LETTER

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News Highlights

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Moody's maintains stable outlook, affirms 'Baa3' rating for India with growth forecast

Global rating agency Moody's on Friday maintained a stable 'outlook' and affirmed long-term and short-term ratings at 'Baa3' and 'P-3' respectively for India. It has estimated growth rate of 8 per cent for Fiscal Year 2023-24 and 6 per cent plus for current and next fiscal (2024-25 and 2025-26) years.

This is the last investment-grade rating, and the stable outlook means downward revision in the rating is unlikely in the near term. However, it has cautioned that that an "escalation of political tensions or further weakening of checks and balances" that would undermine India's long-term growth potential would likely put downward pressure on the rating.

After completion of periodic review, the agency said that the 'stable' outlook incorporates the likelihood that India's fiscal metrics will continue to gradually improve amid robust growth prospects compared with peers. Upside risks to inflation and correspondingly higher interest rates could challenge efforts to rein in spending and exacerbate already weak debt affordability, it added.

"The credit profile of India balances its large and diversified economy with high growth potential, a relatively sound external position, and a stable domestic financing base for government debt against high general government debt, weak debt affordability and low per capita income," it said.

This review report has been published at a time when India is pushing hard for rating upgrade. Government officials have maintained that India has neither defaulted not shown any sign of stress in repaying debt. Also, it has managed to keep fiscal deficit in control. However, it appears that rating agency would like to wait for some more time before making any change in sovereign rating which is used by investors for making any investment decision.

Meanwhile, the agency said the country has benefited from traction on infrastructure development, digitalization and the rehabilitation of the financial system. It highlighted that a stronger and more stable economy has emerged from the pandemic. "We do not expect a material reduction in debt amid gradual fiscal consolidation over the next year. Debt affordability will also be challenged by still high global and domestic interest rates," it said.

Regarding growth projection, it said 8 per cent in FY24 is estimated on account of growth during the first three quarters. This is higher than various estimates. Even the government's own projection is 7.6 per cent. With contributions from gross fixed capital formation remaining robust amid the authorities' ongoing emphasis on infrastructure development, the expectation for the current and next fiscal year is well above 6 per cent, but there are some concerns, too.

"There are upside risks to the projections, based on the potential for private consumption to benefit from ongoing disinflation, while private investment could rise as election-related uncertainties clear and policy rates start to fall as inflation normalizes within the Reserve Bank of India's target band," it said.

Explaining the credit profile, the agency said that 'baa' reflects "susceptibility to event risk, driven by political risk to account for rising sectarian tensions and intensifying domestic political polarization, while the easing of the negative feedback loop between the financial sector and the real economy over the past three years informs our assessment of banking sector risk."

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Indian economy poised for enhanced private investments, says Assocham Prez Nayar

National industry body Assocham plans to undertake a comprehensive study of private sector investments in the economy and ascertain the next phase of measures needed to propel the country's growth story, its new President Sanjay Nayar has said.

This study would especially help enhance the ease of doing business and reduce regulatory compliance, Nayar told *businessline* in an interview.

"In general I would agree that there is much more that is expected from the private sector in terms of investments to match the efforts being made by government. We need to understand what more needs to be done to drive this growth.

The government has not only stepped up and done a great job on spending from its balance sheet for the last four to five years, they have also managed the fiscal deficit well", Nayar said.

Assocham also plans to focus on identifying and pushing alternate methods of financing for mid-sized corporates. A lot of mid-sized businesses don't have easy access to low-cost capital, he noted.

Nayar however noted that the rising government debt is a matter of "mild concern" and if not addressed, this number can keep increasing while the deficit can remain intact. "Our total debt-to-GDP is a number that we have to keep an eye on because it crowds out the private savings. Then the only way you can bridge the investment saving gap is by importing savings", Nayar said.

Activate asset monetisation

Nayar, who is a well-known name in global financial markets and Founder and Chairman, Sorin Investment Fund, also stressed the need to revitalise and activate the Asset Monetisation Programme and the National Monetisation Pipeline (NMP), given that India is well-positioned to draw foreign investments.

"This asset monetisation should be priority for the new government in its first hundred days in office. The current lag isn't because the government lost interest, rather it was preoccupied with covid and its unprecedented impact on the economy", Nayar said.

"Now it's an opportune time for India when it is such a globally attractive destination. From every aspect—political stability, sovereign strength and a large market. It would be the right time to activate it post-elections and you will get a lot of FDI in this space".

Through NMP, the government sought to establish a medium-term pipeline along with a roadmap for "monetisation-ready" assets.

The NMP comprises a four-year pipeline programme of the Central government's brownfield infrastructure assets. It estimates an aggregate monetisation potential of ₹ 6 lakh crores through core assets of the Central Government, over a four-year period, from FY22 to FY25.

Developed in the backdrop of the unprecedented Covid-induced economic and fiscal shocks, NMP lists out assets and asset classes, under various infrastructure ministries, which will be monetised over a period of time. It is time for the government to focus on monetising operating assets such as roads, highways, transmission grids and oil gas pipelines.

On the other hand, Asset Monetisation, based on the philosophy of Creation through Monetisation, is aimed at tapping private sector investment for new infrastructure creation.

It also creates employment opportunities, thereby enabling high economic growth and integrating the rural and semi-urban areas for overall public welfare. The NMP comprises a four-year pipeline programme of the Central government’s brownfield infrastructure assets.

Startup council

Nayar also said that Assocham plans to set up an empowered council for Startups. This initiative would come on the heels of recent startups Mahakumbh, which, according to Nayar, was a big success. “This council will be a window for startups to reach out and get guidance on business model and governance from a panel of experts and founders who can spare their time to hand-hold the new startups”, he said.

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Charting New Frontiers: Key Advancements in India-Peru Trade Talks

The 7th round of India Peru trade talks in New Delhi marked a significant milestone in the bilateral relationship, characterized by substantive advances across various chapters, notably in areas such as Technical Barriers to Trade (TBT) and Dispute Settlement mechanisms.

Sources confirmed to Financial Express Online that during the talks which concluded on Wednesday (April 11, 2024), “the two sides made substantive progress in TBT and Dispute Settlement mechanisms among others.”

“These breakthroughs underscored a shared commitment to fostering a more robust and mutually beneficial trade framework between the two nations. As both sides continue to navigate the complexities of global commerce, the outcomes of these negotiations stand as a testament to the proactive efforts towards enhancing trade cooperation and resolving trade-related disputes effectively,” sources quoted above explained.

Peru's Ambassador to India, Javier Manuel Paulinich Velarde, expressed confidence in the progress made during the negotiations and the potential for a strong partnership. According to him, his country has 22 FTAs with 58 countries which has led to an almost immediate increase in trade, investment and cooperation.

Peru's Chief Negotiator, Gerardo Antonio Meza Grillo, highlighted the significance of restarting negotiations after a hiatus since 2019, emphasizing the need for flexibility to find mutual solutions.

The negotiations covered various aspects including trade in goods and services, movement of natural persons, Rules of Origin, Sanitary and Phytosanitary Measures, and dispute settlement, among others. Both sides had around sixty delegates participating, discussing aspirations and concerns thoroughly.

India and Peru have seen significant growth in trade over the past two decades, with the potential for further collaboration through the ongoing negotiations. The next round of talks, expected in June 2024, will involve discussions over video conference to address outstanding issues beforehand.

At the beginning of the seventh round of talks, Sunil Barthwal, Commerce Secretary, Department of Commerce, Ministry of Commerce & Industry, highlighted the longstanding diplomatic ties between India and Peru since the 1960s. He pointed out the importance of discussions held during the 9th CII India-LAC Conclave in August 2023, which paved the way for resuming negotiations. He suggested that input from stakeholders and industry feedback should guide the negotiation process.

Rajesh Agrawal, Chief Negotiator and Additional Secretary, Department of Commerce, noted the frequency of recent talks as a sign of both countries' eagerness for deeper economic cooperation. He stressed the importance of swift and effective negotiations.

Peru has emerged as the third-largest trading partner of India in Latin American & Caribbean Region. In the last two decades, the trade between India and Peru has increased from US$ 66 million in 2003 to around US$ 3.68 billion in 2023.The trade agreement under negotiations shall play a pivotal role in future collaboration in various sectors, creating avenues for mutual benefit and advancement.

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CMAI's FAB Show 2024 Will Boost Sentiments For India's Apparel Industry

The Clothing Manufacturers Association of India (CMAI) is thrilled to host the much-anticipated 4th edition of Fabrics Accessories & Beyond Show 2024 (FAB Show) from April 15 to 17, 2024, at the Bombay Exhibition Centre (NESCO) in Mumbai.

FAB Show has already become the largest Fair showcasing the entire Supply Chain to the country's Apparel Manufacturers. Over 200 Fabric Suppliers from different parts of the country, along with leading Accessories Manufacturers, Machinery Suppliers, Real Estate Developers, and Software Developers display their offerings and services to more than 10,000 Brands, Manufacturers, Retailers, and Exporters who visit the show.

FAB Show 2024 presents unparalleled opportunities for industry stakeholders to engage, network, and explore the latest innovations in the textile manufacturing industry. Anticipated to attract more than 1500 top platinum buyers, and more than 10,000 trade visitors, which includes domestic and international buyers from USA, Bangladesh, UAE, Bahrain, Egypt, Russia, Hong Kong, Kenya, Sri Lanka, Nepal and others. At the show, industry can witness an innovative zone made through recyclable materials to educate and raise awareness for Sustainability which is a cornerstone of CMAI's holistic strategy to engage, educate, and inspire the Garment industry.

Rajesh Masand, President, CMAI, said "*The FAB show exemplifies the vibrancy and optimism of the Indian Apparel industry, aligning with the 'Make in India' initiative. The last edition of the fair had facilitated over Rs. 2500 crores of business for participants in three days, showcasing its role as a catalyst for trade and partnerships within the textile manufacturing sector. The FAB Show serves as a platform for promoting Sustainability, Technological advancements, and adapting to changing Consumer preferences, shaping the industry's Future*."

Speaking about the fair, **Naveen Sainani, Chairman FAB sub-committee** said *"In the pulsating landscape of textiles in India, an evolution is underway, marked by a shift towards Sustainability and eco-conscious initiatives. Through FAB show, CMAI paves the way for a future where Sustainability is not just a choice but a fundamental aspect of all business operations, reflecting our vision for a greener and more resilient world. CMAI heralds a sustainable future where brands can redefine success by leaving a positive impact on both consumers and the environment. It's an era for harmonious blend of innovation, conscious consumerism, and brand responsibility, signalling a promising era where Sustainability becomes synonymous with the essence of Indian brands."*

Among the esteemed list of participating companies are Grasim, Arvind, Siyaram's, Banswara, Ruby Mills, Jindal, Gokul and many others. The expected visitors, includes over 4000 primary CMAI members mainly Garment manufacturers, Brand owners, and e-commerce platforms, underline the FAB Show's importance as a premier gathering for the Fashion and Apparel industry highlighting its significance as a key platform for their sourcing requirements.

The 4th edition is expected to attract 10000+ buyers and manufacturers from 400 cities across India

About CMAI

The Clothing Manufacturers Association of India (CMAI) is the most representative association of the Indian apparel industry having over 4000 members and serving more than 20,000 Retailers. Its Membership consists of Manufacturers, Exporters, Brands, and ancillary industry.

CMAI advocates regarding policies and also guides and encourages its members on ESG related matters and initiatives. In 2019, CMAI launched the SU.RE initiative to encourage members to embrace sustainability.

Established sixty years ago, CMAI has contributed immensely towards development of the industry. In 1978, CMAI had led the creation of the Apparel Export Promotion Council (AEPC). CMAI is also authorised by the Government of India to issue Certificate of Origin (Non-Preferential) to Exporters.

CMAI is the only Indian Association that represents the entire Indian Apparel Industry & Trade on prestigious international forums such as International Apparel Federation (IAF) headquartered in Netherlands.

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India, Peru conclude 7th round of FTA talks

India and Peru concluded the seventh round of negotiations for a free trade agreement (FTA) on Thursday, aiming to deepen economic ties, a senior Indian government official said.

The next round of talks is scheduled for the second week of June in Lima, with meetings likely to focus on consensus-building on trade of goods and services, the official added, requesting anonymity.

The FTA is strategically important as India seeks access to Peru's lithium reserves, critical for its growing electric vehicle industry. Peru is surrounded by the 'lithium triangle' comprising Bolivia, Argentina and Chile.

The four-day talks, which began on 8 April, were aimed at understanding each party's priorities and concerns, ensuring the agreement benefits both nations equally, according to a statement from the commerce ministry.

India's commerce ministry has prioritized finalizing the trade pact with Peru as part of its 100-day agenda.

Both countries are working to reduce or eliminate customs duties on several goods and ease norms to promote trade in services, the official said.

Discussions also covered the movement of natural persons, rules of origin, and sanitary and phytosanitary measures, as per the ministry’s statement.

Negotiations for an FTA began in 2017, with the fifth round concluding in August 2019. After a pause during the pandemic, talks resumed with the **sixth round in February** this year.

Besides lithium, Peru is also a major producer of lead, zinc, gold, copper, and silver.

As things stand, India and Peru have been experiencing steady growth in bilateral trade. During FY23, bilateral trade volume between the two countries hit $3.12 billion. India exported goods worth $865.91 million to Peru and imported goods valued at $2.25 billion from the country.

According to data from the government’s Niryat portal, India’s exports to Peru from April to December were valued at $699.04 million, and included motor vehicles, cotton yarn, and pharmaceuticals. Peru's exports to India primarily consist of gold, copper ores, and concentrates.

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India's forex kitty jumps $2.98 billion to new high of $648.562 billion

India’s forex reserves jumped by USD 2.98 billion to a fresh peak of USD 648.562 billion for the week ended April 5, the RBI said on Friday. In the previous reporting week, the forex kitty had increased by USD 2.951 billion to USD 645.583 billion, which was an all-time high. In the previous reporting week, the forex kitty had increased by USD 2.951 billion to USD 645.583 billion, which was an all-time high.

In September 2021, the country's forex kitty reached an all-time high of USD 642.453 billion, a level that was breached in March this year. The reserves took a hit as the central bank deployed the kitty to defend the rupee amid pressures caused majorly by global events, but there has been a steady accretion over the past few months. The reserves took a hit as the central bank deployed the kitty to defend the rupee amid pressures caused majorly by global events, but there has been a steady accretion over the past few months.

For the week ended April 5, the foreign currency assets, a major component of the reserves, increased by USD 549 million to USD 571.166 billion, the data released on Friday showed.

Expressed in dollar terms, the foreign currency assets include the effect of appreciation or depreciation of non-US units like the euro, pound and yen held in the foreign exchange reserves. Gold reserves increased by USD 2.398 billion to USD 54.558 billion during the week, the RBI said. The Special Drawing Rights (SDRs) were up by USD 24 million to USD 18.17 billion, the apex bank said. The Special Drawing Rights (SDRs) were up by USD 24 million to USD 18.17 billion, the apex bank said. India's reserve position with the IMF was also up by USD 9 million to USD 4.669 billion in the reporting week, the apex bank data showed.

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AAFA Advocates For 16-Year Extension Of AGOA To Boost US-Africa Trade

In a significant move to strengthen economic ties between the US and Sub-Saharan Africa, the American Apparel & Footwear Association (AAFA) has provided its support to the proposed AGOA Renewal and Improvement Act of 2024. Introduced by Senator Chris Coons and Senator James Risch, the act aims to extend the African Growth and Opportunity Act (AGOA) by 16 years, from its current expiration date in September 2025 to 2041.
AGOA stands as a key element of the US economic engagement with Sub-Saharan Africa, offering duty-free access to the US market for eligible African countries. This trade preference programme has been instrumental in reducing the costs of trade, attracting

investment to the region, and fostering a mutually beneficial economic relationship between the US and Africa. By providing opportunities for US businesses, workers, and consumers, AGOA has played a critical role in promoting sustainable economic development across the continent, AAFA said in a press release.

The proposed extension is seen as a vital step in providing businesses with the certainty and stability they need to commit to long-term investments in Sub-Saharan Africa. Such investments are expected to further spur economic growth and development within the region. The 16-year extension period mirrors that of the US-Mexico Canada Agreement (USMCA), underscoring the commitment to a stable and enduring trade relationship.

Furthermore, AGOA is recognised as a foundational bridge to future trade agreements, including the African Continental Free Trade Area (AfCFTA) and the US-Kenya Strategic Trade and Investment Partnership (STIP). By solidifying the framework for economic cooperation, the extension of AGOA is poised to unlock new avenues for trade and investment, reinforcing the strategic importance of Africa in global commerce.

"As companies work to diversify out of China today more than ever, immediate and long-term renewal of AGOA for a 16-year period would be incredibly impactful and timely," says *AAFA president and CEO Steve Lamar*. "AGOA renewal would bring quality work opportunities for African workers, many of whom are women, as companies commit to retain or grow orders from African factories as vital partners in their sourcing matrices."

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Global Economic Growth To Reach 2.8% By 2030: IMF

Global economic growth will reach a mere 2.8 per cent by 2030, a full percentage point below the historical average, and the stronger growth rates of the past are unlikely to return unless major reforms are undertaken to boost productivity and leverage technologies such as artificial intelligence (AI), according to the International Monetary Fund (IMF).

In a blog based on chapter 3 of its forthcoming World Economic Outlook (WEO), IMF said expectations of weak growth could discourage investment, possibly deepening the slowdown.

“This threatens to reverse improvements to living standards, and the unevenness of the slowdown between richer and poorer nations could limit the prospects for global income convergence,” the blog said.

Increasingly inefficient distribution of resources across firms has dragged down total factor productivity and, with it, global growth.

Two additional factors have also slowed growth. Demographic pressures in major economies, where the proportion of working-age population is shrinking, have weighed on labour growth. Meanwhile, weak business investment has stunted capital formation, the blog noted.

A persistent low-growth scenario, combined with high-interest rates, could put debt sustainability at risk—restricting governments' ability to counter economic slowdowns and invest in social welfare or environmental initiatives, it said.

"All this is exacerbated by strong headwinds from geoeconomic fragmentation and harmful unilateral trade and industrial policies," it said.

The new forecast reflects downward revisions for medium-term growth across all income groups and regions, most significantly in emerging market economies.

Urging countries to take urgent action to counter the weakening growth outlook, the IMF cautioned that it worsened prospects for living standards and global poverty reduction.

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USDA Cuts Global Cotton Ending Stock Estimate To 83.03 Mn Bales

The US Department of Agriculture (USDA) has further reduced the global cotton ending stocks to 83.08 million bales of 480 pounds for the current season 2023-24 in its April 2024 World Supply and Demand Estimate (WASDE) from the 83.34 million bales of the March estimates. The ending stock at the end of July this year will be slightly higher year-on-year. Last year, the ending stock was estimated at 83.34 million bales. Lower stocks across West Africa, Australia, and Brazil more than offset higher supplies in China.

According to the report released yesterday, total demand was increased to 156.39 million bales from 155.80 million bales of the March 2024 estimate. It was estimated at 147.54 million in the last season. World cotton production was also cut from 112.96 million bales to 112.92 million bales, against last season's production of 116.15 million bales. Total imports will be 43.94 million bales, up from 43.23 million bales of the March estimate and 37.68 million bales of imports in the last season.

The total supply of cotton will be 239.47 million bales, against the last estimate of 239.16 million bales. Last year, the total supply was estimated at 230.15 million bales. Similarly, domestic consumption was decreased from 112.94 million bales to 112.82 million bales, compared to last season's use of 111.22 million bales. World cotton exports were estimated at 43.97 million bales, which was 0.71 million bales higher than the estimate of 43.26 million bales in March 2024. The exports were noted at 37.04 million bales in the last season. A 1.3 million-bale increase in China's imports is only partially offset by reductions for Pakistan and Indonesia. Exports from Brazil, Australia, and Turkiye are all projected to be higher.

The US 2023-24 cotton supply and demand projections are almost unchanged this month, with ending stocks forecast at 2.5 million bales. The marketing year price received by upland cotton producers is projected to average 76 cents per pound, a decrease of 1 cent from last month.

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Bet on Chinese economic decline at your own peril

Is the Chinese growth story over? Former banker Uday Kotak has issued a warning of Chinese implosion on X (formerly Twitter), rating agency Fitch has put a negative outlook on Chinese prospects, and China's growth rate for 2024 is forecast to come in at 4.8 percent by the Asian Development Bank, a shade lower than the Chinese government's own target of 5 percent. Over the next 10 years, 300 million are going to move out of China's working age population, as they age. And the overall population is shrinking,

Is the dragon past its prime, and should the elephant prepare to race past this huffing and puffing mass of wiggly hubris? Not so fast. There is every reason to believe that China is transitioning to a more mature stage of economic growth, rather than trudging down a slope of decline. It would be wrong for Indian companies or the government to fashion plans based any assumption of Chinese economic decline.

US's Factory Capacity Warning to China

US treasury secretary Janet Yellen has just completed her second official visit to China. Her mission was to persuade China to stop destroying jobs in the US by building up excess capacity and flooding the world market with everything from disposable nappies to snazzy electric cars.

Janet Yellen is a diminutive economist, not Tom Cruise in drag; and so, this particular Mission Impossible lived up to its name, instead of succeeding against all odds. Chinese officials politely refused to assure her that Chinese companies would cut back production so that less competitive American companies could continue to inflict avoidable costs on consumers around the world.

China is the world's most competitive producer of electric cars, lithium-ion batteries and solar panels, dubbed the "New Three industries". In 2023, their exports went up 29.9 percent over the previous year, even as overall Chinse goods exports shrank 4.6 percent, to a mere $3.38 trillion.

Capacity utilization in China's overall manufacturing is 75.9 percent, not far below the figures of 78.9 percent for the US and 78.8 percent for the EU, according to Reuters. This does not paint a picture of China building up enough capacity to make manufacturing redundant in the rest of the world. The charge that China is subsidizing its industries sits ill in the mouths of the US and EU, which are pumping hundreds of billions of dollars as subsidy into their own manufacturing capability, particularly in high-tech sectors.

The US leads the world in shovelling subsidy at favoured industries. The Infrastructure Act, the Chips Act and the Inflation Reduction Act of the Biden administration are meant to incentivise investment into the sectors that the government thinks are vital for long-term economic, indeed, strategic, advantage. The trillion dollar subsidy bill of such industrial policy is financed, in part, by higher taxes. This amounts to the state deciding how resources generated by the economy should be invested, instead of leaving the choice to companies.

This invites the charge of statism from ideologues, who proliferate in the real world, unlike untrammelled market forces that tend to choke up die outside the rarefied models of textbooks. However, on the ground, new chip-making foundries, battery plants, electric car production lines, and even a carbon dioxide removal plants are sprouting, in an unexpected American manufacturing resurgence.

Chinese industry, on its part, does not just guzzle subsidy. It also shows rare entrepreneurial energy.

Manufacturing the New Buzz Word

Droves of Indian industrialists and policymakers go to Davos every year, and come back spouting the latest buzzwords. Manufacturing 4.0 has been a favourite for some years.

Indians who come back from Davos show off their newly acquired knowledge at industry gatherings. Chinese returnees install robots on the factory floor.

The International Federation of Robotics compiles data on robots In 2022, the world's stock of industrial robots stood at 3.9 million, after adding 550,000 robots that year. Of these, 290,000 robots were installed in China, 52 percent of the total. In 2012, China accounted for 14 percent of that year's addition of robots. China's world class 5G networks, and Artificial Intelligence capability, there is no reason to believe that this combination of robots, communication networks and AI would not offset, to a large extent, the impact of a depleting workforce on China's manufacturing prowess.

China Rises in the Tech World

In the pandemic year of 2020, patent applications dropped off in the EU, US and Japan but kept climbing in China. In the number of international patent applications made via the Patent Cooperation Treaty (PCT) China overtook the US in 2021, and has increased that lead since. PCT Yearly Review 2023 shows that in 2022, China filed over 70,000 patent applications, 10,000 and 20,000 more than the US and from Japan respectively. India's count was 2,618.

The first Chinese built airliner, dubbed C919, a competitor to the Boeing 737 series and the Airbus A320 series of aircraft, made its first commercial flight for China Eastern Airlines last year.

Chinese state support to a decelerating economy has, this time around, departed from a big boost to infrastructure. Reuters quotes Zhao Chenxin, deputy head of China's National Development and Reform Commission, to say that the plan is to boost equipment upgrades at Chinese enterprises totalling $690 billion and to incentivise consumers to trade in old consumer goods, including cars, for new ones, a market estimated at $140 billion.

China is building up its high-tech industry, and evolving away from being a producer of just mass market goods. At $18 trillion, today's Chinese economy should not be expected to grow at the same blistering pace as in the past. That does not mean the economy is about to implode.

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