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IBTEX No. 20 of 2020 January 27, 2020

US 71.42| EUR 78.76 | GBP 93.25| JPY 0.65

Cotton Market (Jan 24, 2020)		
Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
19187	40100	**71.68**
Domestic Futures Price (Ex. Warehouse Rajkot), January		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
19510	40776	**72.89**
International Futures Price		
NY ICE USD Cents/lb (March 2020)	70.03	
ZCE Cotton: Yuan/MT (May 2020)	13,515	
ZCE Cotton: USD Cents/lb	88.80	
Cotlook A Index – Physical	**80.20**	

Cotton Guide- It seems difficult to comprehend that an epidemic could drive cotton prices lower. But yes the Corona Virus in China is seen to have caused some damage to the ZCE futures. The ZCE Cotton futures are seen on a continuous downtrend. The outbreak in China weighed on market sentiments and pushed equities and oil prices lower as well.

We need understand, in such situations people usually travel less, decrease their frequency of moving out of the house, prefer to work from home, etc. This decreases trade to a big extent. This thus does not have a direct impact on cotton but definitely has a cascading effect on it to a certain extent. Market participants should keep track on this major news for prudent decision making.

The ICE cotton futures took a downturn by triple digit losses. The ICE March futures settled at 70.03 cents per pound with a change of -110 points. The ICE May futures settled at 70.75 cents per pound with a change of -109 points. The volumes were again average at 35,843 contracts.

The MCX contracts on the other hand followed the path of ICE. The MCX January contract settled at 19,510 Rs per Bale with a change of -240 Rs The MCX February contract settled at 19,800 Rs per Bale with a change of -220 Rs. The MCX March contract was seen to have 20,080 Rs per Bale with a change of -170 Rs. The volumes were up at 3296 lots.

The Cotlook Index A was changed at 80.20 cents per pound with a change of +180 points. The prices of Shankar 6 were lower at 40,100 Rs per Candy.

On the fundamental front, the market is waiting for further news on the export sales numbers which will be the first report after inking the Phase 1 trade deal. The numbers on the other hand could either be detrimental or incremental for the ICE Cotton prices.

On the technical front, in daily chart, ICE Cotton March has taken the support & reversed from the 50% Fibonacci retracement level around 68.50. Meanwhile price is around the 5 & 9 day EMA at 70.32, 70.34, along with RSI at 54 which reversed from the overbought zone suggesting a phase of sideways bias in the market.

The immediate resistance for the price is around the near high at 72.00 which coincides near the downward sloping trend line. However, the immediate support for the price would be 68.44, followed by 67.30 which are the 50% & 38.2% Fibonacci retracement level resp. Thus for the day we expect price to trade in the range of 71.30-68.70 with a sideways bias. In MCX Jan Cotton, we expect the price to trade within the range of 19300-19600 with a sideways bias.

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

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INTERNATIONAL NEWS

USA: Recession in 2020? Manufacturers Seem to Think So, Data Shows

If you ask manufacturers, 2020 will bring about the recession economists have been debating—and they expect the extended trade war will be the catalyst.

A new survey by AI-driven strategic sourcing and procurement company LevaData found that as many as 70 percent of manufacturers think an ongoing trade war will likely lead to a global recession this year.

And 42 percent pegged the trade restrictions brought about by the battle between the U.S. and China as the issue that will have the greatest impact on their business this year. After that, geopolitical instability ranks a distant second, with 15 percent calling it their biggest concern, followed by 12 percent pointing to natural disasters and 11 percent who are worried about impeachment related uncertainty.

The general instability and potentially impending recession won't be the least of the concerns for supply chains, either. Forty-eight percent of manufacturers surveyed expect to pay more for goods and services this year, and 47 percent think they'll be dishing out more dollars for inputs and labor.

"The vast majority (89 percent) of the executives surveyed agree that tariffs will increase production costs," LevaData said. "Most estimate this increase at 10-20 percent over the course of the year. More than two-thirds expect both their production costs (71 percent) and material costs (67 percent) to increase."

As such, 79 percent of manufacturers said they'll be increasing prices for their goods and services. Consumers already sensitive to price andy may not be receptive to a full pass-on of the increased costs, so some companies are also looking for savings within the company, reducing profit margins and renegotiating raw material supply deals.

Recession, rising prices and risking margins aside, manufacturers seem to think the trade war will prove positive over the long term.

"Broadly speaking, only 22 percent of manufacturing executives don't support the newly imposed tariffs. Nearly a third (32 percent) actively support them, and 46 percent are neutral," LevaData said.

What's more, 65 percent think the tariffs will yield improved global trade practices, 40 percent foresee improved U.S.-China trade relations in the next few years, and 37 percent think supply chain operations will run more smoothly in the long term.

"Nearly half (47 percent) believe tariffs will ultimately lead to economic growth in the U.S.," LevaData noted. "However, an almost equal number (46 percent) believe they will lead to economic decline."

Source: sourcingjournal.com- Jan 24, 2020

HOME

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China's Manufacturing Grows While Inflation Danger Still Looms Over the US

As China and the US came close to conclude the talks on the first phase of the trade deal, a stronger Manufacturing activity in China has coincided. A Chinese official statement by the National Bureau of Statistics declared that the Purchasing Managers' Index (PMI) has remained at 50.2 in December. It should be noted that PMI's figure above 50 points hints at the expansion of the manufacturing sector. Chinese manufacturing has been on an expansion mode for the last two months.

As per the new PMI readings, production in China has been on the rise for the last year. However, demand in terms of new orders stands lower than the recent high recorded in December. The expansion of the manufacturing sector has led the Chinese economy to 2020 with a strong arm. However, its sustainability is still being questioned.

Analysts from Nomura said, "The extended strength in the official manufacturing PMI certainly looks positive for markets, but we believe this may not be sustainable, and the economy has yet to hit the bottom." Yet, Nomura has revised the GDP growth forecast for the last quarter from 5.8 percent to 6.0 percent.

Multi Factors

Though the increment in the PMI might be attributed to loads of things, some major ones include heightened demand due to the upcoming Lunar New Year and conclusion of talks on Phase-1 of China-US trade deal.

As per a senior statistician with the National Bureau of Statistics of China, there has been a soar in the demand and production in China due to the upcoming Lunar New Year event that is to happen in late January. It is observed for almost 15 days when all major activities of Chinese economy stalls.

As per the Bureau, production specific to the textile, pharmaceutical, and auto and telecom equipment industries has grown significantly. It also hints at the increased confidence of the companies to stock up goods in inventories for demand hike on the Lunar New Year event. Along with the manufacturing sector, the retail sector has also outperformed earlier predictions.

Another significant factor for Chinese manufacturing growth remains the pace of trade talks between the U.S. and China. This has helped in the increment of confidence amongst the investors and manufacturers. Especially, export orders are on the rise for the past few months.

Both nations have announced that phase one agreement may be soon signed, which may lower some American tariffs and lead to the higher purchase of American goods by China. This seems to be a great advancement as in the long-term, these measures are likely to pay off.

Recently, White House trade adviser Peter Navarro said that the above deal would be signed in the second week of January and the signing may see the presence of Chinese Vice-Premier Liu in the United States.

However, China is yet to stabilize its wide-spread job losses. Almost 25 million jobs have been lost in China between 2014 and 2018. Its construction sector is struggling along with its small scale industry that accounts for most of the job losses.

Though China is doing fine in the service sector to compensate for the losses in the construction sectors, it seems not sufficient.

The American Struggle

Former Federal Reserve Chairman Alan Greenspan recently said that the growing budget deficit in the United States is likely to increase the inflation rate. He said, “Right now, there’s no real inflation at play. But if we go further than we are currently, inflation is inevitably going to rise.”

As of now, the United States has a well-controlled inflation rate below 2% for a while and this 2% mark is considered good for a growing economy. The chances of a weakened American economy has come, even though the rate of unemployment is still at 3.5%. In this trinity of problems, the Philips Curve needs to be reviewed that says Inflation is likely to rise as the unemployment rate increases.

Recently, the U.S. President has called the Fed to cut the rates further though Trump has not been able to retain the budget deficit to a comfortable level. Greenspan termed the tweet of Trump as inappropriate.

Source: cryptonewsz.com- Jan 25, 2020

HOME

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EU, 5 African nations start talks to deepen trade ties

The European Union (EU) recently concluded the first round of negotiations to deepen the existing Economic Partnership Agreement (EPA) with five Eastern and Southern Africa countries—Comoros, Madagascar, Mauritius, Seychelles and Zimbabwe. Both sides are aiming for an ambitious and modern agreement that includes the whole spectrum of trade topics.

Both sides want to build upon the existing agreements covering market access for goods and development cooperation, according to a European Commission press release.

During the first round of negotiations, the partners organised future work and had substantive initial text-based discussions on five chapters: rules of origin, customs and trade facilitation, technical barriers to trade, sanitary and phytosanitary standards and agriculture.

The second round is expected to take place before the summer break in Brussels. As part of its transparency commitment, a report summarising the progress made during the round, as well as the texts tabled by the EU, will be published on the European Commission's website soon.

The deepening of the existing EPA was launched at a political level on October 2 last year. The process comes in the context of the current EU-Africa Strategy and supports the implementation of the Africa-Europe Alliance for Sustainable Investment and Jobs launched in September 2018.

By deepening the current trade relations, the EU also seeks to support regional integration within the continent and preparations for making the African Continental Free Trade Area operational.

Source: fibre2fashion.com- Jan 25, 2020

HOME

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Sri Lanka: Apparel brings in US $ 250 m more in 2019

Sri Lanka’s apparel industry is working with new vigour to reach US $ 6 billion in revenue by the end of this year continuing with the growth momentum recorded last year.

“The country earned a record US$ 5.3 billion with a 5.1 percent year-on-year (YoY) increase in apparel export earnings for 2019 despite a slight decline in export earnings in December, Secretary General Joint Apparel Association Forum (JAAF) Tuli Cooray said.

This is approximately $ 250 million more than last year. We have grown in all markets including USA and EU. This growth is significant as apparel is the only sector to record a positive growth last year contributing to the country’s growth trajectory, he said.

However, apparel export earnings have declined by 1.71 percent (YoY) to US$ 460 million in December due to a slowdown in key EU and US markets.

“This year, we are expecting to grow with the possibility of reaching $ 6 billion, an increase of $ 300 million. We are confident that this year’s target could be achieved. With plans to receive wider benefits from the GSP+

facility, the industry is looking at the possibility of sourcing fabric from Indonesia and Bangladesh in addition to the present sourcing countries such as India and Pakistan," he said.

"Sri Lanka and Indonesia have jointly submitted applications to the EU to obtain approval to source fabric from Indonesia with approval pending.

We are also seeking support from Bangladesh to meet the fabric requirement to enable a bigger share of GSP+ facility," he said.

At present, 47 percent of Sri Lanka's apparels enjoy the facility where as the industry plans to reach up to the level of 60 percent this year. As we need to meet the strict standard in rule of origin, our sourcing partners should be EU approved. To this end we are working with the government to set up a fabric park which is due to be completed within 18 months to reduce dependability," he said.

"With the fabric park in place design and manufacturing of apparel could be done with the use of local fabric. There will be a new textile manufacturing unit in the country to meet the demand from exporters. We are working closely with the Government and the fabric park will be set up in the Eastern Zone," he said.

There are six factories that supply fabric of export quality at present and plans are to increase the number of factories from 10 to 12 to achieve desired results by ensuring supply side sustainability.

The country's apparel industry targets six percent YoY growth in exports this year, moving ahead with plans to set up a 200-acre fabric park with foreign investments in collaboration with the Board of Investment in the Eastern province, eyeing to attract large-scale orders by reducing lead times with locally-sourced fabrics.

The apparel industry has been planning to diversify its export base in BRIC countries, particularly to India and China, as growth in mature clothing markets has slowed down.

Industry leaders emphasise that the proposed FTA with China and the Economic and Technology Co-operation Agreement with India are crucial to break into the Chinese and Indian markets. However, Sri Lanka's FTA negotiations have come to a standstill at present.

Last year, apparel exports topped US$ 5 billion for the first time in the country's history. The apparel and textile industry contributes six percent to Sri Lanka's GDP while accounting for 40 percent of the country's exports.

Source: sundayobserver.lk- Jan 26, 2020

HOME

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Bangladesh's rise in global apparel business

Just after the Independence War of 1971, Bangladesh had to put up a fresh fight to get rid of the scars that the nine-month battle left on its economy.

Like on the domestic front, the country started a modest journey in overseas trade: it logged $348 million by exporting 25 products to 68 countries in fiscal 1972-73, according to the commerce ministry.

Of the products, only three -- jute, leather and tea -- were prominent, with jute alone fetching 90 percent of the total export earnings.

But the situation took a turn for the better in late 1970s when a band of educated youths began to try their luck in readymade garment shipment. They even had set up factories on the premises of their home or in shared buildings to rope in buyers and subsequently started to find their feet in the global apparel business.

After a journey of four decades, Bangladesh now is the second largest apparel exporter grabbing 6.4 percent of the global market and creating jobs for 4.4 million of its people, especially women.

Bangladesh is also the second largest apparel supplier to the EU and third largest to the US.

Bangladesh boasts more than 100 green garment factories certified by the US Green Building Council, while another 500 buildings are on way to receive such certifications.

The country exported goods worth $40.53 billion to 202 countries in fiscal 2018-19. Garment products accounted for 84 percent of the earnings, bringing in $34.13 billion.

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Source: thedailystar.net- Jan 27, 2020

HOME

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Pakistan: Textile industry, CPFTA — II and new trends

Textile industry contributes 57% percent of total export volumes and around 9% of the GDP of Pakistan. It employs almost 40% of industrial labor force both skilled and un-skilled workers. Pakistan Bureau of Statistics (PBS) recently reported a growth of merely 3.94% in First Half of Fiscal Year 2020 (1HFY20) despite of devaluation and incentive packages to textile industry. However, after implementation of second China Pakistan Free Trade Agreement (CPFTA-II) hopes are high for additional exports as out of 313 products added into revised FTA nearly 120 representing this industry.

Now when rise in demand side is expected, cotton production for latest season remained devastatingly very low. With high interest rate scenario, increased energy cost and devaluation impact, industries are bound to procure expensive cotton through import which is affecting country’s trade balance as well. To get benefit from CPFTA – II it is important that input cost should be controlled at all levels which is not limited to production of cotton only but borrowing and energy cost as well.

As far as cotton production is concerned Prime Minister Imran Khan has taken notice of it however Government and Textile industry should join hands to fund research projects for increased and high yield cotton production. To avoid high cost borrowing other than subsidized Export Re-Finance facility, Textile owners need to inject owner's equity. It is however a notable fact that energy cost immediately cannot be decreased due to circular debt and expensive electricity available at national grid unless Pakistan may increase mix of renewable energy.

In first six months of fiscal year 2020 (i.e. July to December) Textile exports recorded growth of 3.94% mainly due to orders received from the impact of currency depreciation coming from last fiscal year.

According to PBS, the country has exported textile goods of worth $6.91 Billion in 1HFY20 as compared to $6.64 Billion in same period last year. In value added segment, export of knitwear increased by 7.6% followed by 3.2% in bed wear. Export of readymade garments rose by 12.1% however towel segment showed a very little increase i.e. 0.22%.

Export of Cotton cloth recorded a decline of 3.7% whereas tents, canvas and tarpaulin witnessed a decrease of 19.7%. As calendar year 2020 is started with implementation of CPFTA – II Pakistan will witness a considerable growth in exports of textile goods to China. In this regard a recent meeting between experts of two countries held in Pakistan where it is agreed to develop a textile cooperation framework under China Pakistan Economic Corridor (CPEC).

The Sino-Pak textile cooperation will focus to enhance trade related to value added segment of textile industry i.e. readymade garments. Moreover the framework is established to provide trainings on value added segment, man-made fiber and labor skills. It is further decided that Chinese side will provide technical support along with trainings to accelerate textile sector at large especially through 9 Special Economic Zones (SEZs) under CPEC.

Please note that according to a report in Deccan Herald, FTA between Pakistan and China has already dented India's cotton yarn exports after Indian cotton exports declined by a massive 38.8 percent during the first six months of the current fiscal year that ended in September 2019 feeling the heat of conclusion of second phase. There is an import duty ranging from 3.5pc to 5pc on cotton yarns imported from India into major markets like China.

Cotton is a basic raw material for textile industry. Pakistan, whose 57% exports are dependent on textiles, does not produce enough cotton to meet the requirement of existing demand. Not only that the yield from Pakistani cotton is not up to the mark. Pakistan needs 15 Million bales of cotton to satisfy demand side however it produces 10 Million Bales on average whereas due to climate change recent outcome further deteriorated to around 8 Million Bales.

To meet such huge gap from local supply side Textile industry was compelled to import cotton from other countries on weak Pak Rupee. Here again Pakistan India tensions remained obstacle to import comparatively less expensive cotton from across the border. Therefore government have decided to waive all duties and taxes in import of cotton via the Torkham land border from Afghanistan and Central Asia to meet the demand of the value-added textile sector.

The government has in 2014-15 imposed 1% customs duty and 5% sales tax on cotton import. PM Imran Khan showed his concern over low production of cotton despite of his direction to Ministries to increase export no matter what it takes. Therefore he directed an amendment in the Seed Act and urgently re-establishing a cotton committee to boost production in Pakistan.

He also asked relevant ministries to give proposals on fixing cotton support price. PM should also look into the matter that previous two textile policies were never implemented in true letter and spirit. It was decided in last textile policy that cotton production will be managed to increase to double whereas Textile industry will create more than 3 Million jobs. It seems that the target was never meant to be met.

Click here for more details

Source: dailytimes.com.pk - Jan 26, 2020

HOME

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Pakistan to increase textile exports to $25.3bn by 2025

The draft of Pakistan Textile Policy for 2020-25 with four tier strategy and 21 recommendations is all set to be pitched any time before the ECC (Economic Co-ordination Committee) for approval.

It will try to increase the country's textile exports target by 2025 to $25.3bn and $50bn by 2030.

It was $13.33bn in 2018.

The Pakistan Textile Policy draft also narrates a clear roadmap to achieve the textile export targets along with vision to fully utilise the potential of home-grown cotton augmented by manmade fibre/filament to boost value-added exports and become a major player in the global textiles supply chain.

The draft of Textile Policy also spells out its the objectives which include: Restoring profitability of cotton farmers by increasing cotton yield, improving quality of cotton and decreasing cost of production for the farmers; strengthening manmade fibre/filament sector to make this chain internationally competitive and export oriented; regionally competitive energy pricing fixed for five years; prompt sales tax refund system; abolition of zero-rating has created serious liquidity crisis for exporting sectors as the current refund system is soaking up market liquidity and is not working; long-term financing facility for the entire textile value chain; revival of impaired textile capacity and introduction of bankruptcy law and establishment of Textile clusters and Export Processing Zones with plug and play facilities.

It says that the global textile trade that stands at $837bn had an average growth rate of 0.1% over the last decade.

When it comes to the global market for textile sector exports, it is dominated by China, which accounts for over 32% of textile sector exports, valued at $266bn. Presently, Pakistan's share is 1.6% in the world textile trade, which will be increased to 3% by 2025.

The world textile export that stands at $837bn will reach $843.35bn. The textile export growth comparison of Pakistan and regional peer countries shows that our regional competitors have surpassed Pakistan manifold.

Pakistan was once a leading player in textile trade but over the last decade, our textile sector growth has remained dismal owing to several policy limitations and lack of enabling environment necessary for industries to flourish.

Two decades back, Pakistan's textile exports were ahead of its regional peers like Bangladesh, Vietnam and Cambodia. In 2003, when Pakistan's textile exports were $8.3bn, Vietnam's textile exports were $3.87bn, Bangladesh's were at $5.5bn.

Now Vietnam is $36.68bn and Bangladesh is at $40.96bn. The textile policy draft argues saying that the essence is that if these countries were able to achieve record growths in this short time period, the goal of reaching $50bn of textile exports in next 10 years for Pakistan is attainable, subject to strict implementation of Long-term Textile Policy.

Mentioning about the roadmap to export growth, it mentions that the ultimate goal of export-led growth is poverty reduction and enhanced welfare of Pakistan's citizens.

Rapidly growing exports and millions of new jobs created, along with skill upgrading, will increase productivity and wages, which over the long term is the only sustainable way to improve living standards.

Furthermore, an ambitious strategy has been formulated to move from low value added semi-processed textile exports to high value-added garments and fashion articles. A growth rate target has been set starting from 10pc in the first year of FY20 and gradually adding up to 13% in fifth year would achieve almost $25bn exports in the first phase of five years and for the second phase of six years 2025-30, growth rate of 15% to 16% on compounding basis be taken to achieve the target of $50bn exports.

The graphs and tables mentioned in the Textile Policy show that growth in textile exports in FY20 will be at $14.66bn, in FY21 $16.13bn, in FY22 $17.90bn, in FY23 $20.05bn, in FY24 $22.46bn and FY25 the textile exports will be at $25.38bn.

And summarily in the next five years, from 2025 onward to 2030, the textile exports will be at $50.15bn. It also highlighted the investment required to achieve the export growth target, saying that Pakistan's investment-to-Gross

Domestic Product (GDP) ratio has been hovering around 15pc while countries like China, India and South Korea have maintained the ratio above 30pc to put their respective economies on a sustainable path.

And to improve job creation, productivity and exports, investment-to-GDP ratio, the Pakistan Textile Policy draft says, should be raised to at around 20%. To achieve the targeted exports, business friendly policies should be ensured for the industry to grow and further achieve the increased targets.

"Our industry cannot achieve any ambitious target within a short period of time since there are various complicated issues, including development of infrastructure which hamper growth," it says.

The draft also comes up with 21 recommendations to achieve the textile export of $25.3bn by 2025 and $50bn by 2030. It asks for the continuation of the provision of RLNG at $6.5 per MMBTU and electricity at 7.5 cents per unit, which is at par with energy cost of exporters of regional competitors such as Bangladesh, Vietnam and India for growth in exports.

The provision of energy at the said cost would ensure Pakistan's products in international market at competitive rates. It advocates for the regionally competitive pricing for the whole textile chain with removal of implementation hurdles.

On the front of better cotton availability, it also urges the government to ensure acquisition of high-yielding seed technology from international sources with restructuring of R and D on modern lines. It also recommends the removal of non-tariff barrier and duties stressing facilitation of land routes.

And to avoid the contaminated cotton, it also suggests to the government to place ban on use of Polyethylene film cotton picking bags.

Source: gulf-times.com - Jan 24, 2020

HOME

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Pakistan-China FTA: second time's the charm?

It is a truth universally acknowledged, that Pakistan's first free trade agreement (FTA) with China was a bit of a dud. Signed in 2006 with much fanfare, and beginning operations in 2007, Phase 1 of the FTA did little to improve Pakistani exports to China, and only worsened our trade deficit with our neighbour.

So Pakistan went back to the drawing board, with somewhere between 11 reported meetings of negotiations over seven years with the Chinese. The result is Phase 2 of the China Pakistan Free Trade Agreement, which was finalized in 2019, and implemented on January 1, 2020. This new phase is set to last until 2024.

Not everyone is happy: just this week, there were grumbles from the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) on whether Pakistan could fully take advantage of the FTA, considering how useless and poor Pakistan's exports are. Instead of signing an FTA, the the FPCCI called upon the government to "urgently develop a robust and holistic industrial policy that would lead to massive industrialisation."

Considering that the last time Pakistan had any semblance of a formal industrialization policy was around 60 years ago, the FPCCI plea is just a little too late. But it is a valid point to raise – what is even the point of an FTA with China? Are Pakistani exporters actually going to benefit, or is this another poorly thought out scheme designed to look good in the news, and little else?

Fortunately, there's a study out there to answer this: the "China Pakistan Free Trade Agreement Phase II – A Preliminary Analysis". Written by LUMS economists Nazish Afraz and Nadia Mukhtar, the report was commissioned by the Pakistani Business Council (PBC), and the Consortium for Development Policy Research.

(The PBC is a lobbying group for big business in Pakistan and was established in 2005. It features 82 Pakistani conglomerates and multinationals.) Their research indicates that, for now, the results look a little promising, albeit with a few caveats.

But first, what happened in Phase 1?

A little context: Pakistan's global exports have never been the healthiest. According to the Economic Complexity Index, Pakistan ranks 94th in terms of the complexity of products it exports.

Similarly, on the Global Competitiveness Index, Pakistan ranks 107th out of 140 countries. And despite Pakistan's global exports increasing by 47% between 2005 and 2018, imports have gone up by 140% in the same period.

Click here for more details

Source: profit.pakistantoday.com.pk- Jan 27, 2020

HOME

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NATIONAL NEWS

Govt's decision to withdraw MEIS incentives set to hit textile exporters

The government's decision to withdraw the Merchandise Exports from India Scheme (MEIS) with retrospective effect is likely to erode profit margins of textile players. It will also impact exports and fresh investment in the sector.

The government has removed the benefit of 4 per cent MEIS on exports of made ups and garments with retrospective effect, that is, from March 7. Moreover, the MEIS that had been granted to exporters of made-ups and garments till July 31 will be recovered, said a government notification.

"Withdrawal of 4 per cent MEIS with retrospective effect has caused an extremely serious situation for the exporters of made ups and has indeed come as a shock to the industry," said K V Srinivasan, chairman, The Cotton Textiles Export Promotion Council (Texprocil).

"Exporters of made ups are facing serious working capital problems, affecting their day-to-day business," added Srinivasan.

Exporters of cotton made ups were already passing through a tough situation financially due to the non-implementation of the Rebate of State and Central Taxes and Levies (RoSCTL) scheme even after its announcement 10 months ago. This scheme, announced for export of made ups and garments, is yet to be operationalised.

Also, MEIS of 4 per cent was also frozen for made ups and garments from August 1, 2019. The textiles industry also faces some pending claims under the erstwhile Rebate of State Levies (ROSL).

"How can the government withdraw any incentive scheme of which the benefits have been passed on to consumers," asked an industry leader. India's exports of made ups and garments have declined severely in the last one year due to the global economic slowdown.

With countries like Pakistan, Bangladesh, Vietnam and Turkey enjoying benefits of the generalised system of preferences with developed countries, India has been left behind. Thus, India's exports of made ups and garments became beneficial only through incentives like the MEIS.

Exporters are working against tough competition from countries like Bangladesh, Sri Lanka, Vietnam and Pakistan. This is combined by high import duties in leading export markets like the US, European Union and China.

Meanwhile, exporters have already factored in the availability of 4 per cent MEIS along with the RoSCTL scheme which is expected to be to the tune of 8.2 per cent while quoting export prices to foreign buyers.

M Senthilkumar, managing director of BKS Textiles, believes that the withdrawal of MEIS with retrospective effect would erode profit margins of textile companies.

"The MEIS benefit has already been passed on to consumers. Hence, exporters would have to pay it back to the government from their profits which would have an impact on their balance sheet," Kumar added.

Many exporters have also paid advance tax on these export receivables as required under the I-T Act which has further aggravated the problem. All exporters have been badly affected by this decision, especially the MSME sector where bulk of the made ups meant for exports are being manufactured.

Srinivasan urged the government to restore the benefit of 4 per cent MEIS on exports of made ups and garments.

Source: business-standard.com- Jan 25, 2020

HOME

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Cotton prices on track for worst week in 4 months

ICE cotton futures slipped on Friday, en route for their worst week in four months, as increased aversion to risk in financial markets spilled into commodities that overshadowed a strong weekly export sales report. Cotton contracts for March fell 0.55 cent, or 0.79 per cent, to 69.48 cents per lb by 1:16 pm. EST (1816 GMT), trading within a range of 69.35 and 70.25 cents per lb.

Prices have fallen nearly 2.5 per cent so far this week, heading for their biggest weekly percentage decline since mid-September.

“We have risk-off (sentiment) across the board today... Cotton market had a tremendous run over a couple of months and some people are taking profits in this environment,” said John Payne, senior bro- ker at Daniels Trading.

Crude oil prices fell along with US stocks amid renewed concerns over the spreading of a coronavirus outbreak from China.

“Markets don’t like uncertainty and until we know what the threat potential of this virus is, traders tend to tread more carefully,” British merchant Plexus Cotton said in a research note.

The US Department of Agriculture in its weekly export sales report showed net sales of 3,07,800 running bales for the 2019/20 marketing year, up 32 per cent from the previous week, for the period ended January 16.

Traders and farmers are keeping a close eye on China’s demand following the initial trade deal between the United States and China last week.

Cotton prices have risen about 25 per cent since they touched a more than three-year low in late August last year on anticipation of China buying more US agricultural goods as part the trade deal.

Source: economictimes.com- Jan 24, 2020

HOME

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Budget 2020: Commerce department seeks funds to boost export finance

Commerce Department is pitching for larger funds to develop exports and provide more trade finance, as part of the upcoming Budget. The subsidies form main component of the department's budgetary allocations.

Under the enhanced Trade Infrastructure for Exports Scheme, the ministry has been promised an allocation of around Rs 50 crore, same as it got last year, sources said. The allocations have been falling over the past two Budgets.

More funds are also expected for the Export Credit Guarantee Corporation (ECGC), for which the government has a lot of plans in store. The government is banking on greater loan coverage, easier inspection norms, and streamlining of profiles of exporters, to raise annual credit disbursal by 30 per cent in the current fiscal year (2019-20 or FY20).

One of the demands of the industry is to increse export credit insurance. Commerce and Industry Minister Piyush Goyal has said premiums paid by small businesses would fall. Under the proposed Niryat Rin Vikas Yojana (Nirvik) scheme, the interest rates will likely fall to 3.15 per cent for export credit in dollar terms and 7.35 per cent in rupee terms, according to the proposal moved to the Cabinet.

For this, the officials said the finance ministry has been asked for more funds to shore up the ECGC's coffers. The corporation has been getting Rs 500 crore from past three Budgets.

The government wants to bring down the cost of credit to lower provisioning requirement and quicker settlement of claims. Export credit disbursal by public sector banks fell by 45 per cent in FY19 to Rs 15,600 crore, according to the Reserve Bank of India (RBI) data. In the previous year, it was Rs 28,300 crore.

Export incentive focus

The department may also unveil the actual size and structure of the proposed Remission of Duties or Taxes on Export Products (RoDTEP) scheme in the Budget, the sources said.

RoDTEP is set to replace the Merchandise Exports from India Scheme (MEIS) — India's largest export promotion scheme — after the World Trade Organization said it distorted trade by providing direct subsidies. The organisation, in November 2019, ruled against India in its trade dispute with the US and asked it to stop all export promotion schemes within four months.

Initial deadline to end the scheme was December 31, 2019, but the government extended it till March 31 this year. The government was swamped by sustained complaints from some sectors, including the electronics. It argued that the sector needed government support to ride out a global slowdown.

Introduced in 2015, under the Foreign Trade Policy, the mega MEIS was created by the merger of five reward schemes. It incentivises merchandise exports of more than 8,000 items. Exporters earn duty credits at fixed rates of 2 per cent, 3 per cent, and 5 per cent, depending upon the product and country.

Government officials maintain that RoDTEP, would also be based on MEIS and is estimated to cost Rs 50,000 crore in tax rebates. But lack of clarity on what the rate structure would look like has made exporters jittery.

While March 31 is also the date by which the updated Foreign Trade Policy (FTP) 2020-2025 is set to go live, the department sources said they expect the finance minister to announce atleast some steps to address the issue of trade deficit.

Source: business-standard.com - Jan 24, 2020

HOME

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India may raise duties on $56 bn worth of imports from China, elsewhere

India plans to increase import duties on more than 50 items including electronics, electrical goods, chemicals and handicrafts, targeting about $56 billion worth of imports from China and elsewhere, officials and industry sources said.

Finance Minister Nirmala Sitharaman could make the announcement when she presents her annual budget for 2020/21 on Feb. 1, along with other stimulus measures to revive sagging economic growth, one of the government officials said.

Higher customs duties are likely to hit goods such as mobile phone chargers, industrial chemicals, lamps, wooden furniture, candles, jewellery and handicraft items, two government sources with direct knowledge of the matter said.

The move could hit smartphone manufacturers that still import chargers or other components such as vibrator motors and ringers, along with retailers such as giant IKEA that is in the process of expanding its footprint in India.

IKEA had previously flagged higher Indian customs duties as a challenge.

The government had identified items and decided to increase import tariffs by 5%-10% as recommended by a panel of trade and finance ministry officials, among others, the second government official said.

"Our aim is to curb imports of non-essential items," said the official, adding a hike in import duties would provide a level playing field for local manufacturers-hit by cheap imports from China, the Association of Southeast Asian Nations (ASEAN), and other countries that enjoy trade pacts with India.

The sources asked not be identified as the discussions were private.

A spokesman for the finance ministry and a spokeswoman for the commerce ministry declined to comment.

Since taking charge in 2014, Prime Minister Narendra Modi has imposed several restrictions on imports while allowing more foreign investment in manufacturing, defence and other sectors.

Modi's ruling Bharatiya Janata Party (BJP) has also asked the government to increase duties on non-essential items to boost local manufacturing.

"We expect the budget will address the issue of ... cheap imports under free trade pacts," Gopal Krishan Agarwal, the head of BJP's Economic Affairs Cell, told Reuters.

The United States wants India to buy at least another $5-6 billion worth of American farm goods if New Delhi wants to win reinstatement of a key U.S. trade concession and seal a wider pact, four sources familiar with the talks told Reuters.

U.S. President Donald Trump cited trade barriers last year when removing India from its Generalized System of Preferences programme that allowed zero tariffs on $5.6 billion of exports to the United States. In retaliation, India slapped higher tariffs on more than two dozens U.S. products.

Source: business-standard.com - Jan 24, 2020

HOME

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Fresh look at FTA is the need of the hour to lift up garment exports

To work its way out of the current economic slump, the government needs to provide exports a boost, especially merchandise exports, amid a slackening domestic demand.

While sceptics say an export thrust is difficult when global trade is not doing well, optimists say it’s pertinent to promote garment exports as it could be single-biggest boost to jobs, beyond aiding to narrow the trade deficit.

“The government recognises the potential of the garment sector to create jobs, but lack of reforms is holding back its growth,” said Deepak Mohindra, chairman of Apparel Sourcing Week, adding the country needs reforms such as easing labour norms, reducing tariffs, and a fresh look at free trade agreement (FTA) with the European Union (EU) to be an apparel manufacturing and exporting hub.

Bangladesh offers an interesting example. In 2000, its apparel exports (at 2.6 per cent of global share) lagged behind India's (at 3 per cent). However, a collaborative government effort and its ability to leverage duty-free access to markets such as the EU, has made it the world's second-largest apparel exporter after China.

At $37 billion in 2018, apparel exports has helped its GDP grow at six per cent annually over the last decade, besides creating millions of jobs.

"Today Bangladesh is exporting four times more than India to the EU, whereas in the US the difference is of only 25 per cent," he said.

Vietnam, meanwhile, has also signed an FTA with the EU in 2019 and is already strategising to take advantage of the benefit.

However, an absence of FTA remains a killer for the 6,000-odd domestic garment exporters employing 40 million workers and exporting goods worth $17 billion.

The EU accounts for a major chunk of India's total apparel exports generating revenue of $5.4 billion in 2019 as against $4.2 billion exported to the US.

Apparel Sourcing Week 2020

It provides a platform to manufacturers to showcase their products and manufacturing capabilities. The 3-day program will be held from Feb 20-22 in Bengaluru with an expected footfall of 10,000 attendees.

Source: newindianexpress.com - Jan 25, 2020

HOME

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Relief for exporters: MEIS, other sops may run beyond March 31

With WTO Appellate Body in limbo, Govt gets time to replace schemes challenged by the US

The government is looking at the possibility of extending the popular Merchandise Export from India Scheme (MEIS) and other export incentives, challenged by the US at the World Trade Organization, beyond March 31 as it is worried that replacing the existing schemes could hurt the already floundering exports.

The Foreign Trade Policy 2020-25 to be announced in the new fiscal may continue many of the old schemes with some adjustment in rates, a government official told BusinessLine.

"Exporters across sectors are seeking a continuation of incentives such as the MEIS, the Export Promotion Capital Goods (EPCG), the Export Oriented Units (EOUs) and the Electronic Hardware Technology Park (EHTP) schemes, which the government was planning to end this fiscal.

With exports showing a decline so far this year, there is a growing feeling amongst policy makers that the boat should not be rocked further," a government official told BusinessLine. India's exports declined almost 2 per cent to $239.29 billion in April-December 2019 with most labour-intensive sectors contracting.

Last year, the US had complained to the WTO that India's export subsidy schemes flouted rules as the country's Gross National Income (GNI) had exceeded the per capita $1,000 annual threshold above which members were banned from subsidising exports.

Following this, a dispute panel ruled in the US' favour. The report circulated on October 31 stated that New Delhi should do away with schemes including the MEIS, the EoU/EHTP and the EPCG within 120 days of adoption of the ruling, while the benefits of the Special Economic Zone scheme have to be withdrawn in 180 days.

Appeal against panel decision

India, however, need not be in a hurry to discontinue the schemes as it subsequently appealed against the panel decision at the WTO Appellate Body. Since the apex decision making body has not been functional since December — after the US blocked the appointment of new judges, demanding changes to WTO rules — India is not under pressure to implement the judgment of the panel.

“The fact that India has appealed against the WTO panel ruling allows the country to continue the schemes for many more months as the Appellate Body crisis is unlikely to be resolved soon because of Washington’s inflexible attitude,” the official said.

An indication that the government is slightly relaxed about replacing the export promotion schemes is evident from the fact that Finance Minister Nirmala Sitharaman’s decision to switch the MEIS with a new Remission of Duties or Taxes on Export Product (RoDTEP) scheme from January 1, 2020 has not yet been implemented.

The RoDTEP scheme is supposed to be compliant with WTO norms as it seeks to neutralise all taxes and levies imposed on export products without linking them directly to exports. But exporters are not too keen, as many in sectors such as electronics fear that the payments under it would be lower.

Source: thehindubusinessline.com- Jan 27, 2020

HOME

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View: Prepare for turbulence in emerging markets

Encouraging trends in emerging markets belie their volatility since the taper tantrum of 2013, when the Federal Reserve signaled it was pulling back on quantitative easing. Further turbulence is likely, despite the improving outlook for advanced economies, easing trade tensions and accommodative monetary policy.

The International Monetary Fund estimates that growth in developing countries fell to 3.7% last year, the slowest pace since 2009 and well below the IMF's July 2019 forecast of 4.1%. An expected rebound to 4.4% this year assumes highly uncertain recoveries in stressed economies such as Argentina, Iran and Turkey, as well as in countries where growth has slowed significantly — China, Brazil, India, Russia and South Africa among them.

Rising friction in the Middle East, if sustained, could result in higher energy prices and supply disruptions for developing countries. India, which recently downgraded growth for the 2020-21 fiscal year to 5%, the slowest pace in a decade, imports more than 70% of its oil needs. A price rise of $10 per barrel widens the current account deficit by 0.4 % of gross domestic product. Every increase of 10% adds 0.2% to the rate of inflation, which is already above the Reserve Bank of India's 4% target.

Higher borrowing costs and a stronger U.S. currency due to haven demand would hurt developing countries. Between 2010 and 2018, low exchange-rate volatility and high interest-rate differentials caused non-bank financial institutions in emerging markets to double their U.S. dollar-denominated debt to $3.7 trillion. Much of this is unhedged.

Further geopolitical risks include North Korea's missile-rattling, challenges in Hong Kong and Taiwan to Beijing's assertions of authority, and China's territorial maritime disputes with its neighbors. Japan and South Korea are contesting matters arising from World War II. India's proposed changes to citizenship laws and the status of Kashmir is fomenting domestic unrest and tensions with predominantly Muslim Pakistan and Bangladesh.

Meanwhile, the spread of a new virus that originated in China threatens to depress retail sales and tourism in Asia, helping to bring a global stock rally to a halt last week.

These stresses exacerbate long-term structural problems. The early 2000s and the period immediately following the global financial crisis saw a synchronized acceleration of growth across the world. But advanced economies have slowed and their long-term potential rate of expansion has fallen.

The latest IMF estimates released last week have growth in advanced economies stabilizing at 1.6% in 2020-21, compared with 2.3% in 2018 and 0.1 percentage point lower than in its October forecast. Underlying this stagnation is the flagging potency of debt-fueled growth, flat productivity, limited policy options, and unfavorable demographics. Emerging economies cannot rely on historic demand for exports to drive future expansion.

Despite the U.S.-China phase one trade agreement, conflicts won't abate. Sino-American trade tensions alone will cumulatively reduce the level of global GDP by 0.8% by 2020. The Trump administration also has trade disputes with the European Union, Australia, India and Vietnam, among others. France and the U.S. are trying to de-escalate threatened tariffs on champagne and cheese in retaliation for a digital tax affecting Alphabet Inc.'s Google and Amazon.com Inc.

Trade volume growth fell to about 1% in 2019, the weakest level since 2012. The retreat from a rules-based trade system and the weaponizing of trade interdependence will damage everyone.

In the past 20 years, China, a crucial driver of emerging markets, went from a 10th to two-thirds the size of the U.S. economy, assisted by trade within the WTO framework. Today, China's blacklisted Huawei Technologies Co. relies on chips designed in America while advanced economies benefit from its cheaper and often cutting-edge 5G technology. Three-quarters of the world's smartphones, mostly made in emerging markets, use Google's Android mobile operating system. American restrictions hurt developing nations as well as consumers in advanced economies.

In a world of limited demand, irrespective of leadership or ideology, governments everywhere face a mounting anti-globalization backlash. Nationalist agendas and a shift to autarky – closed economies – will persist. A return to strong growth in trade and cross-border capital flows seems unlikely.

This affects developing-world economic models. Lower-income nations focused on export-oriented industries, such as textiles and manufacturing, exploiting cheap costs. Now, weak demand and trade disputes limit this option. Higher-income developing countries face technology transfer restrictions that affect improvements in productivity.

Meanwhile, automation decreases the advantages of low-skilled, cheap labor and offshoring. Bringing manufacturing home to advanced economies decreases companies' exposure to disruption, currency fluctuation and political interference. The failure of Prime Minister Narendra Modi's "Make in India" strategy reflects these shifts. India has failed to produce the 1 million new jobs per month needed to absorb new entrants into the workforce. Indian Railways recently received 23 million applications for 90,000 vacancies.

Slower growth creates a dangerous feedback loop. Dissatisfaction with improving ordinary lives can prompt civil unrest. Countries rich in scarce resources, or having large internal markets such as China, India, and Indonesia, may muddle through.

Others will struggle. Rising nationalism and protectionism are likely outcomes, and will only deepen the wedge between advanced and emerging economies. It will make an interesting if rough ride ahead for investors.

Source: economictimes.com- Jan 26, 2020

HOME

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Putting tech in textiles

Saving environment is an important concern we face, yet little is being done. This is especially when it comes to the textiles industry in India and even globally, despite the fact that this industry is one of the most polluting industries in the world.

Various surveys show that around five per cent of all landfill space is consumed by textile waste. Moreover, 20 per cent of all freshwater pollution is created by textile treatment and dyeing. To look appealing by wearing glamorous clothes, we have ended up causing excessive harm to the environment.

However, there are individuals doing their bit to upend this wrong. Take the case of Indian entrepreneur Nitin Kapoor, 32. Understanding the shortcomings of the textile industry, Kapoor has launched an all-new clothes manufacturing technology which emphasises on minimising water pollution and using very little water in clothes manufacturing.

Kapoor, who is the founder of Indian Beautiful Art (IBA), has developed Just In Time (JIT) technology for garment manufacturing. It only produces what is demanded by the market and controls the utilisation of natural resources along with no dumping of waste fabric or garment. Right from printing to dispatching the product, according to latest fashion trends, the order is managed within 48 hours to reduce wastage.

Already a recognised start-up by the Department for Promotion of Industry and Internal Trade (DPIIT), Kapoor has now applied for the Start Innovation award as well to showcase JIT technology. The son of an Air Force officer, Kapoor is hoping for a positive response since the resources saved are phenomenal, and there is no compromise on a customer's options. To know more, we spoke to Kapoor:

When did you decide to develop JIT technology?

In 2015, when we calculated the number of garments exported versus the number of apparel in our inventory which was lying unsold was alarming. The gap was huge. Since fashion changes at the drop of a hat and clothes go out of trend, it becomes hard to sell those products. Further, there are sizes which do not get sold and become outdated. It took us 24 months and US$1 million (self-funded) to crack the JIT model in garment manufacturing.

After a lot of trial and error, we were able to conclude the final product made within 48 hours after receiving the order. JITGM (Just In Time Garments Manufacturing) is a copyrighted process with the Government of India, which will reduce the wastage of resources, especially water.

How are the costs controlled?

A customer places the order via Augmented Reality images which offers them multiple ranges of fabrics/colours/prints/embroideries and places order, which is produced within 48 hours.

The problem gets solved in two parts. Instead of getting prints of photoshoot, images on the clothes are tested using the technology. This cuts the cost of photoshoot production and creates a single prototype for various patterns of the same garment. The colours and designs are changed directly which save time, resources and labour. Secondly, the garment is manufactured once the customer has placed an order. It also helps us in our business capital, cuts down cost on warehousing and inventory management and keeps the stock always trendy, sturdy, rocking and knocking.

What are the kind of garments you make? How much waste is reduced per piece?

With JIT technology, we have the luxury to create garments for every segment, and we are already in women's, men's and kids clothing in both the categories – fashion and ethnic. With process automation through in-build technology, we are able to match the cost of manufacturing as compared to bulk manufacturing; with the same, we are sure to touch a large number of customers in every age group.

How do you generate awareness among consumers about your products?

To our customers, we are promoting these as #WaterSaved, wherein they know that they have contributed towards saving of 60 per cent of the water by purchasing from us.

Source: newindianexpress.com- Jan 25, 2020

HOME

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