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

IBTEX No. 101 of 2019 May 27, 2019

USD 69.45| EUR 77.86 | GBP 88.48 | JPY 0.63

Cotton Market

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

Rs./Bale	Rs./Candy	USD Cent/lb
21531	45000	**82.50**

Domestic Futures Price (Ex. Warehouse Rajkot), May

Rs./Bale	Rs./Candy	USD Cent/lb
21810	45583	**83.57**

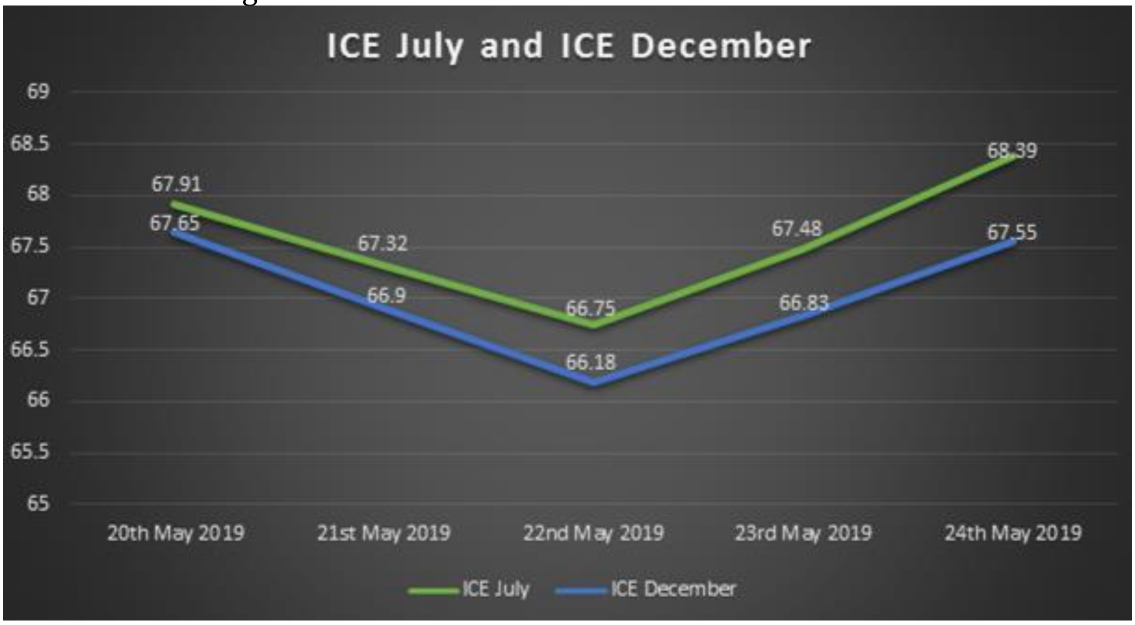
International Futures Price

NY ICE USD Cents/lb (July 2019)	68.39
ZCE Cotton: Yuan/MT (September 2019)	13,445
ZCE Cotton: USD Cents/lb	88.58
Cotlook A Index – Physical	**78.50**

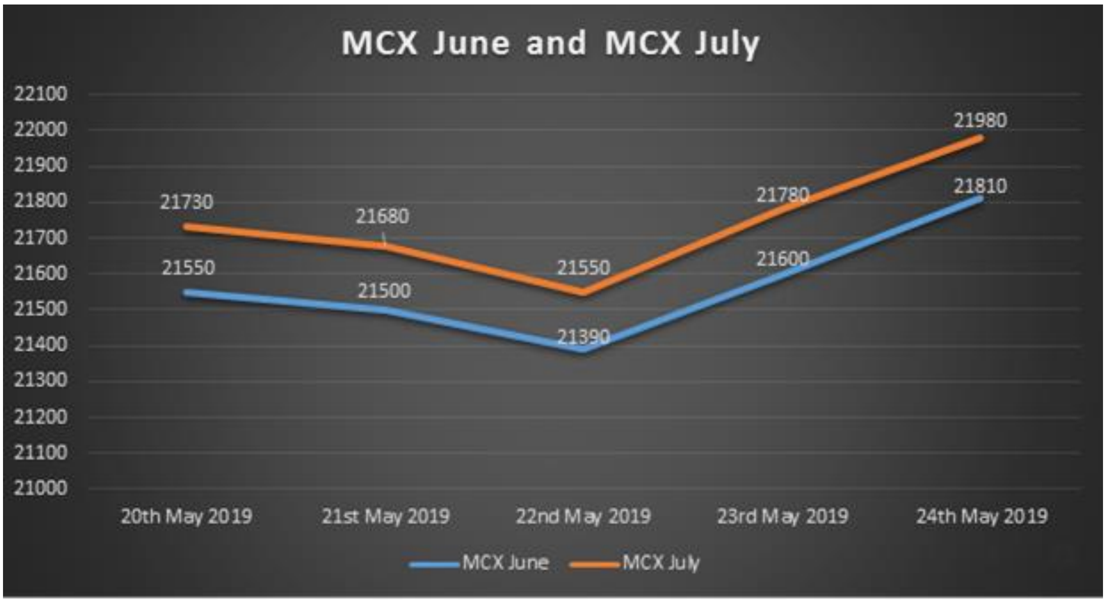
Cotton Guide: There will be no trading on ICE today as the US Observes Memorial Day.

The ICE futures turned out to be positive on Friday. The ICE July futures steadily increased in price throughout the day. ICE July settled at 68.39 cents/lb with a change figure of +91 points. The ICE December futures settled at 67.55 cents/lb with a change of +72 points. The spread between the ICE July and ICE December contract has increased a tad. Changes ranged from +27 points to +78 for the other ICE contracts. With all said and done, the total volumes are still weak with Friday's figure emanating a number of 26,205 contracts. The Total volumes could not once cross the 30,000 contract threshold last week.

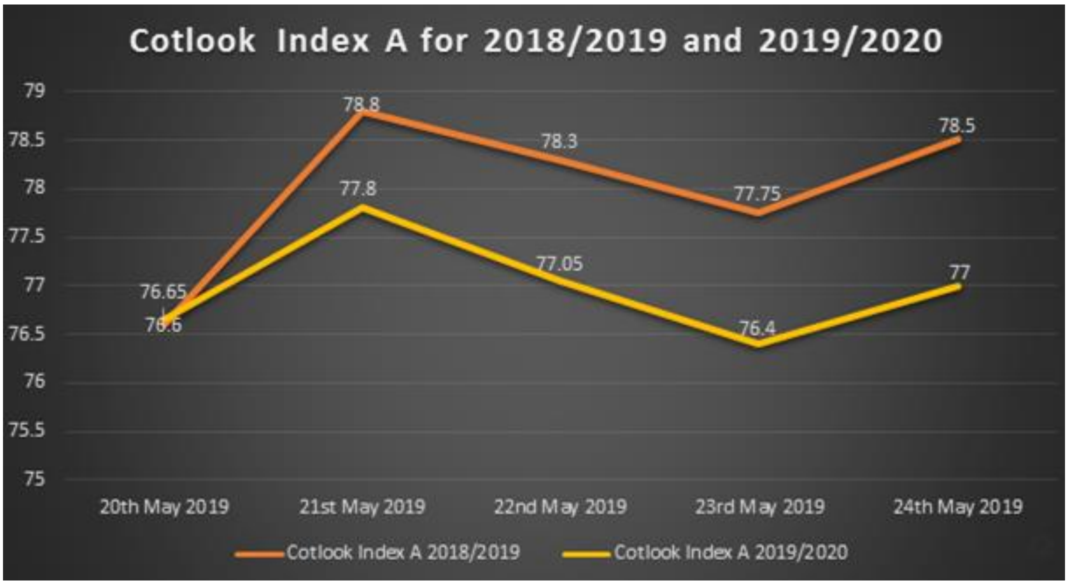
Adverse weather conditions in the USA has been attributed for this price rise. Therefore sowing has slowed down and chances of a cyclone hitting the cotton belt has further made the growers more cautious.



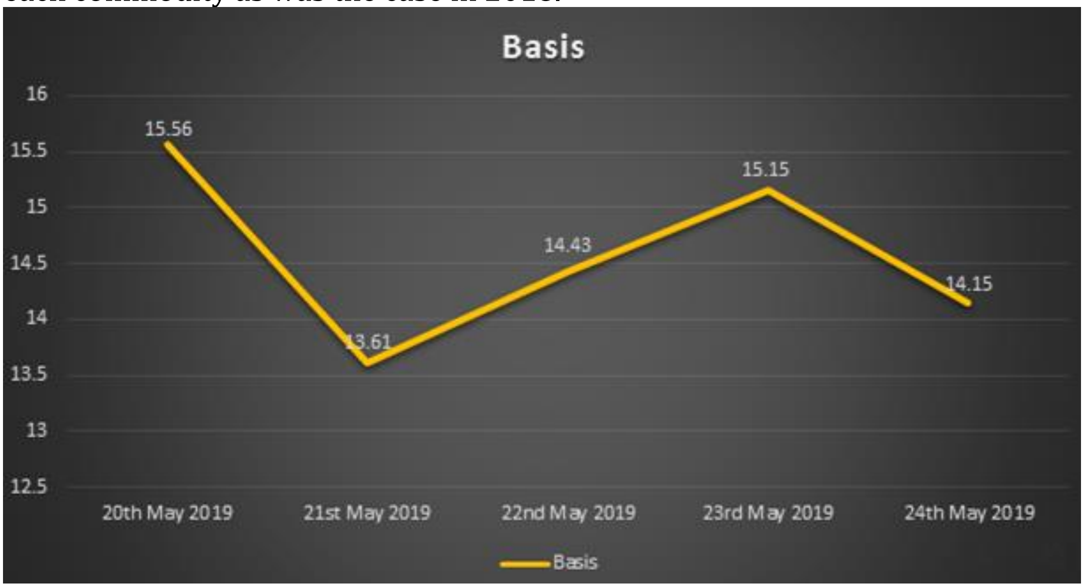
The MCX futures on the other hand futures also were in tune with the international futures. The MCX June contract settled at 21810 Rs/Bale with a change of +210 Rs. The MCX July and MCX August contract settled at 21980 and 21970 Rs/Bale with a change of +200 Rs for each contract respectively. Hence the slow and steady bullish trend at MCX continues.



The Cotlook Index A has been adjusted positively at 78.50 cents/lb with a change of +0.75 cents/lb, whereas the Cotlook Index A 2019/2020 shows a figure of 77.00 cents/lb adjusted with +0.60 cents/lb. The prices of Shankar 6 have finally increased with a substantial figure and the average is around 45,000 Rs/Candy.



The new Marketing Facilitation plan for 2019 might be slightly bearish for cotton as acreage in US is expected to increase with this news. Farmers might find it favorable to plant more of cotton as compared to other commodities. US Secretary Of Agriculture, Sonny Perdue, announced yesterday that the USDA will provide an assistance of 16$ Billion to farmers who are affected by the ramifications of the trade tensions between US and China. The MFP – Marketing Facilitation Plan 2019 unlike the 2018 plan will compensate growers based on a per acre scale and not as a separate payment rate for each commodity as was the case in 2018.



The Basis on which Exports depend have not been favorable for the Indian Exporters. We usually see good exports when Basis is below 6. The following chart shows the export basis seen in the last week :

Brazilian Cotton still remains the cheapest cotton in the world with a price tag of 76.75 cents/lb Far Eastern Ports.

On the technical Front, Prices made a Head and shoulders reversal formation with a neckline breakdown at 69.50 witnessed a sell off towards 64.50 levels. Bullish engulfing near the prior trend line support at 66.50 suggest a pullback in the prices. William %R positive divergence is also indicating the pullback is likely. Immediate resistance for the prices is at 69.50(Neckline Resistance) while the supports are at 66.50/66 levels. For the week we are recommending to trade in the range of 66.50-69.50. Sustaining below 66.50 may resume its downtrend. In the domestic market cotton (June) trade in the range of 21600-22250

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

Xinhua Headlines: Tariffs on China to "hit home for every American," warn U.S. industries

Kevin Cheung, vice president of a New York-based clothing firm, recently twisted his ankle and is steadily recovering from an intense burning sensation on it.

Yet there are no signs of easing of the "slow burn" that his company, Lisa International, has suffered since the United States initiated tariff disputes with China last March.

As Washington increased additional tariffs on 200 billion U.S. dollars' worth of Chinese imports from 10 percent to 25 percent earlier in May and threatened to raise tariffs on more Chinese imports, this worsening trade row between the world's two largest economies has prolonged market uncertainty.

"Clothing tariff is still not in place yet, but we assume it will be here soon. This is a bigger concern to me," Cheung told Xinhua in a recent interview.

CATASTROPHIC IMPACT

Cheung's concern was shared by a growing number of U.S. industry leaders who warned the White House of the "catastrophic" impact of such trade disputes on Americans with rising costs and dwindling profits.

"This latest escalation means the trade war will only get worse and hit home for every American," said a statement released on May 13 by the Tariffs Hurt the Heartland campaign, which comprises over 150 U.S. trade organizations.

Tariffs are taxes paid by American businesses and consumers, and they force American consumers to pay more for clothes, shoes, toys, electronics and even food while making it more difficult for U.S. exporters to compete, it said.

"The trade war has gone on for far too long, and the costs have grown far too high. The patience of farmers, manufacturers, businesses and consumers is wearing thin, " it said.

Grant Kimberley, a sixth-generation soybean farmer and marketing director of the Iowa Soybean Association, said he and his peers hope some quick and positive changes could be made.

U.S. soybean exports to China have been down 89 percent over the past year, and about half of the supplies that would normally have gone to China have now gone somewhere else, with farmers "still at a deficit for net total exports," Kimberley told Xinhua.

"It's likely the trade dispute could be a long-term reality," he said. "With prices going lower and soybean supplies growing, and with only modest hope that a resolution is near, we're likely to be mired in this scenario for some time."

"For some farmers, the crop they're currently planting may be their last," he said.

Washington's tariff hikes will also hit the U.S. toy industry hard given "how heavily we rely on China for toy manufacturing and how thin the profit margins already are," said Rebecca Mond, vice president of federal government affairs at the Toy Association, a 950-plus-membered industry group.

AGGRESSIVE BUT COUNTERPRODUCTIVE

The U.S. position on solving trade disputes with China by using tariffs is "very aggressive" but "counterproductive," said Steve Hoffman, a veteran investor and CEO of Founders Space, a leading incubator and accelerator in Silicon Valley.

"Right now, the negative impacts of the U.S.-China trade conflicts are broadening beyond (U.S.) agriculture and beyond commodities, like steel and other stuff, into consumer electronics and other areas. And that could have a big impact in my home turf which is Silicon Valley," Hoffman told Xinhua.

U.S. tariffs on tech product imports from China increased fivefold from 2017 to 2018, said Stefanie Holland, vice president for federal and global policy of the Computing Technology Industry Association.

"Should a 25-percent tariff rate apply to all tech product imports the costs could run into the tens of billions of dollars," said Holland, adding that barriers to trade will also "negatively impact the products that are designed, developed and manufactured in the United States."

According to a recent report by Swiss investment bank UBS, over 12,000 U.S. brick-and-mortar stores of apparels and textiles would be at risk because of the possible new tariffs.

The big wave of store closures would be highly negative and create intense inventory dislocations and discounting in addition to impacts on jobs and the economy, the report said.

The Footwear Distributors and Retailers of America, a trade organization, estimated the new tariffs could cost U.S. consumers 7 billion dollars a year.

"It is time to bring this trade war to an end," said an open letter signed by 173 footwear companies and retailers.

In a study released Thursday, the International Monetary Fund (IMF) said U.S. tariff revenue collected from levies on Chinese goods "has been borne almost entirely by U.S. importers."

"The bilateral trade deficit remains broadly unchanged," it added.

The latest U.S. tariff hikes will impose a total annual cost of 831 dollars for a typical U.S. household, said a research posted Thursday by the Federal Reserve (Fed) Bank of New York.

"In sum, according to our estimates, these higher tariffs are likely to create large economic distortions and reduce U.S. tariff revenues," it said.

YEARN FOR NORMAL TRADE

Frustrated by disrupted U.S.-China trade, U.S. soybean farmers yearn for "trading as normal" with China, President of the American Soybean Association Davie Stephens told Xinhua.

It took U.S. farmers more than 40 years to build the soybean market in China, said Stephens, warning that it will become "increasingly difficult to recover" as the U.S.-China trade row rumbles on.

"The tariffs need to be removed. Let's get back to trading in an open market. That's free trade for both sides," he said.

"To decouple the American and Chinese economies would be an economic disaster, damaging each country and the entire world," Chairman of the Kuhn Foundation Robert Kuhn told Xinhua.

Concurring with Kuhn, Sourabh Gupta, a senior fellow at the Washington-based Institute for China-America Studies, said "it is utterly unrealistic to uncouple China and the U.S. economically. The two economies are symbiotically connected and are too interdependent to be pried apart."

Criticizing Washington for pushing its trade partners into a "win-lose situation," Hoffman said mutually respectful trade "is the whole principle behind our system. And I think that principle still holds."

"In fact, such trade wars are just disruptive to business on both sides, which created uncertainty, confusion, and the whole supply chains and everything that businesses have planned for get turned upside down," he said.

"A mass shift of production out of China is not a viable option for our industry," said Mond. "The infrastructure, capacity and workforce to meet consumer demand does not exist anywhere else."

Although Cheung has started to diversify his company's supply base as part of his mitigation tactics, he said he "will not change to 100 percent out of China."

"That would be foolish," he said.

Source: xinhuanet.com- May 27, 2019

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Free trade, tariffs and online sales: what is fashion facing in Europe?

Textile is concerned on European elections' results. New representatives' decisions on commerce liberalization decisions will have an impact on companies and industries of the sector in Europe. Within the issues currently on the table for the new European Parliament, and with an impact on textile, are the continuation of free trade agreements (FTA) of the European Union with third countries, the changes within tariffs system for non-european countries, and the stability of digital single market. The dialogue with Morocco for the reduction of origin demands and traceability of products is also in European agenda on textile issues.

In 2017, the sector had a volume of business of 181 billion euros if all data from 28 European Union members is combined, as stated by the European Textile and Apparel Confederation (Euratex), in an annual report of the sector. In parallel, Europe is one of the world's biggest consume markets, with the United Kingdom, Germany, France or Italy as the engine of sector's global sales.

In 2016, Eurostat published that each European home invested almost a 5% of its consumption expenditure in clothes and footwear, which supposed a total investment of 395.4 billion euros. In other terms, Eurostat calculated that each European citizen dedicated 800 annual euros to clothing and footwear. At the same time, clothes production in Europe grew a 0.9% in 2017, having two consecutive years of positive progress.

In foreign trade, the two biggest agreements signed in the last legislature have been the agreement with Canada (CETA) and the treaty with Japan (JEFTA). Sources from the European Commission pointed that the European companies export 58,000 million euros in goods and 28,000 million euros in services to Japan. Thus, the agreement with Japan meant a drastic reduction of tariffs barriers to products' exports from Europe to Japan.

One of the most important treaties of the legislature is the Canada Comprehensive Economic and Trade Agreement (CETA), the agreement signed by the European Union and Canada. The tariffs reduction emerged from the agreement, valid from 2017, supposed an increase of a 20% in the commerce between both territories, as well as a boost of commercial interexchange until 20,000 annual million euros.

The European Union is also under commercial treaties negotiations with Mexico, with implications on tariffs reductions, with the leather as one of the most important raw materials in that exchange. At the same time, the European Commission has also concluded agreements with South Korea, Moldova and Ukraine, and its keeping bilateral dialogues with Colombia and China.

In parallel, the European Union has also done a first gesture to resume the dialogue with the US on free trade issues. After the US withdrawal of Ttip negotiation with Donald Trump arrival to the presidency, the European Commission has started to maintain contacts again to resume the negotiations.

The European Parliament does not aprove this move, because it voted against the European executive to start negotiating again with the US to pass a free trade agreement between both territories.

However, the dialogue that has challenged the European textile sector is the one maintained in the paneuromediterranean convention, negotiated between the European Union and the African countries of the Mediterranean watershed. The main destination country of Spanish textile material exports is Morocco, one the main manufacturer countries, and where it is sustained a 25% of the total volume of business.

With the existing commercial model between both territories, the products that have done two of its industrial processes in Europe or the North of Africa have tariff rates advantages. Countries like Morocco are seeking to reduce the model to one process only and continuing to have tariff benefits, which will allow them to work with Asian raw material and abandon the European market.

GSP, a European commercial bridge

The European Union also performs actions to promote the imports from third countries. Under the argument of helping underdeveloped countries, the European Union excludes from tariff rates payments to some countries from the African and Asian continents, from approximately 50 years ago.

The standard application means the reduction of two thirds of tariffs, partially or totally. Within the countries benefiting from this measure are countries like Vietnam, India, Kenya or Indonesia, among others.

Countries with good government, according to the European Union, are also enjoying this application. In this case, they are free of two third of the total tariffs rates. In this group, countries like Bolivia, Philippines or Sri Lanka are in.

However, the biggest group is formed by countries that have free duties access to the European market. All kind of products can aplly to this measurs, except arms and ammunition, in a group known as EBA (everything but arms).

The European Commission has started the process to expel Cambodia from tariff advantages system, after the national government had won an election with harassment on the opposition. Besides, the European executive warned that was taking into consideration to implement the same procedure to Myanmar, due to the ethnic crusade to rohinyá's population.

A single market for the ecommerce

The online commerce is Europe has also been on the spotlight of the European Union recently. Juncker's executive has promoted a digital single market policy, to encourage the price unification of online products within the whole Europe, in order to help countries' companies to open to other European markets.

In fact, the European Commission highlights that only the 7% of SME's sell in other countries within the territory. The fight against geographical block has been the main measure to boost the European digital single market and lighten the cross-border package shipment.

Companies like Nike, which was fined with 12.5 million euros, or Guess, with a penalty of 40 million, were sanctioned by the European Commission for violating the principle of digital single market, and limit the cross-border sales to certain products. Guess, for instance, commercialized products, with a 10% more expensive price in countries as Hungary or Poland, in comparison with other member states.

Source: themds.com- May 24, 2019

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Economists Warn Subdued Trade Could Yield 10-Year Low Economic Growth

Two new global economic forecasts warn that a recent stabilization is being threatened by heightened trade tensions, financial policy uncertainty and key trouble spots, like China.

The Organization for Economic Cooperation and Development (OECD) said while global growth slowed sharply in late 2018, it is now stabilizing at a moderate level. However, it noted, “Escalating trade conflicts and dangerous financial vulnerabilities threaten a new weakening of activity by undermining investment and confidence worldwide,” according to the OECD’s latest Economic Outlook.

The May Forecast Flash from Global Insight by IHS Markit similarly said, “global economic growth is firming, but the risk of a policy mistake has risen sharply.”

Chief economist Nariman Behravesh and executive director of global economics Sara Johnson said, “Early readings on first-quarter economic activity around the world point to a mild strengthening of momentum. Growth rates in the United States and Eurozone were stronger than expected, while Chinese growth remained stable. Yet, the downside risks have once again risen.”

The report said global manufacturing and services purchasing managers indexes (PMIs) compiled by IHS Markit for JP Morgan dropped in April, highlight this fragility.

“Even more worrisome is the increase in policy risks,” the economists wrote. “The raising of U.S. tariffs on Chinese imports on May 10 and Chinese retaliation could lead to a damaging upward spiral of trade hostilities and seriously hurt growth. Meanwhile, the escalation of military tensions in the Persian Gulf could push up oil prices more, which would have large negative consequences for global growth.”

The global economy, according to OECD, is expected to achieve "moderate but fragile growth over the coming two years." Its Economic Outlook said, "Vulnerabilities stem from trade tensions, high policy uncertainty, risks in financial markets and a slowdown in China, all of which could further curb strong and sustainable medium-term growth worldwide."

Based on OECD projections, the global economy will grow 3.2 percent in 2019 and 3.4 percent in 2020. The outlook includes downward revisions for many major economies and warns that current growth rates are insufficient to bring about major improvements in employment or living standards.

The outlook noted that world trade is projected to grow just over 2 percent this year, which would mark the lowest rate in a decade. The current cycle of trade disputes, according to the outlook, is "hurting manufacturing, disrupting global value chains and generating significant uncertainty that is weighing on investment decisions, and highlights the risk of further disruption."

China still remains key to global economic growth, OECD said. Significant fiscal policy stimulus has buffered the economy there as it rebalances from investment and export-led growth to a more domestic footing and that a sharper slowdown would pose risks to global growth and trade prospects.

"The fragile global economy is being destabilized by trade tensions," OECD chief economist Laurence Boone said. "Governments need to work harder together to ensure a return to stronger and more sustainable growth." OECD calls on governments to act now to ensure a stronger economic future, including a return to international cooperation and multilateral dialogue to restore predictability in policy and relaunch trade.

IHS Markit's forecast said the U.S. economy is off to strong start in 2019, with first-quarter gross domestic product (GDP) growth reported at 3.2 percent, up from 2.2 percent in the fourth quarter of 2018.

However, IHS economists said, "The robust first-quarter pace is expected to be temporary, as it was driven by two sources of strength that could easily reverse in the second quarter: inventory investment and net exports...We expect real GDP growth to moderate beginning in the second quarter and we look for a 2.7 percent rate in calendar year 2019. We predict annual growth will decelerate to 2.1 percent in 2020 and 1.8 percent in 2021."

In Europe, the drag from net trade appears to have eased, with export growth somewhat improving. Eurozone real GDP growth is projected to slow from 1.8 percent last year to 1.2 percent in 2019 and 1.1 percent in 2020, before edging up to 1.2 percent in 2021.

“Meanwhile, the uncertainty about Brexit continues, as the decision deadline has been extended to the end of October,” the economists said. “The U.K. economy will lose some momentum in the second and third quarters.”

China’s economic growth held steady at 6.4 percent year-to-year in the first quarter, helped by rebounds in the industrial sector and exports.

“Unfortunately, China’s economy is not out of the woods yet,” IHS said. “Real GDP growth has decelerated steadily from 7.4 percent in the second quarter of 2017 to 5.7 percent in the first quarter of this year.

Moreover, the first-quarter stabilization was largely due to surging exports, mostly to the European Union and the Association of Southeast Asian Nations.

The sustainability of the export rebound is questionable–in fact, exports fell in April. An even bigger risk is the recent increase in U.S. tariffs on Chinese exports, which will lower growth by about 0.2 percentage points this year and next.”

Source: sourcingjournal.com- May 24, 2019

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Vietnamese firms move to foster apparel exports to Canada

In 2019, Vietnamese businesses are poised to promote textile and garment exports to the North American nation under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

Total textile-garment demand in the CPTPP, which gathers 11 members with a combined population of 500 million, is estimated at 83 billion USD. In 2018, Vietnam's textile-garment exports to CPTPP markets were 5.3 billion USD, a 6.3-percent market share.

Canada's demand for textile-garment products is worth some 13-14 billion USD, 5 percent of which is provided by Vietnam.

Even in 2018, when the CPTPPP was yet to take effect, Vietnam's textile-garment exports to Canada soared by 19.7 percent.

The CPTPP, which took effect in Vietnam on January 14, is expected to boost exports of Vietnamese textile and garment products to Canada when 42.9 percent of the shipments of these products to the market will enjoy an import tariff of zero percent in the first year the deal comes into force.

Source: en.vietnamplus.vn- May 27, 2019

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Sustainability and Secure Trade: Guatemala Provides Supply-Chain Solutions for the Americas

As a country that benefits from the Dominican Republic–Central American Free Trade Agreement, Guatemala is preparing to see an increase in business from United States apparel brands that might need to shift sourcing partnerships away from China. With the demand for sustainable sourcing from apparel brands, mills in the region are preparing to meet that need.

According to the U.S. Department of Commerce, Guatemalan clothing exports to the United States are up. For the one-year period ending March 2019, Guatemala exported $1.46 billion in apparel, which was up 9.65 percent over the previous year.

At the 28th annual Apparel Sourcing Show, held May 14–16 at the Grand Tikal Futura Hotel and Convention Center, hot topics of discussion were the escalating United States–China tariff war and greater sustainability options across the supply chain.

Reporting a nearly 11 percent increase in attendees during this year's Apparel Sourcing Show, organizers said that exhibitors represented a variety of different resources from around the world.

"The mix of exhibitors showcases a fully integrated supply chain," said Lucía Palacios, executive director of the Apparel Sourcing Show. "This year we had 21 companies that were new. It adds more value to our industry."

During the event, 34 percent of exhibitors represented textiles; 31 percent exhibited machinery for sublimation, screen-printing and embroidery; 16 percent were in the business of apparel manufacturing and production; 14 percent provided notions and accessories; and 5 percent offered services such as cargo solutions.

"In Guatemala, I now see big companies with new machines and big factories, but before I didn't think it was possible," said Marcos Haber of Torcidos Industriales, SA, a thread producer from Mexico who was at the show to see apparel-manufacturing trends. "My opinion regarding Guatemala has changed for the better."

Trends toward more–ecologically sound apparel sourcing resulted in a bigger presence by Guatemalan and United States–based suppliers of sustainable products and services.

For Ludovic Duran, commercialization manager at Canadian clothing brand Tentree, working with transparent, sustainable manufacturing partners is at the core of his company, which plants 10 trees for every product purchased. The company in Vancouver doesn't currently have any production partners in Central America, but Duran was interested in simplifying the supply chain, making this region a smart choice. But he had reservations.

"So far, the contacts that I have made here have been great," he explained. "My concern right now is that they haven't had a lot of experience with the material we'll be working with. They're willing, but they'll be competing with other countries that have been working with these materials."

Seeing a sustainable shift

During the show, exhibitors with sustainable offerings were able to accommodate the growing demand for eco-friendly supplies. Karla Mejía, a textile sales executive for Liztex, one of the largest textile manufacturers in Central America, located in Amatitlán, Guatemala, said that she saw a strong trend toward producing fibers from recycled sources.

“We have a machine that you put all the scraps in and it produces the yarn and fabric again,” she said. “Right now, we’re doing post-industrial cutting and sewing. We have other customers with whom we are negotiating post-consumer options,” she added.

By expanding its sourcing options, the company will generate more production opportunities for not only Guatemala but also the entire Central American region.

“There are options in this region. We can offer the best-quality products and satisfy customers,” Mejía said. “Many customers think that everything comes from Asia, but we can offer the same products and quality.”

At Eco Yarn producer Industria Textil S.A.’s factory in Guatemala City, Federico Zimeri Köng, general manager of his family’s 43-year-old business, emphasized the company’s commitment to sustainable-apparel production. Using recycled cotton scraps and polyester generated from recycling PET (polyethylene terephthalate) plastic bottles, the company generates fibers to produce approximately 10 million pounds of yarn each year.

“We developed the Eco Yarn, which offers upcycled yarn, to reduce carbon-dioxide emissions, water consumption and toxic materials such as pesticides,” he said. “We’re starting to focus on the U.S. and calculating the capacity for Guatemala. We want to grow and are about to make an important investment in this spinning facility.”

On the show floor at the Cotton USA pavilion, Buhler Quality Yarns Corp. National Sales Director Dee Dee Harris expressed her optimism for building a sustainable-apparel-manufacturing industry in Central America. She noted that adopting a more responsible system takes collaboration.

"At Buhler, we're close with our brands, so we can say, 'Okay, if you really want sustainability, this particular factory here in this hemisphere can do that,'" she said. "We're making some headway with the brands to define true sustainability. Looking at it from a manufacturer's point of view, if you want to look at sustainability, look at the whole supply chain."

Supporting apparel-industry expansion within the Americas and growth in sustainability, Harris mentioned that there are times when progress is made through unlikely partnerships. In addition to responsibly sourcing its fibers, gaining OEKO-TEX certification and adhering to power-saving initiatives in its plants, the Jefferson, Ga.–based Buhler is securing a partnership with an unnamed competitor within the United States to build a better industry.

"We have to look at changing how we do things now. The world is changing around us. It's time we change with it," she said. "Our competitors can be our best friends. Instead of saying, 'We have obstacles,' we have opportunities."

Apparel sourcing beyond borders

While many local Guatemalan apparel leaders were excited about a growing opportunity to increase apparel and textile production, they were also concerned about whether the smaller Central American country could compete with China's enormous production capacity.

"We have a window of opportunity with the conflict that is going on between China and the U.S. It is going to take a little bit of time because everyone can't afford to move all of their operations here," Palacios said. She noted that investments to expand the country's capacity would be necessary to accommodate demand that could result from the trade war.

For companies hailing from the United States, a major topic of conversation was the shift of apparel-brand relationships away from China while fortifying those within Central America. Mohamed Suliman, regional sales manager for Indian Land, S.C.'s Keer America Corporation—a United States subsidiary of Zhejiang, China's Keer Group—felt that Guatemala's quality was a selling point for the apparel industry.

"Guatemala's textile industry is more high end," he said. "The quality—whether in fabric or sewing and cutting—is a lot higher than other parts of Asia or even in Honduras or Haiti."

One exhibitor from China was Wendy Wei, manager of the Shaoxing Bigeng Textile Co., located in Zhejiang. She said the show had been slow at her booth, but many of the attendees who stopped by were locals from Guatemala.

“Right now, customers are getting ideas and will follow up later,” she said. When asked about the trade situation between China and the United States, she recognized potential negative impacts but felt hopeful due to her country’s increased influence around the world.

“We must respect each other,” she said. “The policies may impact business, but China has become stronger.”
A newcomer to the Guatemala show, the Embassy of India in Guatemala had a booth to help forge new relationships between the country and the Central American region. With a new ambassador to Guatemala—Shri B. S. Mubarak—who assumed his post approximately six months ago, India was present to promote Texprocil, the country’s textile-export council.

“We are sharing a database with potential buyers and importers—people who are interested in exploring business partnerships with India,” said Carlos Sosa, marketing executive for the Embassy of India in Guatemala. “The ambassador, who has been here for six months, is very active in all sectors. He wants to increase trade between the region and India.”

Source: apparelnews.net- May 23, 2019

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Pakistan: Knitwear export grows despite textile dull performance

The country's knitwear apparel textile has shown a significant growth as knitted garments' export during first 10 months of the financial year from July 2018 to April 2019 has registered an increase of 8.76 percent to $2.39 billion against $ 2.20 billion of the same period of last year.

According to the latest data of Federal Bureau of Statistics, during the period under review, the export of woven garments was $ 2.18 billion showing an increase of 3.21 percent over the corresponding period last year.

On the other hand, the whole textile group was on decline with exports of $11.13 billion, 0.02 percent less than the exports of last year's corresponding period. Similarly Pakistan's total exports have reported a downfall of 0.11% against the export of the same period last year.

Pakistan Hosiery Manufacturers Association (PHMA) chairman Adil Butt observed that by showing comparatively well performance the value-added textile category has proved that it has been the main driver of growth in the country's overall exports.

He said the value-added sector achieved growth because of preferential access to the 28-nation European Union under the GSP+ scheme which can further be enhanced with the government's support. He said that Pakistan direly needed to establish an Aggressive Marketing Plan for garment export to get maximum benefits of GSP-Plus status.

He said that apparel sector can play leading role in earning foreign exchange and boosting exports. He suggested the government to establish a taskforce, especially at a time when Chinese garment industry, which has more than 30 percent share of world apparel market, is relocating.

He added that a regional taskforce needed to be established to determine issues being confronted by the industry and then to suggest measures to ensure its viability and competitiveness in the international market.

Adil Butt observed that the garment industry is less capital intensive, provides 4 times as many jobs for the same investment, uses less energy and adds more value. Bangladesh's knitwear share stands at $15.18 billion, which is 50 percent of their total textile exports of $30.61 billion.

He expressed concerned that Pakistan is the largest producer of cotton regionally, but its garment exports are lagging behind. "The taskforce will recommend solid steps to enhance textile investment, increase garment export and generate job opportunities in the country.

Source: nation.com.pk- May 26, 2019

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Bangladesh: Exporters may get more cash incentives

The government mulls over increasing the cash incentive for exports by one percentage point as it looks to motivate exporters to leverage the sudden opportunities presented by the US-China trade war.

Currently, 26 sectors are provided with cash incentives ranging from 2 percent to 20 percent of their export proceeds to encourage higher shipments.

But garment exporters, who fetch more than 80 percent of the country's export receipts, demanded more cash incentives in the incoming fiscal year to tide them through the rising costs amid implementation of the new wage scale in the industry.

The finance ministry though is planning to extend the facility to all sectors as the escalating US-China trade war has suddenly expanded Bangladesh's export market.

The export growth, which slowed down last fiscal year, has started looking up again this fiscal year thanks to the trade war kick-started by US President Donald Trump in 2018.

In the first ten months of fiscal 2018-19, export receipts soared 11.6 percent year-on-year in contrast to 6.41 percent registered a year earlier, according to data from the Bangladesh Bank.

Like every year, the government allocated Tk 4,500 crore for cash incentive purpose in the current budget.

Of the amount, Tk 500 crore went to the jute sector and the other Tk 4,000 crore was allocated for all sectors, including textile and garments, according to finance ministry statistics.

So if the cash incentive is increased by one percentage point next fiscal year, as decided in a budget meeting chaired by the prime minister earlier this week, the total amount would be Tk 5,000 crore.

Textile and garment sectors get the lion's share of the cash subsidy.

At present, garment makers that use local yarn enjoy subsidy of 4 percent on their export earnings.

Those who export to new markets -- which are destinations other than the US and the EU -- also get cash subsidy.

Garment exporters demanded 5 percent cash incentive due to the rising cost after the wage hike, said Siddiqur Rahman, the immediate past president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA). Moreover, the prices of garment products declined in the international market, he added.

The near-term export outlook is fairly good, particularly in the context of the renewed tariff escalation between the US and China, said Zahid Hossain, lead economist of the World Bank's Dhaka office.

"The rationale for a further increase in cash subsidy to exports is thus not immediately obvious."

It is also possible to support both exports and remittances by allowing greater flexibility to the exchange rate.

"This has the advantage of providing essentially the same cash support without much additional pressure on the budget, except for the rise in the cost of imports in taka, which can be managed through appropriate import tariff adjustments."

He estimated that one taka increase in the exchange rate would be equivalent to Tk 15 billion subsidies to remittances (assuming it is $15 billion) and Tk 37 billion gross (since their cost of imports will also rise) subsidy to all exports (assuming $37 billion exports).

Source: thedailystar.net- May 24, 2019

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Trade deficit of Pakistan - a vicious cycle

As the government undertakes yet another programme with the International Monetary Fund (IMF), the challenge to steer the economy away from the vicious cycle of high fiscal and current account deficits, coupled with critically low foreign currency reserves, is insurmountable.

The recent attack by currency speculators on the foreign exchange market, coupled with the hike of 150 basis points in the discount rate by the State Bank of Pakistan, has created uncertainty as experts warn of the impact of adjustments on economic conditions. The budget for FY20 is likely to involve tougher measures as several incentives offered in the previous budget will be retracted to reduce the fiscal deficit. Pakistan will soon enter its 22nd IMF programme and receive $6 billion from the IMF.

As inflows from the IMF are likely to be complemented by inflows from the World Bank and the Asian Development Bank (ADB), it will help alleviate some concerns on the external front. However, the high current account deficit, driven by the trade deficit, will remain a challenge until and unless adjustments to the export composition result in sustainable export growth rates.

The Pakistan Bureau of Statistics (PBS) reports a fall of 9.9% in the trade deficit in April 2019 over the value reported in April 2018. This is primarily driven by a 6.4% decrease in imports. On the other hand, exports have also decreased by 1.5%.

The trade deficit between July 2018 and April 2019 was 12.8% lower than the trade deficit during the same period in FY18. Again, the main driver was the decrease in imports as they declined by 7.9%. Exports also declined by a marginal 0.1%. In essence, imports and exports have both met the same fate this fiscal year.

This decline in exports is disconcerting. The depreciation of the rupee has failed to support export growth in Pakistan. The trade deficit can reach a sustainable level in the long run only if considerable efforts are made to boost exports in dollar terms.

A closer look at the industry-level breakdown of imports into Pakistan shows a decline in imports in the period between July 2018 and April 2019 across all products, except for the petroleum group, agricultural and other chemicals.

Within the petroleum group, imports of LNG and crude oil have increased by 46.1% and 14.3% respectively while imports of refined petroleum products have decreased by 14.4%. Similarly, imports of fertilisers have increased by more than 20% and imports of machinery and transport groups have decreased by 12% and 34.9% respectively.

The decrease in imports of power generating machinery, by more than 52%, has had an important contribution to the reduction in the trade deficit. The imports of completely built units (CBU) have decreased by 42.8% while imports of completely knocked down (CKD) units have also decreased, marginally by 1%.

However, imports of CKD motor cars have increased by 3.8%. Interestingly, imports of parts and accessories have also decreased by 9.9%. This trend indicates a fall in demand for machinery and transport vehicles in Pakistan. The depreciation of the rupee, rising inflation and higher tariffs on imported goods are likely to restructure imports away from capital goods and towards mineral fuels, especially as demand for investments falls. However, imports into Pakistan will increase once the economic growth recovers.

Therefore, the eventual improvement in economic conditions will again pile the pressure on the trade deficit. The situation regarding export growth remains dire. Major industry groups such as food and textile experienced negative growth, 4.1%, and 0.02% respectively, in the period between July 2018 and April 2019 relative to the same period in FY18.

Within the food group, exports of rice increased marginally by 1.4%, driven by the rise of 12.1% in exports of basmati rice. Exports of sugar decreased by more than 65%. Within the textile group, exports of raw cotton and cotton yarn decreased by 67.2% and 15.8% respectively.

However, exports of finished products such as knitwear, bedwear, and readymade garments increased by 8.76%, 2.4% and 3.2% respectively. The quantity of exports of these manufactured textile products has increased more than the dollar value, suggesting that Pakistani exporters sell at a lower per unit dollar price or lower price margins in dollar terms, reducing the benefits in terms of aggregate dollar revenue.

This sensitivity to the price competition is likely due to the lack of innovation and quality of exports. Within other manufactured products, exports of footwear and chemical and pharmaceutical products have increased in the first 10 months of FY19 compared to the same period of FY18.

However, the gain in terms of dollar revenue is less than that by the traditional textile manufacturing industries. According to data extracted from the ITC's trademap.org, exports to the EU and the US have shown an upward trend between 2014 and 2018. Exports to the EU were 29% of total exports from Pakistan in 2014 and 34% in 2018. Exports to the US increased from 14% to 16% in the same time period.

Export of clothing articles to the US and the EU increased by more than $870 million, with men's or boy's ensembles of cotton showing a gain of more than $1.16 billion, a 500% increase. The trade concessions offered by the EU in the form of GSP Plus have benefitted certain textile exports from Pakistan.

The government must focus on strategies to boost exports. ITC reports an untapped export potential of $12.2 billion. Unfortunately, the depreciation of the rupee has not resulted in a desirable outcome yet.

The government must lower the cost of doing business to make it attractive for exporters to not only produce more efficiently but also attain crucial inputs and capital goods at cheaper rates, improving the quality of exports.

Pakistan ranks poorly in terms of costs and time involved in trading across borders. Enhancing infrastructure and facilities within Pakistan and at the borders is necessary. Higher exports will help reduce the pressure on the external front in the long run.

Source: tribune.com.pk- May 27, 2019

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Pakistan: Govt mulls GST hike, tax relief withdrawal

In a bid to collect over Rs2 trillion through sales tax, the government is weighing between walking on an easy path and increasing general sales tax (GST) rate to 18% or taking politically challenging decision of withdrawing concessional rates being availed by politically connected sectors.

The current sales tax collection is in the range of Rs1.7 trillion and the government is looking for avenues to generate additional over Rs350 billion from sales tax alone in fiscal year 2019-20. If the Federal Board of Revenue (FBR) takes the politically challenging route, the government will have to sacrifice 'sacred cows' like the textile and steel sectors. One of the budget proposals for fiscal year 2019-20 is to withdraw zero-rating facility being availed by five export-oriented sectors, said sources in the FBR. The FBR also wants to do away with the special sales tax procedure meant for steel sector.

The new FBR Chairman Syed Shabbar Zaidi is aiming at domestic sales of these sectors that according to him have not been fully tapped. The income tax and sales tax payments by the textile sector are paltry compared with the volume of their sales.

The total annual turnover of the textile sector is roughly Rs900 billion but the sector paid only Rs32 billion in income tax and Rs16 billion in sales tax, according to a senior member of the FBR. More than 90% of the Rs16 billion is paid by handful retail outlets.

Catching the holy cows will require amending or even abolishing the controversial Statutory Regulatory Order 1125, which offers concessional tax rates to textile, leathers, garments, sports and surgical goods. The cost of the SRO 1125 alone has been estimated at Rs62 billion to the exchequer in the last fiscal year – a figure that is substantially higher for this fiscal year. The textile tycoons have already sensed a change and they raised the issue with Prime Minister Imran Khan last week, according to the FBR officials.

Against the standard sales tax rate of 17%, the effective tax rate is only 7.2% due to numerous exemptions and concessional sales tax rates, according to the FBR officials.

For the next fiscal year, the FBR faces the mammoth task of increasing its low tax-to-GDP ratio to 12.3% in next fiscal year, which would mean generating Rs5.35 trillion in taxes in the next fiscal year. The FBR plans to collect around Rs2.05 trillion under the head of sales tax. For this fiscal year, the FBR had set the sales tax collection target at Rs1.7 trillion but the actual collection is likely to remain far lower than the target. It will need around Rs350 billion additional sales tax measures to collect over Rs2 trillion in sales tax in the next fiscal year.

There were two options before the FBR – either to increase the GST rate by 1% to 18% or withdraw the concessional tax rates. The FBR is also aiming at increasing the sales tax base to 500,000 entities. So far, only 38,000 are registered sales tax filers as against 348,000 industrial consumers in Punjab.

It will be a political decision which option the government takes, said Zaidi.

Pakistan and the International Monetary Fund (IMF) have agreed to the principles of equitable and fair taxation and withdrawal of concessionary tax regimes. The IMF Board will approve the new $6 billion bailout package only after approval of the taxation measures in the new budget. The government plans to unveil next year's budget on June 11.

Under the last three-year programme, the Pakistan Muslim League-Nawaz (PML-N) government had also committed to completely phase out its concessionary tax regime by July 2016. But it too could not touch 'sacred cows'.

In case the government decides to increase the sales tax rate by 1%, it will collect additional around Rs150 billion. In case the government decides to withdraw the concessional rates, the net impact will be close to Rs300 billion.

But due to concessional tax regimes, increasing standard GST rate will not fully serve the purpose. The exports are exempted from the payment of sales tax – a facility that the FBR believes is abused by the textile millers who show their domestic sales as exports to evade taxes.

The FBR has apprehensions that the millers do not fully reflect their domestic sales in the books, which are charged at 6% rates at the sale point.

The FBR's proposal, which is subject to the approval of the government, is to introduce different tax rates at the manufacturing stage. However, this will create the issue of sales tax refunds to the exporters – an area where both the FBR and the exporters do not enjoy a good reputation. The FBR accuses the textile millers of claiming bogus refunds.

The textile sector paid Rs16 billion in sales tax but it claimed Rs45 billion in refunds, according to the FBR officials. It suspects that the sector was claiming bogus refunds in guise of packaging materials. However, this cannot be done without the involvement of the FBR officials.

The government may also withdraw some of sales tax exemptions, currently protected under sixth schedule of Sales Tax Act of 1990. This would increase the prices of certain edible goods and various kinds of plants and machinery including for power generation. The total cost of the sixth schedule is estimated at Rs75 billion by the FBR, which the IMF thinks is understated, said the sources.

Source: tribune.com.pk- May 25, 2019

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Textile industry asks retailers to source garments locally

Indian Texpreneurs Federation (ITF) has appealed to all brands and retail chains operating in India to source their requirements from within the country instead of importing.

ITF's appeal comes in the wake of a huge jump in import of readymade garments from Bangladesh.

"The 53 per cent increase in Bangladesh's overall exports to India between July, 2018 and April, 2019 is disheartening. While the government is making best possible efforts to promote 'Make in India', 'Skill India' and incentivising job creation, western retailers having outlets in India and Indian local brands seem to be sourcing their goods from Bangladesh.

Indian textile clusters can serve better, source the needs of both western and Indian brands both in terms of quality and competitive pricing," said ITF Convenor Prabhu Dhamodharan.

He further pointed out that the products sourced from within were far better than those sourced from Bangladesh, Sri Lanka or Indonesia.

EPB data

Export Promotion Bureau (EPB) data has revealed that Bangladesh exports touched a high of $1.07 billion between July and April of 2018-19 fiscal compared to $701.56 million earned during the corresponding period of the previous fiscal.

"A major contributor has been readymade apparels," Dhamodharan said, adding "India lost ₹7,500 crore garmenting business to its neighbour."

That's not all. The resultant impact is far more in terms of job loss across the textile value chain.

Retailers and brands should explore possibilities to partner with garmenting hubs in Coimbatore, Tirupur, Karur, Erode, Surat and Ludhiana, among others, and focus on local sourcing, he said.

Source: thehindubusinessline.com- May 26, 2019

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Single authority for sanctioning, processing GST refunds likely by August

A single authority for sanctioning and processing GST refunds is in the offing as the Finance Ministry looks to speed up and simplify the process for exporters, an official said.

The current mechanism entails a twin refund sanctioning authority of the central and state tax officers but that could well change by August when the proposed new structure involving a single authority comes in place.

As per the system being worked out by the Revenue Department, the taxpayer will get full refund from his jurisdictional officer once the claim is sanctioned, while at the back-end the Centre and states will apportion the amount to be paid to each other.

Currently, once a taxpayer files refund claim with the jurisdictional tax authority, say the central tax officer, then he would clear 50 per cent of the claims, and the remaining is cleared by the state tax officers after further scrutiny.

A similar system is followed when a taxpayer approaches the state tax officers for Goods and Services Tax (GST) refunds. Thus, the time taken to clear the entire refund amount gets longer, leading to liquidity crunch for exporters -- an issue that the proposed single mechanism for refund clearing intends to fix.

Under the proposed 'single authority mechanism', once a refund claim is filed with a tax officer, whether Centre or state, the officer will check, assess and sanction full tax refund (both Central GST and State GST portion), thereby removing difficulties faced by the taxpayers. This will later get adjusted/settled amongst the two tax authorities through internal account adjustments.

Currently, the two authorities settling the same refund claims adds to unnecessary complexities and inconvenience for the taxpayers. It has been seen that even after sanction/payment of refund by concerned jurisdictional tax officer, the counterpart tax authority at times tends to delay the GST refund.

As per the formula for division of GST assessees decided by the GST Council, state tax officials administer and control 90 per cent of the assessees below ₹1.5 crore annual turnover, and the remaining 10 per cent is with the central tax officers.

The Centre and states share control of those assessees with annual turnover of over Rs 1.5 crore in 50:50 ratio.

Rajat Mohan, AMRG & Associates Partner said: “A single window tax refund in a federal, democratic economy would be a massive jump in ease of doing business. Inter government tax adjustments have to be done on month-on-month basis to avert any possibility of temporary revenue deficit to a particular government.”

Source: thehindubusinessline.com- May 26, 2019

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Commerce Ministry wants to cut import dependence from China. Here’s why

A commerce ministry’s strategy paper has outlined steps like pushing exports, cutting import dependence and attracting foreign firms which are looking at shifting manufacturing bases from China with a view to reduce trade imbalance with the neighbouring country. The strategy paper, prepared by the ministry, was submitted to Commerce and Industry Minister Suresh Prabhu.

Steps taken by Prabhu has already resulted in narrowing trade deficit (difference between imports and exports) with China to USD 53.56 billion in 2018-19 from USD 63 billion in the previous financial year. To push export to China, the paper suggested suitable export incentives.

"Efforts would be made to support exporters by pursuing tariff reduction through RCEP (proposed mega trade agreement) and by providing suitable export incentives to adequately substitute the existing MEIS (Merchandise Exports from India Scheme) scheme," it said. It said the ministry needs to vigorously pursue for greater market access for agriculture and dairy products, and pharmaceuticals.

The paper said Indian pharmaceutical firms face regulatory hurdles such as prolonged and unpredictable timelines for drug registration, demand for submission of detailed clinical trial data and requirement for revealing the drug formulation process at the time of filing for registration.

On this, the ministry would look at establishing an interface between Food and Drug Administrations (FDAs) of India and China for conduct of regular training programmer on regulatory standards and processes of filling dossiers in China; and relaxing product registration time from 3-5 years to one year. It would also looking at pursuing export orders where market access has been obtained from China for commodities like rice, sugar and sesame seed.

Regarding import substitution, the paper noted that India's imports from China are mainly dominated by electronics, telecom, electrical equipment and pharmaceuticals. Citing views of telecom industry, it said China is adopting a host of discriminatory and restrictive practices against Indian companies to bar them from participation in their procurement process.

The industry has suggested steps like focusing on local manufacturing of products like printed circuit board and camera modules; and creation of the research and development fund for the sector. Further, it said interventions are required for attracting foreign technology intensive firms which are relocating their manufacturing facilities away from China in light of the ongoing trade war between the US and China.

"India, with its vast working population, and large consumer market is an attractive destination for companies moving their manufacturing base out of China, and also for Chinese manufacturer for collaborating for setting up production base in India," it said.

The sectors more likely to relocate to India are electronics, consumer appliances, consumer electronics, textiles, health care equipment and heavy industry.

Source: financialexpress.com- May 24, 2019

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How India can benefit from the US-China trade war

It's the season of trade wars, though instances of such economic warfare are hardly new. Indeed, the history of global trade is rife with several instances of aggressive trade wars: be it the Sino-British Opium Wars of the 19th century, the Chicken Wars between the US and Europe in the 1960s, or the 20-year-old Banana Wars between them that ended only in 2012, nationalist sentiments have led nations to impose 'penalising' trade restrictions on unrelenting partners, often themselves bearing the brunt of retaliation or long-term adverse effects of such restrictions.

Is this time different?

A rapidly changing geopolitical scenario, with associated changes in international relations and national trade policies, has put commodity markets on the frontline of US-led trade war. The immediate and continued effect of US-led trade wars has been a spur in commodity price volatility across the spectrum.

As the Iran turmoil led to augmented energy price volatility, it added to the existing cocktail of commodity price volatility. Prices of aluminium in global markets have plunged over 30% from their highest levels in April 2018. The industrial metal is often viewed as a proxy for prospects of global growth, and the signal being sent in recent weeks suggests rising pessimism about growth with escalating trade war concerns.

Meanwhile, lead prices have sunk 34% between February 2018 and May 2019 on persistent worries of the impact of US-China trade tensions on global economic growth and the sinking Chinese auto demand. The same reasons have made gold shine. Prices of the yellow metal, a favoured safe haven asset in times of uncertainties, rose to $1,307/oz in May 2019 from a low of $1,176/oz in August 2018, and back to $1,275 levels as of now.

The India opportunity?

While volatility in commodity markets is not unusual, the magnitude and impact of the current trade war has added an extra measure of uncertainty. Even as China and the US have been engaged in a trade war involving imposition of and retaliation with tariffs, the brunt (or opportunities) of the economic wars has spilt over to many other countries, including India.

As Sino-US skirmishes are leading to reduction of imports from each other and both nations are looking forward to other countries as destinations of their exports and sources of imports erecting the high-tariff wall amongst them, India is emerging as a candidate for such substitutions. China's share in total US trade dropped to 15.7% in 2018 from 16.4% in 2017. Simultaneously, total trade between India and the US increased to $87.5 billion in 2018 from $74.3 billion in 2017, raising India's share in total US trade to 2.1% in 2018 from 1.9% in the previous year. The trend continues in 2019, too, as seen in trade data.

Commodity opportunity, too?

For some Asian countries, including India, American tariffs on imports of Chinese metals have given a boost to exports of some commodities, such as aluminium and steel. As the US imposed tariffs on Chinese steel and aluminium, India's bauxite and aluminium exports saw an increase of 61.1% in 2018 over 2017, while iron and steel exports to the US surged 9.1% during the same period (see table).

Interestingly, China, the world's largest aluminium producer, retaliated with a 25% duty on US aluminium scrap. As the US, the EU and other developed markets have stringent standards for scrap imports, the global aluminium scrap supply is getting diverted towards India and other emerging markets.

The diversion is being abetted by the 2.5% duty on scrap imports in India, as against 6% on primary aluminium, Indeed, scrap imports to India from the US alone have grown by 142% during April -November 2018 over the corresponding period of 2017, while the total scrap import shipments increased by 20% during the same period. Likewise, the tariff-hit Chinese steel, it is feared, can be dumped (if not being done already) into a vibrant consumption centre like India, either directly from China or by routing through Vietnam or Cambodia.

Meanwhile, China has turned to India for meeting its demand for cotton. In March 2019, Indian traders signed contracts to ship 800,000 cotton bales to China as demand surged from the world's biggest consumer. Following the US-China trade war, India's cotton textile exports to China surged to 69% between April 2018 and February 2019, to $1.55 billion, compared to the same period the previous year.

Key for India

From the perspective of the global value chain, the impact of trade wars resulting from retaliatory tariffs depends on whether tariffs are temporary or here to stay. If they are imposed for a prolonged period and deemed permanent, they could be affecting investment decisions and reorientation of supply chains.

Hopes are already being raised that some industries or supply chains may relocate to India, especially if the country continues improving 'ease of doing business' and focuses on 'Make in India'. India's large pool of engineers, a young labour force, wages that are half that of China's and significant domestic consumption are factors that are attracting global manufacturing giants to make such shifts.

Nevertheless, India needs to diversify the trade basket and continue exploring new markets such as Africa and Latin America to expand overseas shipments. One reason India's external sector could weather the global economic storm of last decade was India's diversified trade partners and absence of concentration, a policy that needs to be continued even now. Other innovations—activation of the rupee-rial payment mechanism established six years ago (but ended in 2015) to deal with western sanctions on Iran—also holds promise, if politically feasible.

Finally, one needs to remember that the space ceded by warring nations that India aspires to occupy is available only to the extent of India's own capabilities. This includes the ability to ramp up production with high efficiency and lean supply chains, competitive goods produced with well-managed price risks in an efficient market place that can enable Indian industry to sustain the trade momentum. Only through such sustained productivity increase can India aspire to sustainably access the lucrative yet challenging markets that beckon her.

Source: financialexpress.com- May 27, 2019

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Export-oriented policies needed for Reform 2.0: Principal Economic Advisor Sanjeev Sanyal

Sanyal also pointed that trade war should be used as an opportunity to boost India's competitiveness.

Sanyal said that there is demand slowdown but fiscal and monetary tools will be used to boost growth

The Reform Agenda 2.0 should focus on turning India into an export and private sector driven high growth economy says India's Principal Economic Advisor Sanjeev Sanyal to ET Now, a day after the Modi government won a massive mandate in the 2019 general elections, becoming the third prime minister after Nehru and Indira Gandhi to return to power the second time with full majority.

"Our infrastructure is not the binding constraint anymore. We have done major framework reforms like GST and IBC, so the last five years were for creating framework for delivery, infrastructure, governance. The next five years should be for growth driven by exports and private investments. Space has opened up going for growth and I am not in favour artificially inflating consumption", said Sanyal, one of North Block's top policymakers

The three key engines of the economy are witnessing a slowdown- private investment, consumption and exports and Finance Ministry is tasked with drawing a blueprint to pump prime the economy at a time when trade war has become a reality.

Sanyal said that there is demand slowdown but fiscal and monetary tools will be used to boost growth, while adding that tight real interest rates and liquidity issues had to be addressed soon.

Sanyal also pointed that trade war should be used as an opportunity to boost India's competitiveness.

“There is disruption in global trade, but there’s a lot of opportunity. Our share is very small so we can easily expand our share. Liquification of global trade networks is a good thing. It allows us to insert ourselves in global supply chains both in services and goods. We shouldn’t think that our internal market is end all and be all and we can use this space to leverage on building scale and size”, he added

Sanyal also added that Enforcement of contract is the single biggest in India’s Ease of doing business. Indian ranked 77th in World Bank Ease of Doing Business list in 2018.

Source: economictimes.com- May 24, 2019

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China proposes ASEAN+3 mega free trade agreement sans India, Australia and NZ

Commerce Ministry officials feel move may be aimed at extracting concessions in RCEP talks

India could be out of the mega trade deal being negotiated between 16 countries, including the ASEAN and China, if a proposal made by Beijing for a free trade pact excluding New Delhi is taken seriously by other members.

“China has started pushing for a free trade pact between ASEAN + 3 (which includes the ten-member ASEAN, China, Japan and South Korea) at the East Asia Summit. This would effectively mean that among the 16 countries negotiating the Regional Comprehensive Economic Partnership (RCEP), all except India, Australia and New Zealand would get included in the proposed pact,” an official told BusinessLine.

The Ministry of External Affairs, which attends the preparatory meetings for the East Asia Summit, has sought comments from the Commerce Ministry on China’s proposal for an ASEAN+3 FTA.

The next East Asia Summit, which is a forum of 18 countries of the Asia-Pacific region formed to fulfil the objectives of regional peace, security and prosperity, is in Turkey next month.

Pressure tactic

Some officials in the Commerce Ministry feel that the proposal, which had once been floated earlier but rejected by Japan, has been given a fresh life by China to put pressure on India to give it concessions similar to those by other countries at the RCEP negotiations.

Since RCEP members, including the ASEAN, are aggressive in their demands, proposing that over 90 per cent traded items should have zero tariffs, New Delhi is hesitant about falling in line. India is especially apprehensive about Chinese goods swamping its market, forcing domestic producers to cut production or shut down. If finalised, the RCEP will result in the largest free trade bloc in the world accounting for 25 per cent of global GDP and 30 per cent of world trade.

“China is trying to give a message that it is ready to ignore New Delhi if it plays hardball and switch over to an alternative ASEAN+3 arrangement. The move may also result in Australia and New Zealand putting more pressure on India to be more flexible in the RCEP negotiations, as they wouldn’t want to be excluded,” the official said. China may be trying to push for an ASEAN + 3 arrangement to speedily create a new order in the region with itself at the helm to counter the challenge posed by the US with which it is engaged in a trade war.

“Earlier, it was Japan which was insistent on India’s participation in the negotiations for a regional bloc as it believed that the country could act as a balancing factor and block China’s efforts to increase its influence over the region.

“However, if China has reached some kind of understanding with Japan on the matter, it could be a rough road ahead for India,” the official said.

At present, officials from RCEP countries are holding an inter-sessional meeting in Bangkok, which is to be followed by another round at the end of next month.

Most RCEP countries want to conclude the negotiations for the free trade bloc by the year-end, but India so far has refused to be hurried into giving its commitments.

Source: thehindubusinessline.com- May 26, 2019

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Modi govt needs to review manufacturing, private sector investment

The main task before the next government must be to revive the economy. Modi campaigned on the issue of national security, which cannot be ensured without a strong economy

Voters have reaffirmed faith in the leadership of Narendra Modi. His Bharatiya Janata Party (BJP) won an absolute majority on its own in the Lok Sabha. So, a stable regime will govern the country through the next few years.

The main task before the next government must be to revive the economy. Modi campaigned on the issue of national security, which cannot be ensured without a strong economy. It is now evident that domestic consumption is slowing and farm distress is real.

The manufacturing sector is not growing rapidly and export growth has been tepid for five years. Private sector investment, especially in new manufacturing projects, has been uninspiring. Corporate earnings have been rather weak, although the stock markets are booming. The flow of foreign money into equity markets has strengthened the rupee. The global trading environment is not too encouraging.

For reviving of export growth, given the context and challenges, the new government must first restore the commerce ministry's primacy in making the new Foreign Trade Policy (FTP). In the run-up to introduction of the Goods and Services Tax (GST) and during its implementation, this ministry was completely ignored.

The finance ministry focused mainly on securing consensus in the GST Council and then on re-working of the laws to address the problems thrown up during implementation. The representations of exporters were initially dismissed summarily and later heard partially. Untold misery was inflicted on a large number of exporters by the finance ministry. An ineffective and voiceless commerce ministry was a spectator.

Now, the latter should not hesitate to take responsibility for export promotion. It should look at the opportunities the US-China trade war throws up and strive to make peace with the United States on trade issues. It should take up with the Reserve Bank of India the overall cost to the economy of monitoring realisation of payment against each and every export transaction; also, raise the issue of timely and adequate flow of credit to exporters and transmission of benefit under its interest subvention scheme.

It should also review all export promotion schemes in consultation with the finance ministry and treat deemed export at par with physical export. It should ask if it is necessary to subsidise export of services and examine whether it is necessary to deliver export promotion schemes through the regional offices of the Directorate General of Foreign Trade. A study on whether our free and preferential trading agreements are working to our benefit should be commissioned. And, the role of various export promotion councils should be re-assessed.

Nor need the commerce ministry wait till next year to announce a new FTP. In 2004 and 2009, the new Policy was announced within a few weeks of presenting the Union Budget. It was in 2014 that the new Policy was deferred till next April, for no good reason.

Now, the finance ministry cannot decide anything on GST without approval of the GST Council. The Budget is unlikely to deal with GST rates and might barely tinker with Customs duties. So, the commerce ministry can go ahead and notify the new FTP, letting the finance ministry give effect to it through fresh notifications.

Source: business-standard.com- May 27, 2019

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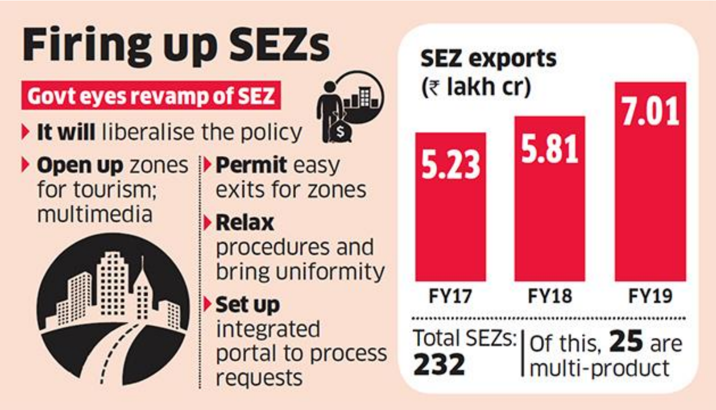
New SEZ policy bats for easy exits and flexibility in leases

India had 232 SEZs, of which 25 are multi-product ones and the rest are sector-specific ones, with 5,109 approved units, as of March 31.

India is set to revamp the special economic zones (SEZs) framework to house a wider range of companies, allow flexible long-term leases and make exits easy to lure investment. Apart from this, non-processing areas in such enclaves can be used to boost exports and employment generation.



"We need bold measures to revive investment, promote manufacturing and exports from SEZs, and boost job creation," said a senior government official aware of the deliberations. "The new SEZ policy needs to be future-ready, investor-friendly and correspond to global market needs."

India had 232 SEZs, of which 25 are multi-product ones and the rest are sector-specific ones, with 5,109 approved units, as of March 31. The sector-specific SEZs are meant for IT and IT-enabled services. Under the proposed policy, these could be opened up to sectors such as tourism and multimedia services.

The policy will seek to provide ease of operation and exit, procedural relaxations, and uniformity in administrative and financial matters among all SEZs. It could also provide easier subcontracting for customers outside the zones. The units now need permission to subcontract any part of their production or production process to units in other SEZs.

The government is also looking to create an integrated online portal for processing new investment requests.

"These proposals have been under consideration. The government is keen to ensure the productivity of SEZs increases," said another official aware of the details. Exports from SEZs rose 21% to Rs 7 lakh crore in FY19.

A committee set up by the commerce and industry ministry under Bharat Forge chairman Baba Kalyani to look into the SEZ policy framework had suggested that the government devise measures to make them focussed on services including information technology, medical tourism and financial services to draw investors.

The committee has suggested SEZs be converted into employment and economic enclaves (3Es) with efficient transport infrastructureNSE 2.08 %, uninterrupted water and power supply.

“There is a long-felt need to reform the current SEZ system to simplify the procedures,” said Bipin Sapra, partner at EY. “The administrative reforms of SEZ should be coupled with reforming the goods and services tax compliances required for claiming the zero-rated benefits.”

The overhaul plan comes as the US has challenged the SEZ scheme at the World Trade Organization.

Source: economictimes.com- May 26, 2019

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New govt must resolve pending foreign trade and policy issues

The new government must take quick decisions on a number of pending trade and foreign policy issues, including forging of sustainable export and industrial policies, framing of a trade agreement with the US to avoid further bilateral skirmishes, taking a final position on the mega trade pact being negotiated with China, and future of oil imports from sanctions-hit Iran.

“The previous government had put off decisions in a number of crucial areas promising that that they would be taken up after elections. Now that the BJP is in power again, quick resolutions of the issues would be expected,” a government official told BusinessLine.

Irrespective of whether outgoing Commerce and Industry Minister Suresh Prabhu will be given the responsibility of heading the ministry once again, India’s trade partners would be expecting continuity in policies.

US concerned

The US, for instance, will be expecting an early decision on sticky issues such as import duties on telecom and IT equipment, and price caps on medical equipment. “The US delivered on its informal assurance that the Generalised System of Preferences (GSP) scheme for Indian exporters will not be withdrawn before the election results.

“Now it will want the BJP, which has been re-elected, to deliver fast on its key demands such as lowering import duties on smartphones and price caps on medical devices. There will also be pressure to re-work e-commerce rules,” the official said. In fact, US Secretary for Commerce, Wilbur Ross, who was in New Delhi in May, had said that he applauded India’s commitment to address some of the trade barriers (faced by US companies) once the government is re-formed.

Iran oil

The government will also now have to clearly state its policy vis-à-vis oil imports from sanctions-hit Iran. After the US refused to extend the sanctions waiver for India and a few other countries, India stopped oil import from Iran in May. But former Minister of External Affairs Sushma Swaraj has assured the Iranian foreign minister that a decision on oil imports would be taken after the elections.

Framing a suitable export policy is also long overdue, especially with continued unstable export performance and negligible growth in April 2019. There is also a need to replace WTO non-compliant export sops with other incentives. The ratification of the new industrial policy to increase foreign direct investment to $100 billion annually, and doing away with regulatory hurdles, are the other issues to be tackled as it had been put off for the new government.

Pressure will be high on the new government to take a final decision on whether it wants to participate in the RCEP by removing duties on most items imported from all members, including ASEAN and China.

“The re-formed government cannot buy more time by saying it is new because it is actually not and is well-versed with all intricate issues involved with the pact,” the official said.

Source: thehindubusinessline.com- May 25, 2019

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Social & Labour Convergence Program launching in India

The Social & Labour Convergence Program (SLCP) is launching in India with a series of launch events across the country in partnership with Apparel Export Promotion Council (AEPC), Shahi Exports and The Cotton Textiles Export Promotion Council (TEXPROCIL). Events are scheduled for May 30 in Bengaluru, June 3 in Tiruppur, June 5 in Mumbai, and June 7 in Delhi.

SLCP is an initiative led by the world's leading manufacturers, brands, retailers, industry groups, inter-governmental organisations, service providers and civil society organisations to eliminate audit fatigue by replacing current proprietary tools with a standard-neutral Converged Assessment Framework. The mission of the SLCP is to improve working conditions by allowing resources that were previously designated for compliance audits to be redirected towards the improvement of social and labour conditions.

SLCP benefits manufacturing facilities by addressing audit fatigue by reducing the number of social audits. It facilitates measuring of employment practices, thus improve working conditions and employee relations. The programme redeploys resources towards improvement actions, and fosters trust and collaboration between supply chain partners.

The SLCP is not a code of conduct or compliance programme. Its Converged Assessment Framework provides a data set with no value judgement or scoring. It is however compatible with existing audit systems and codes of conduct. This means that the same data set can be used by a wide range of stakeholders and interpreted according to their interests and criteria. This eliminates the need for repetitive audits to be carried out on the same facility.

After three years of development, including three prototypes, two pilots, a public consultation and a successful "Light Operation" in 2018; the SLCP's Converged Assessment Framework is now ready for use.

Findings from research conducted by SLCP in 2018 show that adoption of SLCP could unlock resources worth over $1.5 million spent on duplicative audits in 2019 alone, rising to $200 million by 2023, for re-deployment to improve working conditions, according to a media statement.

The 190+ SLCP signatories are now preparing for wide-scale adoption across apparel and footwear supply chains.

In the first roll-out phase in late-May 2019, SLCP will launch operations in India as well as China, Sri Lanka and Taiwan. To support the India launch, SLCP will be holding a series of free one-day seminars in four cities—Bengaluru, Tiruppur, Mumbai, Delhi/Gurugram—to introduce facilities and their business partners to the SLCP process.

In addition to SLCP sharing 2019 Operations plans, manufacturers associations will talk about the benefits SLCP brings to facilities, and signatory brands and retailers will present their SLCP adoption plans.

Participation is open to representatives from facilities, vendors and brands that operate in the home textile, apparel and footwear industry.

“SLCP is a consistent, collaborative and widely accepted framework for social compliance worldwide, and thus a truly transformative initiative. Shahi is proud to be a signatory to SLCP and host the India launch,” said Srinivasa Rao Venkatesh, chief compliance officer, Shahi Exports.

Source: fibre2fashion.com- May 24, 2019

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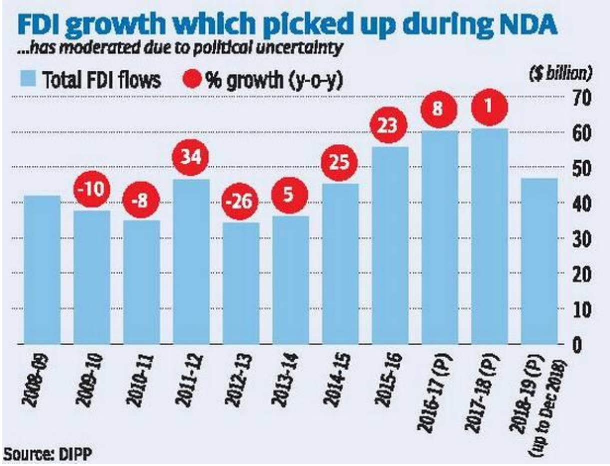
With end of uncertainty, FDI flows may perk up

With the NDA set to form the government once again with full majority, Foreign Direct Investment (FDI) is likely to receive a boost.



Source: DIPP

While the FDI flow increased sharply between 2014-15 and 2016-17, over April-December 2018, it dropped 3 per cent to $46.6 billion compared with the same period last year. This, experts say, was due to the political uncertainty in the country.

Policy reforms to help

One of the top priorities when Narendra Modi became Prime Minister in 2014 was to attract more foreign companies to invest in the country’s Make-in-India programme.

Sectors facing capital crunch were identified and FDI regulations relating to those were relaxed.

These sectors included defence, construction and infrastructure (including railway infrastructure), telecommunication, automobile and manufacturing. For instance, 100 per cent approval was given under the Automatic Route for sectors such as food product retail trading, construction and development, industrial parks and NBFCs.

Under the central government approval route, sectors such as airport transport services, telecom services, broadcasting content services, defence and railway infrastructure were given approval for receiving FDI up to 100 per cent.

Though the UPA government had also introduced reforms in the FDI policy in retail, civil aviation, broadcasting and infrastructure sectors and allowed foreign direct investment in power trading exchanges, big-ticket investments did not materialise due to stringent rules.

Annual FDI inflows declined from about $41.8 billion in FY09 to $34.2 billion in FY13. But under the NDA, FDI inflow increased 18.6 per cent (CAGR) between 2013-14 and 2016-17.

In 2016-17, it was at a record high of $60.2 billion. In 2017-18, growth moderated, but absolute inflows still hit a new high of $60.9 billion.

Initiatives such as Digital India, Smart Cities and Startup India, in addition to relaxation of FDI regulations, made it easier for foreign investors to access India. Some of the companies that have entered the Indian markets in recent years are Amazon, Ikea and Walmart. Further, smartphone companies such as Xiaomi and Samsung have opened multiple manufacturing plants.

FDI inflows have moderated in the last two years, growing at 8 per cent in FY17 and at an even slower pace of 1 per cent in FY18. This could be due to domestic jitters including political uncertainty and changes in the FDI policy on e-commerce, say experts. But changing global market scenario with the US Fed raising rates and rising geopolitical tensions are also disturbing FDI inflows, says Madan Sabnavis, Chief Economist, CARE Ratings.

However, he added that the environment is favourable for FDI flows now thanks to the recent reforms.

Source: thehindubusinessline.com- May 24, 2019

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Ethiopia beckons Indian garment exporters

Africa offers duty-free access to the U.S. and EU

Melat and Rahel, both 24 years of age, completed their studies last year in the east African country of Ethiopia and landed their first job in an Indian textile company. They are among the 700-odd young men and women employed at KPR Export Plc. at Makelle, Ethiopia. They were trained at KPR's Coimbatore manufacturing plant.

Standing outside the work shed at Makelle Industrial Park, where his company is making garments, KPR Group's executive director C.R. Anandakrishnan says SCM Garments, again from Coimbatore region, has occupied the adjacent shed. The two companies had generated over 1,500 jobs.

Bumpy ride

A drive from Makelle town to the Makelle Industrial park in Tigray region, Ethiopia, is a bumpy ride with the connecting roads under development and not many buildings around. Yet, the park, with its plug-and-play work sheds, is attracting Indian textile companies.

Ask Mr. Anandakrishnan why Indian textile units, especially garment manufacturing factories, are expanding to new geographies, mainly Africa, and he says the prime reason is the duty-free access to the U.S. and the EU markets.

Apart from Ethiopia, Kenya is attracting investments from garment manufacturers, while Tanzania and Uganda are also opening up. It is not only Indian factories, but also textile companies from China, Sri Lanka, and Bangladesh that are investing in these countries, adds Govind Venuprasad, coordinator of Supporting Indian Trade and Investment for Africa (SITA) project of the International Trade Centre.

"For a polycot t-shirt, Indian exporters pay 32% import duty in the U.S. if shipped from India. It is duty-free [if exported] from Africa. For cotton t-shirts, the duty-free access gives 16% advantage to an exporter," he adds. For an industry that works on thin margins in India, this is a substantial advantage even if the buyer does not pass on the entire benefit. By 2030, India is expected to be a net importer of clothing. The African market is also growing. By setting up capacities in Africa, Indian companies can tap the potential in both these growing markets in the coming years, says Mr. Venuprasad.

Rising costs

Further, with the Indian economy growing, costs are on the rise. Indian textile and garment manufacturers need to be competitive in the international market, he adds. "India has a competitiveness problem. Our garment export growth has remained flat for the last few years. The Indian government and the industry should sit together and discuss the issues," says Sanjay Jain, chairman, Confederation of Indian Textile Industry.

"We did look at Kenya before finalising the investment in Ethiopia. But, the labour cost is high in Kenya. If we pay a worker $200 a month in India, it is less than 50% of the amount in Ethiopia," says Mr. Anandakrishnan. Indian investments across sectors started coming into Ethiopia after 2008 when the Ethiopian government came up with an attractive investment policy, and Indian industries were looking at frontiers outside India, says Mayur Kothari, convenor of India Business Forum, Ethiopia. But, there are challenges companies face in Ethiopia. It is a land-locked country and hence, transporting goods to and from the ports in neighbouring countries means longer time and higher cost. Infrastructure is an issue, says Mr. Anandakrishnan.

Only industries that have scaled up capacities in India can afford long-term planning to invest in Ethiopia.

"The duty-free access is offsetting additional costs that we incur. Right now, it is really tough there.

In the long run, efficiency will go up, infrastructure will be developed and it will be a worthy investment," says Ashok, chief marketing officer of SCM Garments.
Source: thehindu.com- May 26, 2019

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Expecting profit, farmers begin to sow cotton early

Cotton sowing has commenced early this kharif season in many pockets of Indore division since farmers lured by higher prices anticipate better remuneration with an early harvest.

Farmers in Malwa-Nimar are also seen expanding acreage under cotton by around 10% this season, thanks to higher prices.

A spurt in cotton prices at a time when farmers are making up their mind to select a crop for the kharif season is seen encouraging farmers to sow more cotton, experts said.

Agriculture joint director Rewasingh Sisodia said, “In many areas farmers have started sowing cotton. Early sowing means early harvest and this yield them good prices.”

Usually farmers wait for the first shower before kicking off kharif farming. But, sowing starts early in pockets, which are rich with irrigation facility.

In Indore division, cotton was sown on 5 lakh hectares, last year. This year the acreage is seen touching 5.5 lakh hectares. An increase in cotton acreage is likely to lead to higher output next season, experts said.

Sisodia said, “In Indore division, 1.5-2 lakh hectares will see early sowing. It will also give farmers an opportunity to try their hands on other small crops once their farms are clear with cotton.”

Kharif sowing commences from May-end or June depending upon availability of irrigation facility and rains.

Madhya Pradesh Cotton Association president Kailash Agrawal said, “Farmers are a bit early this year because they want to take advantage of higher spot prices. Acreage will also go up this season as per the pace of sowing in the region.”

In the spot market, prices of raw cotton have increased to Rs 44,100 from Rs 41,500 per candy on prospects of lower output due to adverse weather conditions.

Cotton crop for 2018-19 is estimated at 315 lakh bales of 170 kgs each against 365 lakh bales the previous year, as per Cotton Association of India.

Source: timesofindia.com- May 26, 2019

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