the situation, he added.

Source: thehindu.com- Aug 21, 2019

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