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US 68.98| EUR 76.82 | GBP 86.06| JPY 0.64

Cotton Market		
Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
21244	44400	**82.02**
Domestic Futures Price (Ex. Warehouse Rajkot), July		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
21310	44538	**82.28**

International Futures Price	
NY ICE USD Cents/lb (December 2019)	64.32
ZCE Cotton: Yuan/MT (September 2019)	13,155
ZCE Cotton: USD Cents/lb	86.83
Cotlook A Index – Physical	**74.90**

Cotton Guide: It’s now been a week of bullishness in the market. This can be attributed to two reasons: short covering and Geopolitical tensions easing. The Chinese government has approved tariff free soybean purchases from the United States of America. This development ahead of Monday’s trade negotiations in Beijing between US Treasury Secretary Mnuchin, Trade Representative Lighthizer and Chinese Vice-Premier Liu could bring some more volatility in the market. The markets are expected to show some positivity with this. The bears on the other hand can be equally aggressive and exuberant as we still do not expect the export sales data of today to showcase overwhelming figures.

Will all said and done, fundamentally, we feel the international markets will keep a strict watch on the latest geopolitical developments to gauze the strength of the bulls. The recent easing of tariffs on Soybeans can be a sign of good gesture by the Chinese indicating their willingness to come to an agreement. On the flip side, this can also be a trick to soothe out the aggressiveness of the USA so that further tariffs are not imposed on China.

Yesterday, there was a threshold break of 64 cents/lb, where prices of the most active contract went on to touch 64.67 as a high figure. The settlement numbers seen for ICE December contract was 64.32 cents/lb with a change of +59 points. The ICE March contract settled at 65.12 cents/lb with a change of +60 points. This week prices have managed to hold positive with smaller increments daily. However a trend reversal cannot be confirmed with a week's positive figure. We need to note that the aggregate open interest is near 198,000 contracts, out of which a 138,000 contracts are concentrated in the December contract.

The MCX contracts on the other hand displayed mixed figures once again. The MCX July contract settled at 21,310 Rs/Bale with a change of -130 Rs. The MCX August contract settled at 21120 Rs/Bale with a change of +180 Rs. Kindly note the spread between the two contract months has decreased to 190 Rs as compared to the previous spread of 500+ Rs. Total Volumes were seen to rise by 48% i.e.1179 lots to 3633 lots.

While we are writing this report ZCE September contract is trading in positives, therefore strengthening the bullish sentiments.

The Cotlook Index A 2018/2019 is again adjusted positively at 74.90 cents/lb with a change of +0.45 cents/lb, whereas the Cotlook Index A 2019/2020 contract is adjusted at 74.50 cents/lb with a change of 74.50 cents/lb with a change of +0.50 cents/lb. The prices of Shankar 6 are stable around the 44,400 Rs/Candy Mark since a few days.

For today, we feel that the markets are sitting on the cusp, where on one side the fundamentals are strong and on the other side the geopolitical developments are getting stronger. We shall still therefore keep our stance towards the bearish end, unless and until some pleasant global news comes in.

On the domestic front, ICE Cotton futures has moved out of the higher end of the trading range above 64.00. Price also closed above the 9 day EMA (63.80), supporting the recovery rally. However, price is trading in a downward sloping channel with higher band of the channel (resistance) exists around 64.80-65.00 zones. The strength index (RSI) in the daily charts is still under 50, which needs to move beyond 50 to change the bearish bias in cotton price, until then it could remain in the sideways to downside bias. However, divergence between price and the momentum indicator restricted the lower side for cotton futures. So for the confirmation of the same price need to sustain above the 64.70-64.80 zone along with RSI above 50. Only a close above 64.80 would push price towards 65.50. On the downside support exists around 62.35, followed by 61.80. So for near term price is expected to consolidate in the range of 61.00-64.70. In the domestic market MCX July future is expected to trade in the range of 21200-21600.

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

US Negotiators Headed to Shanghai Next Week for Trade Talks

Trade talks between the U.S. and China are set to resume next week with face-to-face meetings in Shanghai.

Larry Kudlow, the White House director of the National Economic Council, said on Tuesday that the "trip to China" would be a "very good sign."

The in-person meeting is expected to be led by U.S. Trade Representative Robert Lighthizer. He will be joined by U.S. Treasury Secretary Steven Mnuchin. They will likely meet with Chinese vice premier Liu He. The three were in a round of negotiations back in May before talks broke off suddenly. The U.S. at the time alleged that China was backpedaling on promises it made just as the parties were thought to be close to a final agreement.

A key issue in the negotiations for the U.S. is the protection of intellectual property assets. Following the breakdown of talks, the U.S. imposed a hike in tariffs on Chinese imports known as Tranche 3, raising the duties to 25 percent from 10 percent on $200 billion in Chinese imports.

The Trump administration was planning for an additional tariff of 25 percent on $300 billion of Chinese imports, referred to as Tranche 4, that had been expected to be imposed at the beginning of July. It was a move that had retailers and vendors nervous about the impact on back-to-school and holiday selling seasons.

However, an planned meeting between Trump and his Chinese counterpart President Xi Jinping at the G-20 Summit in Osaka on June 29 temporarily tabled the Tranche 4 tariffs so the countries could restart negotiations.

The U.S.-China trade dispute so far has gone on for a year. And while the restart of negotiations is considered a plus for retailers and vendors who hope for a resolution, it's still somewhat of a problem for planning purposes because the two countries could at any time rescind their truce. And if that happens, Tranche 4 would likely go into effect.

The uncertainty impacts how companies plan their businesses, not to mention the potential for higher prices on the consumer front. Before the truce was announced, many retailers said they would need to raise prices, pass along higher costs to consumers or disrupted scheduled inventory flows. For instance, executives at Lululemon Athletica said they were planning to air ship some merchandise to avoid transportation delays and congestion at the ports.

David French, senior vice president for government relations at the retail trade organization National Retail Federation, has said that NRF is looking forward to continued progress in the talks so “further tariffs can be avoided and existing ones lifted.”

He noted that a tariff would punish American consumers and threaten U.S. jobs, noting that a report prepared for the NRF indicated that new Tranche 4 tariffs would cost Americans $4.4 billion each year for apparel and $2.5 billion for footwear.

Source: sourcingjournal.com - July 24, 2019

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US back in top 5 innovative economies, China climbs to 14th

The United States reclaimed its ranking in the top five countries in the world for economic innovation, while China climbed from 17th to 14th position in the new list of nearly 130 nations released Wednesday.

The United States reclaimed its ranking in the top five countries in the world for economic innovation, while China climbed from 17th to 14th position in the new list of nearly 130 nations released Wednesday.

The Global Innovation Index 2019 released by the U.N. intellectual property agency, one of its co-sponsors, says "innovation is blossoming around the world" despite an economic slowdown, brewing trade battles and high economic uncertainty.

The index keeps Switzerland in the No. 1 spot - a position it has held since 2011 - followed by Sweden, the United States, the Netherlands and Britain.

The United States had fallen from fourth place in the 2017 rankings to sixth in 2018.

Israel climbed one spot to enter the top 10 for the first time at No. 10, becoming the first country from the northern Africa and western Asia region to crack the top group. South Korea edged closer to the top 10 at No. 11, up from No. 12.

Now in its 12th edition, the index ranks 129 economies based on 80 indicators, from traditional measurements like research and development investments and international patent and trademark applications to newer indicators including mobile-phone app creation and high-tech exports.

The index is sponsored by the U.N. World Intellectual Property Organization, Cornell University's SC Johnson College of Business and INSEAD, the graduate school of business with campuses in France, Singapore and Abu Dhabi.

According to the report, China's continuing rise firmly establishes the country "in the group of leading innovative nations."

"China's innovation strengths become evident in numerous areas: It maintains top ranks in patents by origin, industrial designs, and trademarks by origin as well as high-tech net exports and creative goods exports," the report said.

When comparing levels of innovation to economic development, the report said India, Vietnam, Kenya and Moldova "stand out for outperforming on innovation relative to GDP for the ninth consecutive year - a record." Other economies outperforming in innovation relative to their GDP include Costa Rica, Thailand, Georgia, the Philippines, Burundi, Malawi and Mozambique, it said.

The report singled out India, ranked No. 52, for continuing to be the most innovative economy in central and southern Asia. India consistently ranks among the top countries in the world in "innovation drivers" such as information and technology services exports, graduates in science and engineering, high quality universities, creative goods exports and "gross capital formation - a measure of economy-wide investments," it said.

Francis Gurry, director general of the World Intellectual Property Organization, said the gains on the index "by economic powerhouses like China and India have transformed the geography of innovation and this reflects deliberate policy action to promote innovation."

Other regional leaders in innovation in addition to India and Israel include South Africa, Chile and Singapore with China, Vietnam and Rwanda topping their income groups, the report said.

"In developed and developing economies alike, formal innovation - as measured by research and development and patents - and less formal modes of innovation are thriving," it said.

The report said global expenditures on research and development have been growing faster than the global economy, with government expenditure rising about 5% in 2017 and business expenditure 6.7%.

"Never in history have so many scientists worldwide labored at solving the most pressing global scientific challenges," it said.

But many countries still lack innovation in their economies. The 10 countries at the bottom of the index, in descending order, are Nicaragua, Madagascar, Zimbabwe, Benin, Zambia, Guinea, Togo, Niger, Burundi and Yemen.

Looking ahead, the report said two concerns stand out that could slow growth in innovation.

First, public research and development expenditures "particularly in some high-income countries responsible for driving the technology frontier are growing slowly or not at all," it said.

"Second, increased protectionism - in particular, protectionism that impacts technology-intensive sectors and knowledge flows - poses risks to global innovation networks and innovation diffusion," the report said.

Source: economictimes.com- July 25, 2019

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A world of tweets, trade and turmoil

The US' hold on global business and the domination of the dollar can be countered by boosting other currencies

Governments across the world, and most notably the United States, use instruments of state power — like military pressures, diplomatic isolation, travel bans and economic sanctions — as instruments of persuasion and coercion. President Donald Trump has, however, devised a new instrument of state coercion to express his displeasure and announce his proposed actions. This 21st Century diplomatic innovation by President Trump is his 'Twitter handle'.

Twitter was initially Trump's mode of communication in domestic politics, during his bitterly fought presidential election campaign against Hillary Clinton. It has now become his favourite instrument to chastise America's foes and friends alike, ranging from China and Iran to neighbours like Canada and Mexico, apart from allies like the European Union and partners like India.

American friends, however, aver that Trump uses this unique method of addressing foreign rulers primarily to cheer up his domestic base, apart from informing the world of his late night thoughts.

Criticising allies

Trump has excelled himself before, when he took on an exceptional target — his country's most loyal ally — the United Kingdom of Great Britain and Northern Ireland. He poured scorn on and ridiculed the serving British Ambassador in Washington, Kim Darroch, who doubtless regards himself as the prima donna of Washington's Diplomatic Corps.

Trump also hit out at Theresa May for allegedly mishandling the Brexit negotiations to fashion a "soft exit" of Britain from the European Union. Trump's epithets included a description of Darroch as Britain's "wacky Ambassador", a "very stupid guy" and a "stupid fool". Theresa May received her share of Trump abuses for her "failed Brexit negotiation". He described May's diplomacy as "badly handled" and accused her of going "her own foolish way", while leading her country into in a "disaster".

True to form, Trump’s tweet ended with inevitable boasting about American military and economic might. All this followed leaks of confidential reports Ambassador Darroch had sent to Whitehall, which were highly uncomplimentary about Trump’s qualities of head and heart.

Only two countries — Israel and Saudi Arabia — appear to be free from any ‘Trump Tirades and Tantrums’. Many in Washington aver that this arises from the closeness of the Saudi and Israeli leadership to Jared Kushner, Trump’s son-in-law. Kushner was recently in Bahrain, trying to sell his solution for Middle East Peace to Arab leaders. The Kushner ‘solution’ required the Palestinians to renounce all claims to Jerusalem and the West Bank, in return for petro-dollars from oil rich Arab countries. Kushner’s proposals were received coldly in Bahrain, with even American ally Saudi Arabia making it clear that its approach to the Palestinian issue was distinctly different.

Sanctions and measures

Trump’s approach to crucial contemporary issues enjoys little international support. Even America’s NATO allies differ with him on important issues like climate change and sanctions on Iran.

Trump’s desire to target India on trade issues became evident when Indian steel and aluminium products were hit with import duties of 25 per cent and 10 per cent, respectively, in March 2018. India’s $761-million exports of steel to the US have fallen by 46 per cent since then.

Trump also abolished the preferential duties that India was getting as a developing country. His tariff increases substantially hit India’s exports of mechanical and electrical machinery, chemicals, steel, and auto parts. India retaliated in a measured manner just over a month ago, targeting industries and agricultural products produced by Trump’s political/electoral supporters. They included new tariffs on imports ranging from almonds and walnuts to steel products.

The two sides decided to resolve these differences bilaterally, following the Modi-Trump Summit in Osaka. Preliminary talks have been held recently in New Delhi, with a visiting American delegation. India should however, bear in mind that it is not the US alone that is unhappy with what it sees as growing Indian protectionist measures.

Trade conflict

The problems India faces from Trump’s protectionist policies pale in comparison to the impact of enhanced American duties on China’s exports. India’s annual exports to US amount to around $54.3 billion, while China’s amount to $539.67 billion annually. Moreover, recent restrictions imposed by the Trump administration severely curb China’s easy access to American hi-tech products. The impact of these curbs is being increasingly felt by China, whose remarkable industrial and technological transformation has been largely facilitated by easy access to American technology.

Resolving these issues is going to be more difficult than dealing with the protectionist restrictions that India faces now. While India’s exports to China have shown signs of rising, New Delhi has to devise strategies on how it could best utilise Chinese 5G networks and also encourage Chinese investments in its industrial sector. This has to be undertaken while ensuring simultaneously that its national security is not compromised.

Strengthening world finance

India, is, however, going to face other challenges, which are the creation of the US Congress and not the Trump administration. The most important of these are the prospects of American sanctions flowing from India’s acquisitions of Russian weapons.

India has taken on this challenge frontally and has let it be widely known that it has no intention of buckling under US pressures as it goes about acquiring/producing Russian weapons platforms and systems, ranging from AK-203 Automatic Rifles to S-400 Surface to Air Missiles, naval frigates and submarines.

Banking and financial measures to bypass US sanctions were discussed during President Putin’s visit to India. They have since been put in place. While the US has threatened Turkey with sanctions for acquiring S-400 missile systems by ending the proposed supply of F-35 fifth generation fighters, India has wisely stayed away from attempting to acquire such equipment from the US.

The American Indo-Pacific strategy is premised on support from countries like Japan, South Korea, Vietnam, Indonesia and India — a strategy which would have little relevance without the participation of a friendly India.

The Americans use the domination of the US dollar in international finance as their prime instrument to coerce others, by resorting to threats of financial and banking sanctions without securing international approval. The time has perhaps come to counter this coercive use of American power, by increasing use of the euro and the Chinese renminbi for global financial transactions.

The European Union countries are not too happy at being tied up by unilateral American sanctions on Iran, despite Iran abiding by all the provisions of an agreement the EU signed, together with Russia, China and the Obama administration.

Source: thehindubusinessline.com- July 25, 2019

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Business insiders say China's fur industry resilient amid trade tensions

China's dominance and uniqueness in the fur garment producing sector have enabled its industry players to retain confidence amid the ongoing U.S.-China trade tensions, business insiders said here recently.

Amid the U.S.-initiated trade tensions, "now, we just offer a bottom price to our U.S. customers and would not bear any additional costs," Whiskey Zhang, manager of Chinese company Tongxiang Yuhang Fur Product Co., Ltd., told Xinhua during Texworld USA, an ongoing international textile show.

Zhang said his company, which has business in the United States for quite a few years, lowered sales price by around 5 percent, while most of the additional tariffs were absorbed by U.S. importers.

The United States and Europe are major overseas markets of Chinese fur products, Zhang said.

U.S. importers have no choice but to bear most of the costs as only China has such a complete industry chain, he said.

Zhang's company, located in Chongfu town of east China's Zhejiang province, is just one of the over 1,800 fur companies in the town. In 2018, the output value of those fur companies in Chongfu with a complete industry chain reached 2.3 billion U.S. dollars, according to a local report.

Besides, Zhang said he can also get many raw materials for fur products from his hometown in northeast China, thanks to the cold weather there.

Fur business would not be relocated out of China because the raw materials are from China, echoed Costa Juliana Solomon, manager of U.S. company Bicker & Banter, LLC, a business partner of Zhang's company.

"We've been producing together for over five years over this ... It works," said Solomon, who now travels to China almost every month to take care of her fur and leather business.

Source: xinhuanet.com- July 24, 2019

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Spotlight: Chinese, U.S. textile businesses look for new opportunities amid trade uncertainties

Chinese and U.S. entrepreneurs in the textile industry gathered here for the ongoing China Textile and Apparel Trade Show, looking for new opportunities to strengthen cooperation, adapt to changing global fashion trends and respond to bilateral trade uncertainties.

The year 2018 saw China processing 54.6 million tons of fibers, accounting for half of the world's total, and exporting 276.73 billion U.S. dollars in textile and apparel, or 36 percent of the world's total, according to the China National Textile and Apparel Council.

However, Chinese companies are not content with what they have achieved.

"They are proactively moving toward automation and smart production through technological innovation, and nurturing indigenous brands to move up the value chain," said Xu Yingxin, the council's vice president, at the event held in New York City's Javits Center.

The trade show in its 20th edition was held in tandem with other textile expos, attracting thousands of market players, including retailers, designers and sourcing professionals.

Seduno Group, a Chinese fabric and garment supplier headquartered in Ningbo city of east China's Zhejiang Province, has been expanding its global footprint, working on its designing abilities and strengthening its quick response capabilities.

The company now exports about 12 million garments every month and the total annual exports amount to 600 million U.S. dollars. Apart from China, it also has production bases in Vietnam, Bangladesh, Myanmar and Cambodia.

"Having a global layout is a must now if a supplier wants to establish solid and long-term strategic partnership with big brands that sell internationally," said Xie Chaojun, Seduno's general manager.

It was also required by many U.S. customers who have been preparing for possible tariff hikes, he added.

Currently, European countries account for 52 percent of the company's total exports while the United States and Canada account for 15 percent.

Xie was confident that the company could expand its North American market quickly in the future, since the company's exports to the United States already increased 4 percent in the first half of this year.

Meanwhile, U.S. industry executives are deeply concerned about the negative impact of U.S.-China trade tensions and uncertainties on their businesses, according to the 2019 Fashion Industry Benchmarking Study, prepared by Sheng Lu, associate professor at the University of Delaware in collaboration with the U.S. Fashion Industry Association.

As many as 63 percent of respondents said the U.S. tariff action against China "increased my companies' sourcing cost" in 2019, according to the report released Monday.

As companies are moving sourcing orders to Bangladesh, Vietnam and India, the average price of U.S. apparel imports from these main alternatives to China have all gone up by more than 20 percent in the first five months of 2019 year on year, the report said.

Despite the lingering tariff issues, China will remain a dominant textile and apparel supplier for the U.S. market in the foreseeable future, because China does not have a strong competitor in the variety of products it can make, it added.

Although facing uncertainties over U.S.-China trade tensions, most U.S. companies are still looking for cooperation opportunities with Chinese businesses at the expos.

Nicolas Becerra, director of fabric sourcing and new source development at U.S. costume company Weissman, said "no place can beat Shaoxing in terms of product quality, price, service, and flexibility," referring to a city also in Zhejiang Province.

"If tariffs go up, we'll have to raise prices, so does every one of our competitors. Consumers will have to pay more," said Becerra.

Richard Carrier, a U.S. businessman who has been building his underwear brand for about a year, has partnered with Shanghai H&C International Trade Company.

"The company has been tolerating my every demand and everything shows up before schedule with exceptional quality," said Carrier. He said the trade frictions would not stop him from doing business with Chinese companies.

Source: xinhuanet.com- July 25, 2019

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Global garment, textile fair in China's Dalian in Sep

The 2019 China International Garment and Textile Fair (CIGF) will be organised in Dalian, a main port city in the Liaoning province from September 7 to 9. Under the theme of 'Quality Fashion', it will bring together more than 1,000 clothing businesses from around the world, attracting international apparel executives, fashion designers, textile industry experts.

In terms of domestic business promotion, some 2,500 professional buyers, brokers and dealers from 300 shopping centers in 80 Chinese cities will attend the promotional events and seek to build business connections during the fair, according to official news media.

The role of digitalisation in enabling the Chinese textile industry to go global should be reinforced in this year's fair, according to Ren Weida, director of the CIGF office of Dalian Municipal Bureau of Industry and Information Technology.

Apart from the business promotion activities, three research results will be unveiled during the fair. These are research on the development and future of China's apparel industry, a white paper about the development of business attire in China, as well as China National Garment Association (CNGA)'s protocols for smart manufacturing of clothing.

Besides, a summit on integration of information technology and industrialization for China's textile industry will also be held during the fair.

Sponsored by the ministry of commerce and the government of Dalian city, the fair is organised by the CIGF office of Dalian municipal bureau of industry and information technology.

Source: fibre2fashion.com- July 24, 2019

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Korea to join RCEP talks in China this week

South Korea is slated to participate in the 27th official negotiations this week to discuss the implementation of an Asia-Pacific mega trade deal possibly this year.

The upcoming talks for a Regional Comprehensive Economic Partnership will be held in Zhengzhou, China, from Friday.

RCEP is, in essence, a massive regional trade deal between the 10 members of the Association of Southeast Asian Nations and the six countries with which ASEAN has free trade agreements -- Korea, China, Japan, India, Australia and New Zealand.

The negotiations were launched in 2012 and are expected to be completed by the end of this year.

The six-day talks will be attended by the Korean delegation led by Yeo Han-koo, head of trade negation bureau of the Trade Ministry, with around 45 officials from related ministries.

The participating nations are expected to make efforts to accelerate the negotiations on market access in products, services and investments with the aim of closing the deal within this year.

Amid escalating trade tension between Korea and Japan, the Korean delegation also plans to seek cooperation from the participating nations, explaining Japan's export curbs may seriously disrupt the international trade order also in RCEP nations.

Source: koreaherald.com- July 25, 2019

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Portugal textile exports to US up 11 per cent

Portugal's textiles and apparel exports to the US in 2018 rose 11.25 per cent over 2017. There's considerable added-value when sourcing in Portugal.

Beyond quality and product innovation, manufacturers in the country are also known for flexibility and adaptability—which allows small-batch production, something the industry's digitally-native brands, in particular, seek in their sourcing strategies.

Portugal's textile industry has exclusive products and is able to offer tradition and industrial knowhow at the textile level, with a capacity for constant renewal and resilience.

There is a strong network of partners in the textile cluster, excelling at innovation and sustainability. This regional network is part of what adds to the country's flexibility. What's more, as part of a strategic plan for the textile and apparel sector, Portugal has made pointed commitments in sustainability and digitization to be competitive.

The increase of the production scale assisted by digital technologies allows flexibility in the Portuguese textile business model. Flexibility is among Portugal's key competitive advantages.

Besides that, the country is among global leaders of the private label, in what is an essential differentiator in the textile market. Portugal is bringing its competitive offerings to light at a time when sourcing has been upset over changing trade relations, and companies are looking for new places to manufacture product.

Source: fashionatingworld.com- July 24, 2019

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Australian wool faces lower demand

The Australian wool market is starting the season with nervousness. Chinese textile mills have been scaling down buying orders and processing activities since April. Domestic shoppers in China, who consume half that country's processed wool, are spending less, and European and North American demand has also slowed this year leaving mounting stocks of unsold product in wool's pipeline.

At the very least, wool growers should expect a volatile year ahead. Woolen mills have adopted hand-to-mouth buying strategies to avoid being caught with too much raw stock or processed textile lines, while tightening supplies from Australia's shrinking flock would exacerbate the trade's price volatility and supply pinch points.

Today's Australian wool clip is just one third its size in 1990 while the national sheep flock is the smallest since the mid 1920s. Wool's longest running price surge since the 1980s has finally encountered consumer resistance and slower buying orders in May and June.

Consumer resistance has coincided with economic uncertainty in Europe caused by Brexit and a slowing German economy, and processors had grown increasingly wary of the China-US trade war's consequences.

Facing a drought, the wool industry's biggest problems in the years ahead would revolve around longer term wool supply. Average yield is at its lowest point in eight years because of the drought's impact on fleece quality.

Source: fashionatingworld.com- July 24, 2019

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Pakistan: Trade war, SEZs and Pakistan

How can Pakistan optimally benefit from the ongoing tariff war between the US and China? This is a basic query requiring specialised focus and analysis of the export-led dynamics responsible for the virulent trade conflicts. The 'reciprocity framework' of the General Agreement on Tariffs and Trade (GATT/WTO), as explained under Articles XXVIII and XIX on 'renegotiating concessions', seems to provide legal justification for the turgid trade frictions worldwide.

Moreover, tensions between major international trading partners are not a new phenomenon. Back in the 1980s, a similar trade tug-of-war was witnessed between the US and Japan.

An exponentially high volume of the Chinese exports has been alarming the US pundits since 1990s. In a World Bank's policy research working paper titled "US-Japan and US-China trade conflict: Export growth, reciprocity and trading system", Chad Bown and Rachel McCulloch underline similarities and dissimilarities between the US trade friction with Japan and China.

They argue that Japan, from 1950s through 1990s, and China, since 1970s, have posed vitiating challenges to the GATT/WTO trading system because of their unusually high shares of world exports and bilateral trade imbalances with the US. Such trade imbalances have been viewed, by the US policymakers, as a threat to the GATT/WTO principle stressing market-access concessions for quixotic players in the trading system.

Against this backdrop, the US continued to put pressure on the voluminous export of Chinese products. Taking offense at the US actions, according to media reports, many Chinese companies have started shifting their businesses to low-cost countries.

Since Chinese companies are facing prosaic business challenges at the local level, such as rising wages, labour crunch, and the pressure of additional tariffs, Chinese companies are considering manufacturing their products in other countries in attempts to dodge the US in the ongoing tariff war. The querulous trend suggests that the trade tug-of-war between the US and China has created many business opportunities for low-cost countries such as Pakistan.

In the aftermath of the additional tariffs imposed by the US, Chinese exporters are facing a welter of business pressures to cope with the ongoing trade challenges. Prima facie, as per reports, they have three main options: increasing consumption of their products indigenously in China; diversifying their client base thus relying less on the US; and moving manufacturing of their products to other low-cost countries. If they focus on consuming their products indigenously, it may have vociferous consequences for their Open Door Policy in the long run.

Given the US tariff vitriol that has followed China, Chinese exporters will also face the current trend of high wages and labour crunch locally. These factors will not allow Chinese exporters to focus on the local market for consumption of their products. The second option is to diversify the market for Chinese products internationally, thus bypassing the challenges posed by additional tariffs by President Trump.

However, this is also not a plausible idea because the US is a major trading partner in the world and it is very hard for any country to bypass it. The third option of moving manufacturing to low-cost nations has several tangible merits. By doing so, Chinese exporters can easily manipulate their exports into the US by doing away with their 'Made in China' tag, as their products will be manufactured in other low-cost countries and labeled accordingly.

Meanwhile, reports suggest that the Chinese government has denied that companies have started moving their businesses outside China. However, it is argued that if Chinese exporters choose to manufacture their products outside China, their businesses may be at risk because the US and China may strike a deal through which China can contain the additional tariffs imposed by the US.

In this scenario, the investments made by Chinese exporters in other countries may face huge losses. This creates a business conundrum for Chinese businessmen regarding whether they should shift their product production to other low-cost countries or not.

This is a time for Pakistan to keep a close eye on the ongoing international trade developments. The influx of the Chinese businessmen to other countries needs to be monitored systematically by collecting data regarding products that are high in demand in the US. Pakistan has the advantage of having geographical contiguity with China.

The China-Pakistan Economic Corridor (CPEC) is another trade advantage. These comparative advantages should naturally mark Pakistan as the best option for the Chinese exporters where they can produce their products. In this regard, the location of proposed Special Economic Zones (SEZs) will have a crucial role to play as reflected in our article “Promoting SEZs: the location factor” that appeared in this newspaper on April 18, 2019.

This is the right time for Pakistan to come up with a policy plan, based on extensive research. It is not just trade, it is the entire international political landscape that will determine the future of trade between the US and China. Pakistan needs to prepare itself to accommodate the Chinese exporters willing to manufacture their products in other low-cost countries for onward export to the US.

The spillover effect of the rising trade tensions between the US and China can indeed be a ‘quantum leap’ for Pakistan’s languishing economy. Responding with a pique to the US safeguards, if Chinese companies were to move to Pakistan, the products produced will be labeled as ‘Made in Pakistan’, creating a trend to promote a culture of business entrepreneurship and innovation in Pakistan.

Anticipating future trade variables, particularly the ripple effects of the additional tariffs imposed by President Trump on the $200 billion worth of Chinese goods, Pakistan must be prepared to welcome Chinese companies and exporters. It is a good time to attract Chinese investors, businessmen, industrialists and exporters directly affected by US tariffs.

It may be noted that during the US-Japan trade tensions in the past, many low-cost nations benefitted. The US protection targeted at Japan, according to Bown and McCulloch, promoted the export growth in textiles, steel and semiconductors in several newly industrialised low-cost economies such as Taiwan, Hong Kong, Singapore and South Korea. India, Bangladesh and Vietnam have also been the beneficiaries of the US-China trade conflicts in the textiles and apparel sectors.

Currently the investors in China are closely watching the government policies and the depreciation of Yuan to counter the additional tariffs imposed by the US. Many of them may also be double-minded either to move their factories to other countries or not, because the two countries may enter into some kind of trade agreement that can offset the tariff pressures.

In these circumstances, Pakistan could be an attractive destination for Chinese exporters aiming to bypass the tariffs imposed by the US. In the wake of ongoing trade frictions, Pakistan must devise a robust policy capable of accommodating the Chinese exporters, affected by the US tariffs, alongside establishing SEZs at locations of optimal advantage to both Pakistan and China.

Source: tribune.com.pk- July 24, 2019

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Australia funds Bangladesh program for labour welfare

Australia has partnered the International Labor Organization to improve working conditions, empower women and boost the competitiveness of Bangladesh's readymade garment industry.

The partnership has been strengthened by the re-commitment of funds for Better Work Bangladesh as part of Australia's ongoing partnership with ILO. Australia has been supporting BWB since 2016 and today the program reaches 4,85,708 workers in 210 factories who work with 22 international brands.

Australia is committed to fund this program until June 2020 as a demonstration of support for industrial safety, labor law governance and women's economic empowerment in Bangladesh. Australia's ongoing support for the Better Work Bangladesh program drives important changes in workplace safety in the garment industry. Better Work has made measurable impacts on the lives of millions of workers and their families.

It aims at uniting multiple stakeholders, promoting decent work for all and helping the garment industry in Bangladesh thrive. Australia is an important trading partner of Bangladesh. Bangladesh's products enjoy duty-free market access to Australia.

Two-way export and import linkages are the key elements in the bilateral relationship between Bangladesh and Australia. Garments are the main export items while other products that are performing strong in Australian markets include ceramics, pharmaceuticals and leather goods.

Source: fashionatingworld.com- July 24, 2019

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Pakistan: Cotton market: Mills indulge in cautious buying of fine quality

Mills indulged in cautious buying of fine quality on the cotton market on Wednesday in the process of trading activity, dealers said. Since the week started, the official spot rate picked up Rs 200 to Rs 8650 due to slight fall in better quality cotton, they added.

In ready session, over 7,000 bales of cotton changed hands between Rs 8625-8750, they said. Rates of seed cotton per 40kg from Sindh and Punjab were at Rs 3700-4100, they said.

In Sindh and Punjab, Binola prices per maund were at Rs 1500-1550, they said and adding that polyester fibre per kg rates were at Rs 203 due to lack of buying interest, they said. Market sources said that mills and spinners showed renewed interest in buying of better quality cotton.

They observed that arrivals of seed cotton in both Sindh and Punjab are on full swing, but despite that they are trying to replenish their stock to meet future requirements. Cotton analyst, Naseem Usman said that dollars' surge is continue, it's a solid factor, which pushing up rates of all essentials, so that the mills indulged in cautious buying of fine type.

Present trend in the market, indicating that prices may move further higher in days to come, he observed.

Adds Reuters: ICE cotton futures on Tuesday was mostly steady in light trading as markets awaited progress in US-China trade talks, while improved conditions for the US crop added to worries of higher output with the natural fibre battling demand woes.

The most-active cotton contract on ICE Futures US, the second-month December contract, was mostly unchanged at 63.32 cents per lb. It traded within a tight range of 62.9 and 63.64 cents a lb.

Total futures market volume fell by 10,619 to 9,277 lots. Data showed total open interest gained 717 to 197,976 contracts in the previous session.

The following deals reported: 1600 bales of cotton from Sanghar at Rs 8675, 1600 bales from Tando Adam at Rs 8625/8650, 400 bales from Shahdadpur at Rs 8650, 400 bales from Kotri at Rs 8650, 1000 bales from Mirpurkhas at Rs 8650-8700, 600 bales from Hyderabad at Rs 8625/8650, 200 bales from Jam Sahab at Rs 8700, 400 bales from Noabad at Rs 8650, 200 bales from Gojra at Rs 8750, 200 bales from Hasilpur, 100 bales from Smandari, same fiture from Vehari, 200 bales from Vehari, 200 bales from Pakpattan, 100 bales from Pir Mehal all done at the same rate and 200 bales from Taminwali at Rs 8700, they said.

Source: fp.brecorder.com- July 25, 2019

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NATIONAL NEWS

Manufacturing sector's RCEP inhibitions

With a stable and full majority government back to power at the Centre, the Prime Minister has already hit the ground running by setting up two key Cabinet panels on growth & investment and employment & skill development. The focus on the manufacturing sector is critical for sustainable economic growth.

Manufacturing not only creates strong positive backward and forward linkages in the economy, but, according to estimates, every job created in manufacturing has a multiplier effect of 2-3x additional jobs in other sectors. Industrial revolutions don't happen overnight. They require careful planning, policy interventions, regular upgrades, and innovations and investments at every stage of development.

The contribution of the manufacturing sector to India's GDP has remained stagnant at around 17% since the 1990s, and the sector needs a big push in order to drive potential GDP growth. In the current context of rising trade war tensions and slowing global growth, most countries are cushioning their domestic industry from trade diversion.

According to WTO data, trade protectionism has been on the rise both in terms of the number of global trade-restrictive initiations and import coverage of these measures. In the current scenario, a two-pronged strategy of raising domestic competitiveness (via a carefully-planned and targeted Industrial Policy) and cushioning the industry from surge in imports due to trade diversion (via carefully-negotiated FTAs) is the need of the hour.

In this regard, India needs to take a cautious approach towards FTAs. A NITI Aayog note ('A Note on Free Trade Agreements and Their Costs', Dr Saraswat, Priya, Ghosh 2018) had earlier highlighted that India's combined trade deficit with FTA partners like the ASEAN, Japan and South Korea has almost doubled in the last eight years.

India's trade deficit with the Regional Comprehensive Economic Partnership (RCEP) bloc of over $100 billion is almost 64% of its total trade deficit, of which China alone accounts for over 60% of the deficit.

The report also highlighted that the quality of trade has deteriorated under the ASEAN-India FTA. As per UN's Harmonised System of product classification, products can be grouped into 99 chapters and further into 21 sections like textiles, chemicals, vegetable products, base metals, gems and jewellery, etc (similar to sector classification).

The analysis shows that trade balance has worsened (deficit increased or surplus reduced) for 13 out of 21 sectors. This also includes value-added sectors like chemicals and allied, plastics and rubber, minerals, leather, textiles, gems and jewellery, metals, vehicles, medical instruments, and miscellaneous manufactured items. Sectors where trade deficit has worsened account for about 75% of India's exports to the ASEAN.

Having said that, the RCEP—the 16-country mega Asian FTA—has been viewed with caution by Indian policymakers. Commerce minister Piyush Goyal has held industry consultations over the last few days to ensure all industry issues are considered before the deal is sealed. It should be realised that reciprocity is the key to FTAs.

The biggest driver for trading partner countries to sign an FTA with India is the access to a big and booming consumer market. So it's quite logical for India also to assess what it gets in return. That's probably the reason why India has received a lot of backlash at various rounds of RCEP negotiations from other trading partners.

As per media reports, in the latest meeting in Bangkok, India's proposal for strict rules of origin requirements was not welcomed by other FTA partner countries. Rules of origin are critical as they determine the source of a product for it to qualify for preferential treatment. India has been demanding a stricter rule of origin criteria for its domestic industry (40-60% of value-add) as it fears that China can easily misuse lax rules of origin, like the 35% value-added rule in order to dump goods into India.

The fear is not unwarranted as rerouting of Chinese goods into Indian markets via India's FTA partner countries is quite common. Previously, too, under the India-Sri Lanka FTA, Sri Lanka had started exporting copper to India by under-invoicing of imported scrap in order to show higher value-addition for its goods to qualify for preferential rates under the FTA. Thus, rules of origin norms can easily be circumvented by simple accounting manipulation.

Moreover, the domestic industry has been vocal about its discomfort with respect to opening up of the domestic market to Chinese exports. This is understandable given the massive Chinese overcapacity in key manufacturing industries, and major support programmes in the form of financial, non-financial and trade measures for the domestic industry that give an edge to Chinese producers over other trade partners.

China's manufacturing surplus and dumping of goods across the world is well known. China is the recipient of the highest number of anti-dumping duty (ADD) measures in the world, with 926 ADD measures against it (1995-2017), which amounts to almost a quarter of all ADD measures globally.

Policymakers should also be cognisant of the use of non-tariff barriers (NTBs) by China. As per reports, even though China has agreed to open almost 92% of their tariff lines, expecting India to reciprocate in the same manner, India's concerns over China's NTBs merit serious attention. China's usage of NTBs like complex product certification process, labelling standards, customs clearance, pre-shipment inspection and import licensing have hindered India's access to their markets.

Dealing with NTBs is costly and, therefore, we must factor in this associated barrier before we move ahead with trade pacts, the RCEP in particular. Thus, in terms of reciprocity in an FTA, India's exports access to Chinese markets will be limited given China's overcapacity, use of NTBs, and significant financial and non-financial support available to its domestic industry.

Against this backdrop, India must have a plan to deal with the massive support that China offers its industries, leading to overcapacity and price undercutting post-RCEP. Therefore, we suggest that appropriate safeguard clauses must be put in place within the RCEP in case injury to domestic industry is found.

A clause on provisional safeguard measures should also be introduced. Within the FTA, a provision should be made for safeguard measures to be invoked if a volume or price trigger for the concerned products is reached.

Given the current state of Indian industry, phased elimination of tariffs is necessary especially with respect to some key manufacturing industries that have long gestation periods until they start running on full capacity.

An example of this kind of negotiation was the India-Japan FTA where India negotiated for most of its tariff lines under sensitive track (almost 63% under sensitive track, 14% under exclusion). This was in contrast to the ASEAN-India FTA wherein 76% of tariff lines were opened up for complete duty elimination.

Therefore, at least a 15-25 years' tariff elimination schedule should be negotiated for key sectors like chemicals, metals, automobiles, machinery, food products and textiles, which individually contribute more than 5% to India's manufacturing GDP and employment. Thus, as suggested, phased elimination of few key manufacturing industries is absolutely essential with respect to China, and last but not the least, a rules of origin criteria that ensures a fair amount of value-addition to determine the source of a product.

While our negotiators bargain hard for an inclusive and balanced RCEP, domestically we must fiercely focus on eliminating the niggles our manufacturing sector and exports are facing. India's transformational plans for the manufacturing sector will require support in the form of a new industrial policy that creates the necessary incentives for key sectors to be an active part of this process. These are necessary complements for ensuring maximum leverage out of our trade deals, and especially the RCEP.

Source: financialexpress.com- July 25, 2019

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Committee constituted to examine issues related to FDI in e-commerce

A committee has been constituted under the Department for Promotion of Industry and Internal Trade to examine issues related to FDI in the e-commerce sector, Parliament was informed on Wednesday.

The committee was constituted on July 12 under an additional secretary level officer from the Department for Promotion of Industry and Internal Trade (DPIIT) with members from the departments of commerce, consumer affairs, legal affairs and MSME.

They will examine issues related to FDI (foreign direct investment) in the e-commerce sector and give suggestions, Commerce and Industry Minister Piyush Goyal said in a written reply in the Lok Sabha.

"A committee has been constituted on 12th July, 2019 under Additional Secretary, DPIIT...to examine issues related to FDI in e-commerce and give its suggestions," he said.

According to the current policy, 100% FDI is allowed in the marketplace format of e-commerce retailing. However, FDI is prohibited in the inventory-based model.

In a separate reply, the minister said from 2006 till March 29, 2018, 112 brands have obtained approval of the government for single-brand retail trading activities.

FDI policy on single-brand retail trade has been in operation since 2006. FDI up to 100 per cent under automatic route has been allowed in the sector subject to certain conditions.

This story has been published from a wire agency feed without modifications to the text. Only the headline has been changed.

Source: livemint.com- July 24, 2019

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Poor demand shuts 20 textile mills

Textile dyeing and processing mills around Surat are facing death from fall in demand and decline in production rate.

Of the nearly 350 mills that thrived in and around the Diamond City, around 20 have shut shop in the last three months. And, those that are still functioning, have been forced to work at 50 to 70% capacity.

With the arrival of the festive season, owners were expecting demand to go up, but contrary to expectations, daily production has gone down to 3 crore metres per day, which at 100 per cent capacity, is 4.5 crore metres per day.

Processors and mill owners say it is due to reduced purchasing power, changed fashion trends from polyester and government's apathy in helping the industry revive itself.

Those mills that downed shutters recently include around three each from Sachin and Pandesara, two to three in the city and two in Kadodara. Of the remaining 325 mills, operational workforce capacities have been reduced to 65 per cent labourers only.

President of South Gujarat Textile processors Association (SGTPA), Jitu Vakhariya told TOI: "Majority of us are working in single shift with two days of holidays in a week. Once closed down, it is very costly and difficult to restart a unit. Therefore, many processors have not closed down their units, but cut down its capacity by half."

Vakhariya further said that some of the owners are operating only half of their machines and stopped second shift as production costs have also increased by 15 to 25 per cent due to rise in labour charges, raw material charges.

On the other hand, less production in one day results in lower efficiency, more fuel consumption at times and even more cost per unit, he added.

Another processor, who runs three units — two in Sachin and one at Palsana — said, "Purchasing power has reduced to a great extent in last one year. Customers who once purchased bulk of 30,000 metre material of a quality has now reduced the off take to 10,000-15,000 metres. This slump is mainly due to reduced demand of polyesters.

We have lower quantity of job work now compared to a year ago when we used to get job work for 2 lakh metre of material at the start of the festive season. Now, the flow is reduced to 1 lakh metre only. We are operating the units for the sake of keeping them alive."

Source: timesofindia.com- July 25, 2019

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Govt changes secretaries of 12 departments in major reshuffle

In the first major bureaucratic reshuffle since Prime Minister Narendra Modi came back to power in May, the Centre on Wednesday changed the secretaries of 12 government departments. While finance secretary Subhash Chandra Garg was appointed as the power secretary, disinvestment secretary Atanu Chakraborty, a 1985 batch Gujarat cadre IAS officer, will replace Garg as the economic affairs secretary in the finance ministry.

Garg is believed to be behind the budget proposal for overseas sovereign borrowing, which has faced severe criticism from several experts, including former Reserve Bank of India (RBI) governors. Garg was also at a loggerheads with the Bimal Jalan committee, set up to decide RBI's economic capital framework, and had submitted a dissent note to the committee.

Garg, a 1983 batch IAS officer of the Rajasthan cadre, will take over his responsibilities at the critical infrastructure ministry amid a crisis faced by distribution companies due to their poor financial health, leading to delays in payments to power generation utilities.

Garg also assumes office at a time when a new power sector package is in the offing, comprising a new tariff policy and structural reforms. The power sector is reeling under bad loans worth about ₹1 trillion, with around 66 gigawatts (GW) facing various degrees of financial stress.

Anil Kumar Khachi, a 1986 batch Himachal Pradesh IAS officer, will move from his home posting to take over as the disinvestment secretary in the department of investment and public asset management.

The wide-ranging changes in the apex bureaucratic framework comes at a time when the National Democratic Alliance (NDA) government, in its second term, has set an ambitious task of making India a $5 trillion economy by 2025.

The appointments committee of the cabinet headed by the Prime Minister finalized the postings on Wednesday. Posts of another 12 bureaucrats have been upgraded to the level of special secretary in rank, and pay of secretary.

Power secretary Ajay Kumar Bhalla has been made the officer on special duty in the home ministry with immediate effect. He will take over from Rajiv Gauba as the home secretary, when he retires on 31 August.

Bhalla, who will report directly to home minister Amit Shah, takes over at a critical time, with Shah set to rejig the ministry's dealings in conflict areas, including Jammu and Kashmir, and Naxal-hit Chhattisgarh. Bhalla will have a fixed two-year tenure as home secretary.

Bhalla and his team had put in place a successful template for the allocation of natural resources that is used as a primer for the allotment of other natural resources. The cheerful, straight-talking Bhalla has been an integral part of the NDA government's plan to supply round-the-clock power to all.

Airports Authority of India chairman Guruprasad Mohapatra will become the new secretary of the department for promotion of industry and internal trade. Mohapatra, a 1986 batch Gujarat cadre IAS officer, had earlier served as a joint secretary in the department of commerce.

Anshu Prakash, who is currently serving as an additional secretary in the department of telecommunications, has been promoted as the DoT secretary, while Ravi Capoor from the Assam-Meghalaya cadre will become the textiles secretary.

P.D. Vaghela, currently serving his home cadre in Gujarat, will be the secretary in the ministry of chemicals and fertilizers, while Anuradha Mitra, the member finance in the ministry of communications, will take over as the secretary, department of official language.

Source: livemint.com- July 24, 2019

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India jumps five places to 52nd rank in Global Innovation Index 2019

The GII rankings are published annually by Cornell University, INSEAD and the UN World Intellectual Property Organisation (WIPO) and GII Knowledge Partners

India improved its ranking in the global innovation index by five places to 52nd in 2019 from 57th position in the last year, according to a report released Wednesday.

Commerce and Industry Minister Piyush Goyal released the Global Innovation Index (GII) rankings here.

The GII rankings are published annually by Cornell University, INSEAD and the UN World Intellectual Property Organisation (WIPO) and GII Knowledge Partners.

Now in its 12th edition, the GII ranks 129 economies based on 80 indicators, ranging from intellectual property filing rates to mobile-application creation, education spending and scientific and technical publications.

Switzerland retained its number-one spot on the index. Other economies in the top 10 are: Sweden, the US, the Netherlands, the UK, Finland, Denmark, Singapore, Germany and Israel.

Source: business-standard.com- July 24, 2019

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