LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

3rd

APRIL

2024

News Highlights

NATIONAL

Farmers, MSMEs, Manufacturing To Be Safeguarded In FTAs: Piyush Goyal

Union Minister Piyush Goyal has underscored that protecting the interests of farmers, fishermen, micro, small and medium enterprises (MSMEs), and domestic manufacturing will be non-negotiable in any free trade agreement (FTA) that India inks.

Speaking at the Idea Exchange event organised by The Indian Express, Goyal said the Modi government negotiates FTAs very cautiously and from a position of strength, given India's USD 3.5 trillion economy that is projected to swell to USD 35 trillion.

"For FTAs, one has to do crystal-gazing into the future and see what is good for the country over the next 20, 30 or 50 years," the minister stated.

"The country's farmers, fishermen, MSMEs have to be protected, domestic manufacturing has to have a level-playing field, and there has to be transparency on both sides in how countries operate," he added.

Goyal maintained that India will sign FTAs strictly on its own terms after extensive stakeholder consultations. He ruled out any rushed negotiations, saying "unless we get that (a fair, equitable and balanced deal) on our terms, we don't rush into closing any FTA negotiation."

The statement from the minister comes in the wake of the recent pause in FTA talks between India and the UK, which are now set to resume after the conclusion of the Lok Sabha elections. Goyal chose not to divulge specific reasons behind the hold, terming it a confidential matter.

However, he emphasised the need to balance multiple significant issues from a larger perspective, including preventing entry of entities from "unfriendly" nations through the backdoor under such trade pacts.

"We are a potential superpower and given our growth trajectory, nobody in the world has any doubt this is the country to trade with. So we have to negotiate hard and get the best deal for India," Goyal asserted.

The minister also appreciated efforts from the UK side, saying "They put an extra foot forward as did we. But there will always be reasons why some things don't close and probably the right time for this has not come."

While Goyal did not disclose granular details, his strong remarks made it clear that safeguarding the interests of Indian farmers, MSMEs, and manufacturers will be paramount in any FTA that the government pursues.

Manufacturing PMI climbs 16-month high of 59.1 in March

The HSBC India Manufacturing Purchasing Manager's Index (PMI) touched a 16-year high of 59.1 in March from 56.9 in February on the back of the strongest increases in output and new orders since October 2020.

The HSBC India Manufacturing PMI, which is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers, showed employment returned to positive territory and firms scaled up buying levels.

According to a press release issued by S&P Global, growth of new orders accelerated to the quickest in nearly three-and-a-half years during March, amid buoyant demand conditions.

"Inflows of new work strengthened from both domestic and export markets, the latter reportedly reflecting better sales to Africa, Asia, Europe and the US. New export orders increased at the fastest pace since May 2022," says the report. Manufacturing output rose for the thirty-third month in a row in March, and to the greatest extent since October 2020. Growth also picked up across the consumer, intermediate and investment goods sectors. The steepest expansion in production was seen at investment goods makers.

On jobs, the survey says that Indian manufacturers hired additional workers in March after a lull period in the first two months of the year.

"The pace of job creation was mild, but the best since September 2023. Anecdotal evidence highlighted the recruitment of mid-level and fulltime employees," says the S&P Global. According to the PMI survey, despite remaining modest by historical standards, cost pressures were at their highest in five months. Manufacturers had to pay more for cotton, iron, machinery tools, plastics and steel.

The Purchasing Managers' Index is a survey-based indicator such as business output, new orders, employment, costs, selling prices, exports, purchasing activity, supplier performance, backlogs of orders and inventories of both inputs and finished goods, where applicable.

Centre to set up labs for testing marquee textiles meant for exports

Read more at : [Centre to set up labs for testing marquee textiles meant for exports | Mint (livemint.com)]

India, Eurasian union kick-start FTA talks

India and the five-nation Eurasian Economic Union (EaEU) that comprises Russia will start formal negotiations for a free trade agreement (FTA) soon.

According to sources, officials from the two sides held a meeting late last month for detailed discussions where lead negotiators from both sides also participated. “Senior officers of both sides have met on March 28 here and have discussed formally starting talks for the FTA,” a senior official said.

EaEU is an economic union of five post-Soviet states in Eurasia, namely Russia, Kazakhstan, Belarus, Armenia, and Kyrgyzstan. The EaEU was established on January 1, 2015, and has a single market, with 183 million people and combined GDP of over $2.4 trillion as of 2023.

While the idea for an FTA has been debated for some time now, the talks have acquired pace in recent months. After the start of the Ukraine conflict Russia became the second biggest source of imports due to the crude oil trade in April-December 2023. In 2022-23, Russia was the fourth biggest source of imports. The surge of crude imports has led to a huge trade deficit with the close strategic partner.

India is seeking opportunities for its agriculture and engineering sector in Russia and investments in the energy sector. As India became a base for mobile handset manufacturing, Russia had become a significant buyer. The trade telecom of electronics and telecom goods exports to Russia and Belarus are now impacted due to Western sanctions on such exports. This has closed the opportunity for India in the emerging sector.

In April-January 2023, India's imports from Russia stood at $ 51.1 billion while exports were just $ 3.43 billion. In 2022-23 India's imports from Russia stood at $ 46.2 billion while exports were at $3.1 billion. After Russia, the second biggest trade partner of India in the bloc is Kazakhstan. In the 2022-23 exports were $436,5 million and imports were $ 205.13 million. With the other three the bilateral trade is well below $ 200 million.

The joint feasibility study for the FTA was done way back in 2016 and this has been followed by another study by India's Exim Bank.

India currently has 14 FTAs with individual countries and trading blocs. These agreements cover 25 countries. The latest FTA that India signed was with the four-nation European Free Trade Association that includes Switzerland, Norway, Iceland and Liechtenstein.

The FTAs that are nearing completion include ones with the UK and Oman. Talks are also on with the European Union and Peru for a trade agreement.

World Bank raises India's FY25 growth projection to 6.6%; pegs FY24 GDP at 7.5%

The World Bank on April 2 raised its GDP growth projection for India by 20 basis points to 6.6 percent in FY25.

The global agency's projection for FY25 is significantly moderate compared to the estimate of a real GDP growth of 7.5 percent in the current financial year. However, it expects growth to pick up in subsequent years as a decade of robust public investment starts yielding dividends.

In its second advance estimate of GDP for 2023-24, India's statistics ministry pegged the current year's growth rate at 7.6 percent, 30 basis points higher than its first advance estimate of 7.3 percent.

The expected slowdown in growth between 2023-24 to 2024-25 mainly reflects a deceleration in investment from its elevated pace in the previous year. However, growth in services and industry is expected to remain robust, the latter aided by strong construction and real estate activity.

Inflationary pressures are expected to subside, creating more policy space for easing financial conditions. Over the medium term, the fiscal deficit and government debt are projected to decline, supported by robust output growth and consolidation efforts by the central government, the World Bank said in its South Asia Development Update for April 2024.

The Update said that growth in South Asia is projected at 6.0–6.1 percent in 2024–25, stronger than in other emerging market and developing economies, largely due to robust economic activity in India.

"In the rest of the region, while picking up, growth is expected to remain mostly well below pre-pandemic averages," as per the April 2024 Update.

South Asia as used in this report includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.

South Asia's growth outlook is somewhat stronger than in the previous edition of this report, by 0.4 percentage points for 2024 and 0.3 percentage points for 2025. This is primarily due to upward revisions to investment growth in India and somewhat faster-than-anticipated rebounds from last year's recessions in Pakistan and Sri Lanka, the World Bank said in its Update.

Manufacturing PMI in March rises to 16-yr high, employment improves

India's manufacturing sector ended 2023-24 on a "stellar" note, with the headline Purchasing Managers Index (PMI) soaring to a 16-year high of 59.1 in March, up from 56.9 in February, according to a survey released by HSBC on Tuesday.

A PMI above 50 represents expansion in the manufacturing sector, while a reading under 50 represents contraction. The survey reveals that the manufacturing sector gained momentum in March, with the strongest increases in output and new orders since October 2020. This was accompanied by the second-sharpest upturn in input inventories in the survey's history in connection with India.

In a positive sign for the jobs market, employment picked up. "Employment returned to positive territory and firms scaled up buying levels. There was a mild pick-up in cost pressures during March, but customer retention remained a priority for goods producers who raised their charges to the lowest extent in over a year," the survey stated.
At 59.1, the March manufacturing PMI is slightly lower than the flash estimate for the month at 59.2, released on March 21. The March figure marks the manufacturing output rising for 33 months in a row and to the sharpest since October 2020.
The growth of new orders, the survey noted, accelerated at the fastest pace in nearly three-and-a-half years in March, amid reports of buoyant demand conditions. New work inflows strengthened from both domestic and export markets, with new export orders increasing at the fastest pace since May 2022. Sales to Africa, Asia, Europe, and the US picked up sharply.

"India's March manufacturing PMI rose to its highest level since 2008 as manufacturing companies expanded hiring in response to strong production and new orders. On the back of strong demand and a slight tightening in capacity, input cost inflation picked up in March," said Ines Lam, economist, HSBC.
The survey also noted that growth quickened across the consumer, intermediate, and investment goods sectors. The steepest expansion in production was seen at investment goods makers.
After leaving payroll numbers broadly unchanged in the previous two months, the survey noted, manufacturers in India hired additional workers in March. The pace of job creation was mild but still marked the best performance since September 2023. Anecdotes highlighted the recruitment of mid-level and full-time employees.

Contrary to the positive news, the survey noted that overall sentiment slipped to a four-month low as concerns about inflation continued to weigh on confidence. "Despite remaining modest by historical standards, cost pressures were at their highest in five months. Companies reported having paid more for cotton, iron, machinery tools, plastics, and steel," the survey added.

GLOBAL

The EU’s sustainability directive may weaken trade ties

Read more at : [The EU’s sustainability directive may weaken trade ties | Mint (livemint.com)]

Global Cotton Production, Consumption Set To Rise In 2024-25: ICAC

The International Cotton Advisory Committee (ICAC) has projected increases in the cotton-producing area, production, consumption, and trade for the next season, 2024-25. The global trade body has stated that it is somewhat early in the process to become overly excited, but if the initial ICAC forecast holds true, the 2024-25 season will show gains in area, production, consumption, and trade.
According to the latest report by the ICAC, weather will be a crucial factor in driving cotton production upwards. It has been the only factor affecting cotton production in recent years. Weather conditions were responsible for the reduction in the cotton area in the current season. Yields are expected to decrease by 0.12 per cent to 768 kg per hectare. Global cotton yield has been on a decline since the 2017-18 season due to extreme weather caused by global climate change and pest pressures exacerbated by adverse weather conditions, which are also a result of global climate issues.

The ICAC's projections for 2024-25 suggest that the cotton-producing area may increase by 3 per cent from the 2023-24 acreage, reaching 32.85 million hectares. Production is anticipated to rise by just over 2.5 per cent to 25.22 million tonnes. Consumption is forecast to increase by 2.9 per cent to 25.37 million tonnes. Global cotton trade (imports and exports) is expected to grow by nearly 4 per cent from the 2023-24 cotton season to 9.94 million tonnes.

The ICAC's current price forecast for the season-average A-index for 2023-24 ranges from 85.67 cents to 100.62 cents, with a midpoint of 92.20 cents per pound.

Can Türkiye’s textile industry bounce back?

One year on from an earthquake that devastated regions heavily dependent on textile manufacturing, Türkiye — the world’s fifth largest textile exporter — is showing its resilience. But, as concerns about conditions in the supply chain linger, a large question mark over its future as a sourcing destination remains.

Türkiye is home to 65,000 textile and apparel companies. The earthquake of February 2023 hit the regions of Gaziantep, Malatya, Adıyaman and Kahramanmaraş, which collectively contribute over 40 per cent of Türkiye’s textile exports and 10 per cent of garment exports.

“The earthquake posed a severe challenge, impacting the country and its industries profoundly,” acknowledges Ahmet Öksüz, chairman of the Istanbul Textile and Raw Materials Exporters Association (ITHIB). “It was recognised as one of the most catastrophic events in recent history, and it tested the resilience and operational capacity of the textile sector.”

One year on, Türkiye is coping with problems shared by other exporting nations, including global economic uncertainty and inflationary pressures. In 2023, textile exports fell by 11.3 per cent year-on-year to $11 billion, while apparel exports were down by 10.7 per cent to $19.2 billion, according to Turkish export industry associations.

However, the country’s proximity to the European Union gives it a powerful geographic advantage over Asian sourcing destinations. Industry representatives believe the sector will bounce back, particularly in the second half of 2024.

ITHIB is encouraging its members to invest in research and development to maximise competitiveness. Manufacturers are also working hard to deliver production that complies with new sustainability commitments and legislation. “Innovation is critical in an era where consumers and businesses alike demand not only quality and cost-effectiveness but also sustainability and ethical production practices,” Öksüz explains. “We aim to align our production processes with global environmental and ethical standards.”

In March, the Istanbul Apparel Exporters' Association (IHKIB) initiated cooperation with non-profit organisation Wrap to develop a pilot project to incentivise Turkish companies exporting to the US to obtain Wrap certification.

Türkiye is also looking to new markets to counterbalance a decline in exports to its major customers in the European Union — including Italy, its most important export market. Trade delegations to Mexico, Colombia and Argentina are scheduled this year.

Ethical concerns

However, concerns remain about ethical malpractice and workers' rights in a country where independent unions, while permitted, do not operate with impunity.

A report by Clean Clothes Campaign (CCC), released in January, suggested that the earthquake exacerbated and exposed already difficult working conditions and violations of workers' rights in the textile sector, including concerns related to health and safety, instances of harassment and inadequate wages.

These issues have been identified in other exporting nations. "In countries that rely heavily on the garment industry, we see people without any real social safety net and for an industry that produces billions of dollars of profit every year, it's indicative of a system that is severely broken. It generates so much wealth, but you have people working within the supply chain where if a disaster happens, they have nothing to fall back on," says Elizabeth L Cline, lecturer of fashion policy at Columbia University.

Following the Türkiye earthquake, more than half of the respondents to the CCC survey reported damage to their homes and said both factories and the government failed to provide sufficient assistance. "One year later, tens of thousands of workers and their families still live in containers in these areas with little hope of securing permanent housing in the foreseeable future," says Mehmet Türkmen, president of workers' union Birtek-Sen.

Just over a third of workers who responded to the CCC survey also said they received no wages during enforced time off work. ITHIB refuted these claims. "The factories of many of our businesses were inoperable, despite severe operational disruptions, numerous companies continued to pay their workers for months, reflecting a deep-seated respect for labour rights and the human aspect of the industry," says Öksüz. "While the industry as a whole is committed to upholding the highest standards, individual instances of non-compliance or shortcomings do not define the entire sector. It is not possible for workers to be victimised in a sector where social compliance and sustainability audits are multifaceted."

Türkmen of Birtek-Sen claims significant action is rarely taken over grievances. "If an issue is reported to a brand, it takes some brands weeks before they respond — and weeks for a garment worker is a considerable amount of time. It results in financial losses for them if they've been wrongfully terminated or are striking before an issue is resolved," he says.

The role of brands

Türkmen emphasises that these challenges persist because brands rarely visit or conduct audits, remaining largely disconnected from the processes within the factories with which they are contracted. For garment workers, there is apprehension about the future. "If orders start to increase, it will only mean more pressure on workers, which in turn leads to worsening conditions and lower wages," Türkmen warns.

Despite the documented efforts of global fashion companies to address the aftermath of the disaster and to prevent the mistreatment of vulnerable workers, surveys conducted by the Business & Human Rights Resource Centre (BHRRC) and the Middle Eastern Technical University (METU) regarding their purchasing practices revealed responses considered unsatisfactory.

While union membership is legally permitted in Türkiye, garment workers still face repercussions for joining an independent union like Birtek-Sen. Last November, nearly 500 workers from Özak Tekstil, a major apparel manufacturer and supplier to Levi Strauss, protested at a factory in Urfa after a colleague was dismissed for switching unions at the end of last year — many were sacked.

"The real issue is the power imbalance in the supply chain. It can override national laws because governments can feel pressured to look the other way when it comes to their own labour laws just because they're fearful of losing business," says Columbia University's Cline. "You have these extraordinarily powerful brands at the top of the supply chain [with] all of these incentives for brands to not really show real responsibility."