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CITI & INDIAN TEXTILE BODIES URGE PIYUSH GOYAL FOR COTTON STABILITY

In a collective effort to address the challenges faced by the Indian cotton textiles and clothing industry, the Confederation of Indian Textile Industry (CITI) and other textile associations representing major users of cotton have submitted a joint memorandum to Indian minister of textiles Piyush Goyal. The memorandum highlights concerns related to the Cotton Corporation of India (CCI) minimum support price (MSP) cotton procurement practices and proposes changes to ensure stable prices and smooth supply to the downstream sectors.

The memorandum acknowledges and appreciates the formation of the Textile Advisory Group (TAG) under the chairmanship of Suresh A Kotak. Under the guidance of minister Goyal, various policy initiatives have been undertaken by TAG, including the reconstitution of the MCX Product Advisory Committee and the implementation of the Pilot Project on Cotton master plan, among others.

However, the joint memorandum brings to light the impact of CCI MSP cotton procurement practices on cotton prices, especially when carried out on a large scale. The textile industry emphasises that the current practices favour multinational cotton traders, leading to speculation in cotton prices that adversely affect the yarn prices and exports of cotton-based textile and clothing products, CITI said in a press release.

The joint memorandum, addressing the financial challenges faced by the MSME spinning segment, has put forth several measures for consideration by Goyal. It suggests the initiation of CCI cotton sales to registered textile and spinning mills starting from February or March. The memorandum recommends keeping MSP procured cotton as a buffer stock, which should be released in accordance with international price differentials to maintain price stability. Moreover, it proposes the announcement of monthly cotton prices that take into account the MSP procured price, carrying charges, and other incidental expenses. The memorandum also calls for the extension of a uniform free period of 60 days for all actual users and suggests collecting a one-time earnest money deposit (EMD) of 10 per cent for advance bookings.



Additionally, the memorandum urges the extension of a key loan facility, which would allow the storage of pre-booked cotton at individual mill premises for day-to-day usage against payment. It advocates for the sale of cotton in multiples of 130 to 150 bales, equivalent to one truckload, aligning it with MCX standards to support small spinning mills. The establishment of a sub-committee is recommended to monitor CCI's trade practices and prices, with the authority to implement corrective measures as necessary. The memorandum highlights the need to facilitate structured financing for CCI and MSME textile units at a priority lending rate.

The joint memorandum emphasises that adopting these policies would be mutually beneficial for CCI, the government, and the user industry. It aims to ensure stability in cotton prices, protect the interests of MSMEs, and promote the long-term growth of the Indian cotton textiles and clothing industry.

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Post BIS, margins of polyester yarn players set to recover to 10% by FY25

The Indian polyester yarn industry is expected to witness around 100 bps improvement in PBILDT margin during FY24 over FY23.

During CY22 (CY refers to the period from January 01 to December 31), out of global fibre production of 116 million tonne, polyester fibre accounted for a lion's share of 54 per cent, with the production of 63 million tonne. In the global polyester yarn industry, China, the largest player, is 6-8 times in size than the second largest player i.e., India.

Cheap import of polyester yarn from China

Leveraging its access to cheaper Purified Terephthalic Acid (PTA), China not only dominates the export market but also fulfills the demand of its large export-oriented textile and apparel industry. India can manufacture 4.5-5 million tonne of polyester yarn annually and consumes over 80 per cent of it domestically.

The zero-COVID policy implemented by China during FY23 significantly impacted its domestic consumption of textile products. Despite the Chinese economy not recovering at the anticipated pace after the opening-up of its economy, Chinese manufacturers did not curtail production in line with the slowdown in domestic demand. Instead, they started dumping polyester yarn at cheaper rates in the global markets. Consequently, there was a significant increase in Chinese imports to India during FY23 which persisted into H1FY24 as well. This not only adversely impacted the pricing power of Indian manufacturers in the domestic market but also led to a contraction in their

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Table 1: Total imports of China

Period	Total imports (tonne)	Y-o-Y Change (%)	Imports from China (tonne)	% share of China	Total exports (tonnes)	Y-o-Y change (%)	Net exports/ (imports) (tonne)
FY19	83,362	2	35,854	43	6,95,246	-3	6,11,884
FY20	1,14,190	37	67,701	59	7,10,253	2	5,96,063
FY21	2,37,876	108	1,93,182	81	5,39,676	-24	3,01,800
FY22	2,94,582	24	2,18,409	74	7,61,159	41	4,66,577
FY23	4,86,462	65	4,16,110	86	4,70,931	-38	-15,532
8MFY24	3,89,477	92	3,46,654	89	2,43,417	-17	-1,96,832

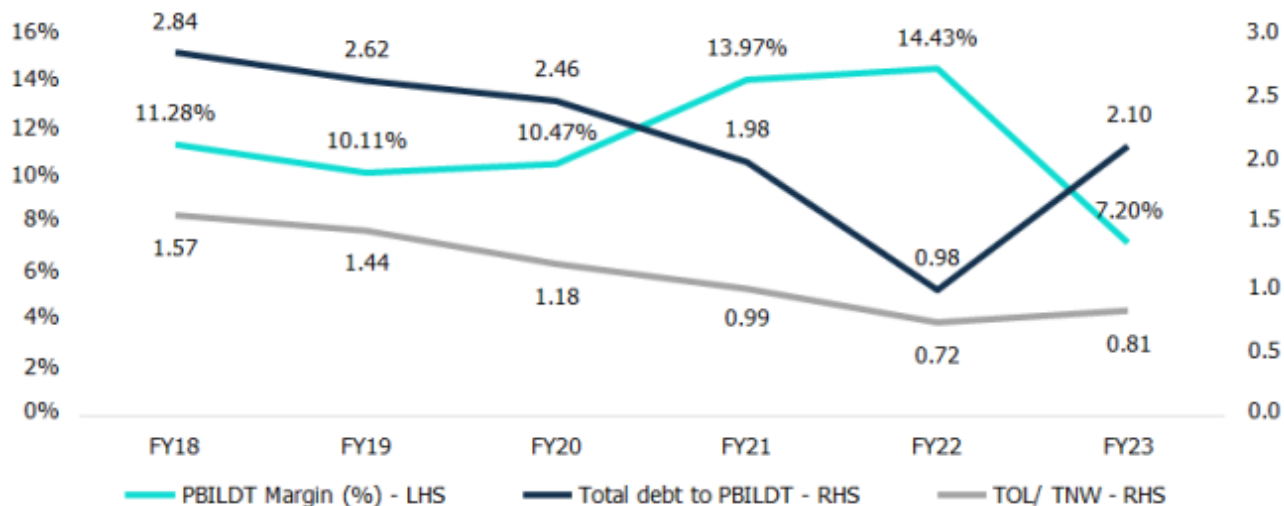
Source: CMIE; Compiled by CareEdge Ratings

During FY23, imports of polyester yarn surged by 65 per cent on a year-on-year basis, while exports experienced a decline of 38 per cent year-on-year. Consequently, Indian polyester yarn exports hit a decade-low level in FY23, in stark contrast to the decade-high level of imports during the same period. This resulted in a significant oversupply in the domestic market in FY23 over FY22, impacting the sales realisation of industry players (see Table 2).

During FY23, India became a net importer of polyester yarn for the first time in the last decade, which continued during 8MFY24 as well. Despite largely stable sales volume supported by robust domestic demand, the PBILD margin of polyester yarn players was significantly impacted due to competitive pressure on average sales realisation to maintain capacity utilisation to counter cheaper Chinese imports.

Table 2: Moderation in profitability and debt coverage indicators of Indian polyester yarn players

Source: Annual Reports of 13 companies commanding over 65% of market share; compiled by CareEdge Ratings



The operating profitability of Indian polyester yarn players had witnessed significant improvement during FY21 and FY22 backed by healthy growth in sales volume and an increase in average sales realisation aided by the industry upcycle. The moderation in PBILDT margin during FY23 was mainly due to the influx of cheaper polyester yarn imports, resulting in a decline in average sales realisation.

With the accretion of strong profitability during FY21 and FY22, industry players reduced their reliance on external liabilities. Consequently, the capital structure marked by TOL/TNW improved and remained comfortable at 0.81x as of March 31, 2023. However, total debt to PBILDT which had improved gradually from 2.84x during FY18 to 0.98x during FY22, witnessed a moderation in FY23 due to subdued profitability. However, it continued to remain better than its historical level supported by debt reduction done by industry players during FY21 and FY22.

Implementation of QCO on polyester yarn

The Government of India (GoI) implemented QCO on polyester yarn which mainly includes fully drawn yarn (FDY) and partially oriented yarn (POY) to establish quality standards and restrict the import of inferior products. The Bureau of Indian Standards (BIS) plays a crucial

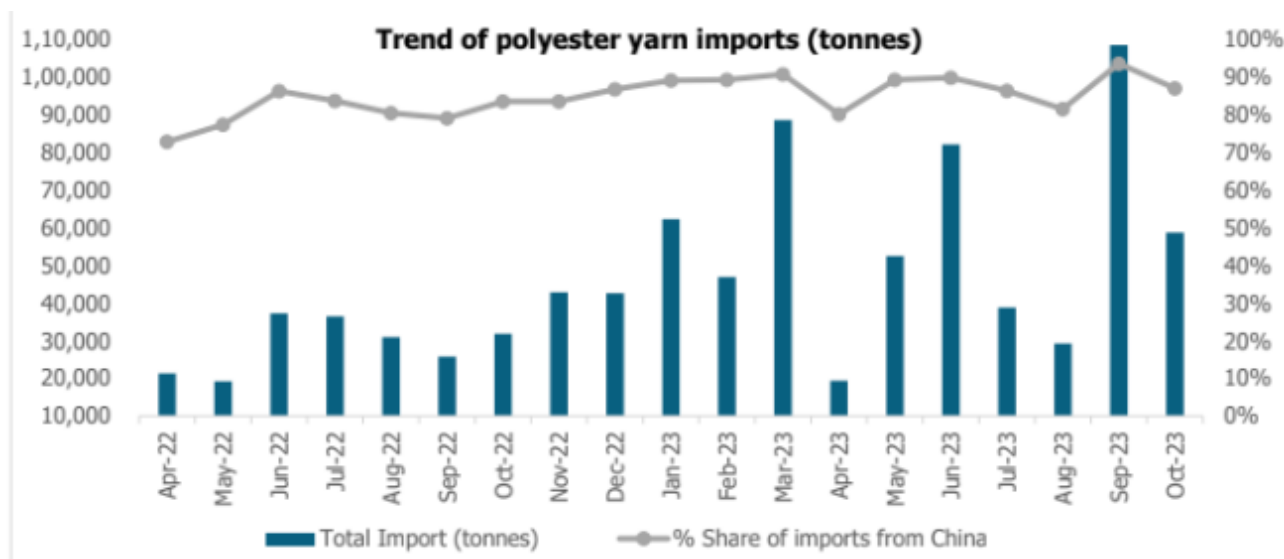
role in ensuring compliance with the quality standards set in the QCO by certifying products that meet the prescribed standards for both domestic and international manufacturers.

Although BIS was initially scheduled to be implemented in April 2023, the GoI postponed it twice (first in April 2023 and later in July 2023), with the implementation eventually taking effect from October 05, 2023. Notably, imports of polyester yarn witnessed a significant surge in September 2023, before the implementation of the QCO. This surge can be attributed to the pre-buying of polyester yarn by the downstream industry. A similar trend was also observed during March 2023 and June 2023 before the then-expected implementation of QCO.

Post BIS implementation, import of polyester yarn witnessed significant decline of nearly 60% in the month of November 2023 as compared to November 2022. Consequently, CareEdge Ratings expects a further reduction in polyester yarn imports in coming months which is expected to allow industry players to take some price increases. However, there is an exemption for compliance of BIS requirement against the advance license mechanism which may lead to some import of polyester yarn into India. With a potential improvement in average sales realisation along with stable raw material prices, the spread of polyester yarn is likely to improve (see Table 3).

Caption for the image: Table 3: Trend of polyester yarn imports (in tonnes)

Source: CMIE; Compiled by CareEdge Ratings





Profitability likely to improve from Q3FY24 backed by import reduction

With the expected improvement in polyester yarn spread, PBILDT margin is expected to gradually improve from Q3FY24 onwards. The improvement in operating profitability during Q3FY24 is expected to be constrained to some extent due to the pre-buying of polyester yarn before the implementation of BIS and a gradual increase in prices by industry players.

However, a more meaningful improvement is expected from Q4FY24 onwards. Additionally, with the resurgence in domestic demand in China as well as in key developed economies i.e. the USA and Europe, in the near to medium term, the demand-supply gap is expected to narrow and in turn, revive export demand for Indian players.

Key monitorables

- Possibility of import of polyester fabric instead of polyester yarn, as polyester fabric is not covered under BIS requirement as of now.
- The potential granting of BIS certificates to foreign yarn manufacturers is to be seen.
- Any major volatility in raw material prices which are crude derivatives.

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Over 1120 apparel brands to be showcased at the 78th National Garment Fair 2024

The Clothing Manufacturers Association of India (CMAI) will be hosting the event spanning three days.

The Clothing Manufacturers Association of India (CMAI) is set to host the 78th edition of the National Garment Fair 2024 (NGF 2024) in Mumbai from January 29 to 31, 2024. Over the course of three days, more than 950 garment manufacturers will participate in NGF 2024, presenting a diverse range of showcasing 1120 apparel brands across women's wear,



men's wear, kids wear and accessories at the Bombay Exhibition NESCO Complex in Goregaon East.

The National Garment Fair by CMAI is the most eagerly awaited trade show as it serves as a vital platform for connecting national and regional brands, manufacturers, apparel designers, and fashion accessories manufacturers with retailers, agents, distributors, and e-commerce companies. This biannual event holds significant prestige in the industry and is widely regarded as India's foremost trade fair, offering a comprehensive sourcing platform that maximises both time and cost efficiency for all stakeholders involved.

Speaking about the NGF 2024 – Spring-Summer Edit, Rajesh Masand, President, Clothing Manufacturers Association of India (CMAI) said, "The apparel industry has encountered a challenging year, with significant consumer purchasing trends inclined towards categories outside of apparel. The forthcoming bookings made during NGF 2024 will serve as a key indicator for the outlook of the segment over the next six months."

Speaking about the NGF 2024, Rohit Munjal, Vice President and Chairman of the Fair Committee, Clothing Manufacturers Association of India (CMAI) said, "This edition of NGF covers an approximate area 7,00,000 sq ft of exhibition area spread across 7 Halls and anticipates a significant turnout of trade visitors from all over India, which include national level retailers and distributors."

Speaking about the demand for spring-summer season, Rahul Mehta, Chief Mentor, Clothing Manufacturers Association of India (CMAI), "Retailers continue to maintain a substantial inventory, and we are optimistic that the ongoing End of Season Sale (EOSS) will facilitate the clearance of this surplus stock, leading to a restoration of bookings to normal levels. Nonetheless, it is anticipated that 2024 will be a stabilising period, with no substantial upswing expected in apparel sales during this year."

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INDIA CONCLUDES STRONG SHOWCASE AT DAVOS, DEMONSTRATING RESILIENT ECONOMY, INVESTMENT OPPORTUNITIES ACROSS SECTORS

The Indian delegation at the 54th World Economic Forum (WEF) Annual Meeting, from January 15 to January 19, 2024, in Davos, Switzerland, made an impactful showcase as India was in the spotlight throughout the event, attracting attention to its strong economy, stable governance and opportunities across several sectors.

The Indian Government delegation at WEF was led by Smt. Smriti Irani, Hon'ble Minister of Women & Child Development along with Sh. Hardeep Singh Puri, Hon'ble Minister of Petroleum & Natural Gas, Housing & Urban Affairs, Sh. Ashwini Vaishnaw, Hon'ble Minister of Railways, Communications, Electronics & IT and Sh. RK Singh, Secretary, DPIIT, Ministry of Commerce & Industry. The delegation spoke at various sessions of the World Economic Forum in the presence of other global political and business leaders covering the topics of Education, Biofuels, Gender gaps, Renewables, Semiconductors, and Manufacturing.

India's commanding presence at the Annual Meeting was marked by four distinct spaces at WEF, each dedicated to highlighting the India Opportunity and narrating its Growth Story to global investors:

- **India Engagement Centre:** This lounge unfolded India's growth narrative, showcasing its digital public infrastructure, vibrant startup ecosystem, and burgeoning energy sector. Fireside chats on globally significant pillars enriched the dialogue.
- **Experience India Centre:** This lounge unveiled the technological leaps powered by New India, commitments to sustainability and inclusivity along with its vibrant culture.
- **India Investment Centre:** This served as the center for Government-to-Business (G2B) and Business-to-Business (B2B) networking, hosting roundtables, sessions, and panels on leading topics.



- We Lead Lounge: This year a dedicated gender lounge “We Lead Lounge” focused on women participation in various walks of life, financial inclusion and bridging the digital gender gap.

As many as 21 sessions were held over five days at the annual meeting. India showcased its opportunity, opening doors for discussion on Manufacturing, Technology, Gender based impact, Sustainability, Mobility, Startups, Healthcare, and AI, among other themes.

Smt. Irani held meetings with the leadership of Uber, Mastercard, Unilever, and with the Federal Minister of the European Union, among others. She participated in multiple WEF sessions and panel discussions on themes of public-private agenda for education, protecting democracy in the digital era, and investing in gender parity. The minister graced an event organized by the B20 to launch the B20 Global Institute. The institute will provide knowledge, research and policy advocacy to global enterprises.

Sh. Hardeep Singh Puri, Hon’ble Minister of Petroleum & Natural Gas, Housing & Urban Affairs, highlighted the immense opportunities in India’s hydrocarbons sector in meetings with leaders from corporations such as SOCAR, Shell, Equinor, Honeywell, Occidental, OMV AG, Petronas, Trafigura, BP, Hewlett Packard Enterprise, SAP SE, and Engie. Sh. Puri also highlighted India’s commitment to energy transition and sustainable development by providing affordable energy to its citizens.

Sh. Ashwani Vaishnaw, Hon’ble Minister of Railways, Communications, Electronics & IT, participated in a panel discussion with global industry stalwarts to explore how the global economy can leverage investments in infrastructure for business and societal impact. The Minister highlighted measures by the Government of India to promote infrastructure creation, the reforms implemented, and the role of India’s stable economic policies in strengthening its infrastructure. Minister Vaishnaw also held a bilateral engagement with his counterpart from Singapore where AI regulations were discussed.

The minister presented India’s semiconductor manufacturing potential to global investors, and spoke about the various cutting-edge technologies being leveraged in manufacturing in India, and the policy interventions being made to further strengthen India’s manufacturing sector.

Sh. RK Singh, Secretary, DPIIT, Ministry of Commerce & Industry, spoke about the transformative potential of Indian entrepreneurship on a global stage. He talked about



Deep Tech and its potential in the Indian context. Sh. Singh met leaders from Coca Cola, Mitsubishi, Volvo, and Audi, and discussed their expansion plans in India. He also held meetings with industry leaders from companies such as Nestle, Ericksson, HPE, AB InBev, Nasper-Prosus, and Schneider Electric, among others, discussing their roadmap to increase investment in India. He addressed the WEF session titled – Governors Policy Meeting on Supply Chain and Transport, where he highlighted the impact of PM Gati Shakti program on infrastructure development in India. The secretary also highlighted the ULIP – Unified Logistics Interface Platform.

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PMO To Take Final Call On Unresolved Issues In India-UK FTA Talks

The final decision on unresolved issues in the India-UK Free Trade Agreement (FTA) negotiations is expected to rest with the Prime Minister's Office (PMO), according to sources.

With a focus on reaching a conclusion before the upcoming general elections, these unresolved issues encompass a variety of critical aspects, reported Businessline. The sticking points include the liberalisation of business visas, regulations related to intellectual property rights, market access for whisky, automobiles, and financial services, as well as a social security pact.



"Negotiators from India and the UK have been holding intense talks in New Delhi since January 10, trying to narrow gaps, which are expected to continue. The Commerce Department is in close consultation with the PMO now, as a political call will need to be taken on the handful of remaining issues if the negotiations are to be concluded before the elections," the source stated.

Both nations are eager to finalise the FTA under the current regimes, the source added, aiming to avoid the complications of extending discussions post-elections.

While negotiators have successfully concluded discussions on the majority of the 26 chapters in the India-UK FTA pact, certain pivotal matters continue to pose challenges. India's crucial demand for the liberalisation of business visas, facing resistance from the UK, is of paramount significance. The increased allocation of business visas holds particular importance for Indian professionals, notably in the IT industry, and has been a consistent focal point in India's free trade pact negotiations.

New Delhi is also pressing for a social security pact with the UK to exempt its short-term workers from contributing to social security.

Additionally, India seeks assurance from the UK that the benefits derived from the FTA will not be undermined by the imposition of a future carbon tax, akin to the EU's Carbon Border Adjustment Mechanism (CBAM).

Divergence exists regarding the UK's desire for stringent intellectual property rights (IPR) regulations beyond the World Trade Organisation's TRIPs Agreement. India is resisting this stance, aiming to prevent the "ever-greening" of patents and potential threats to its generic producers.

Remaining issues include the duty cuts for Scotch whisky, automobiles, and auto parts, as demanded by the UK under the rules of origin, stipulating the minimum processing required in an FTA partner country for qualifying for duty cuts.

The resolution of these matters will play a crucial role in determining the fate of the India-UK FTA before the impending elections.

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Minimum Wages For Bangladesh Cotton Textile Workers Likely Soon: BTMA

Bangladesh is expected to announce the minimum wage structure for its cotton textile sector within the next fortnight, according to the Bangladesh Textile Mills Association (BTMA).

Incidents of labour unrest in some cotton textile mills demanding a minimum wage structure have been reported recently.

The association has already contacted the government's labour and employment secretary Ehsan-E-Elahi and top officials of the Minimum Wage Board, who assured the former about the announcement in near future, BTMA said in a release.

The wage structure will be immediately implemented following the announcement, starting from the month prescribed by the government, along with all arrears.

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Cotton Dropped As World Consumption Forecast Lower Than Last Month

Cotton candy prices recorded a gain of 0.76%, settling at 55,660, driven by low-level buying after facing pressure due to a reduction in world consumption forecasts for the 2023/24 season. The forecasted decrease of 1.3 million bales is attributed to reductions in consumption expectations for India, Indonesia, Pakistan, Uzbekistan, and Turkey. However, the market saw support from an increase in world-ending stocks for 2023/24, up by 2.0 million bales, driven by higher beginning stocks, production, and lower consumption. The Cotton Association of India (CAI) maintained its estimates for domestic cotton consumption during the 2023-24 season at 311 lakh bales. The pressing estimates for the same season were held steady at 294.10 lakh bales.

Brazil witnessed historic high cotton production in the 2022-23 season, driven by expanded cultivation and productivity. Despite increased global supply, sluggish demand and economic challenges led to bloated inventories and reduced cotton prices worldwide. Reports of a decline in pink bollworm infestation in the Indian cotton crop provided some relief. The infestation reduced from 30.62% during 2017-18 to 10.80% in 2022-23. In November, Brazilian cotton shipments increased by 12% compared to October 2023 but decreased by 5.5% compared to November 2022.

From a technical perspective, the market is experiencing short covering, with open interest remaining unchanged at 198. Cottoncandy is finding support at 55,300, and a breach below this level could test 54,950. Resistance is likely at 55,900, with a potential upward movement testing 56,150.

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The Red Sea crisis started affecting the apparel export

Bangladesh's garment export has been facing yet another challenge for crisis in the Red Sea channel as the both import and export are facing difficulties and became more expensive in transportation.



The Red Sea channel is the artery for trade between Asia and Europe but the Iran backed Houthi attack on the commercial ships on this route has been creating trouble for carrying goods through this channel.

Bangladesh was supposed to take the fullest advantage of recovery of the global apparel trade as the major countries like Europe and USA were about to be rebounded from the economic crisis stemmed from the severe fallouts of covid 19 pandemic and Russia Ukraine war.

But the Israel invasion on Gaza dampen the business to a great extent because of cost escalation in transportation of goods and uncertainty in the Red Sea channel.

The freight charge has already been increased by 40 percent due to disruption in supply chain of goods from the crisis in the Red Sea.

So, the massive business opportunity in this season is affected in the USA and Europe as carrying of goods through commercial ships became difficult.

The current scenario

The export of garment items from Bangladesh to Europe and USA has been facing challenges as the vessels are rerouting from Suez Canal to African Cape of Good Hope which is more than 3500 kilometres more than the Suez Canal.

The rerouting of the commercial vessels is also expensive from \$1500 per container to \$4000 per container because of high fuel consumption and 10 days more on the sea because of diversions of routes.

So, many international clothing retailers and brands have already started sending goods through expensive air shipments, rather than the normal seaways, to maintain the strict lead time set by the international clothing retailers and brands.

Bangladeshi garment industry which have been struggling to revive from the severe fallouts of covid 19 and Ukraine Russia war, is suffering from Houthi attack on Red Sea.



The impact of disruption in supply chain of garment items because of Houthi attack may be more than we imagined.

Because the cost of doing business will increase manifold as the buyers will demand more price cut and expensive air shipments to maintain the lead time.

For instance, a European buyer of Shovon Islam, managing director of Sparrow Group, a garment supplier, diverted a work orders worth \$1.5 lakh from Bangladesh to Indonesia considering the long shipment time because of Red Sea challenge.

Because the shipment time increased by more than 10 days and the costs also increased from \$1500 per container to \$4000 per container.

This rate is from China to European ports but the amount will even higher from Chattogram to European ports because of long route and rerouting from Red Sea to African Cape of Good Hope.

Islam said he was supposed to deliver the goods in May or June this year but his buyer did not place the work orders as it will take more time from Bangladesh to ship goods to Europe because of Red Sea crisis.

Recently, China, Vietnam and Indonesia have been receiving more work orders because the international clothing retailers and brands can save more than 10 days of important lead time because of geographical proximity, exporters said.

The buyers want to save their valuable time by taking their goods in a shorter lead time.

What the business leaders say

Faruque Hassan, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA) said the shipment of garment items from Bangladesh the impacts of the Red Sea has already started in the shipment of garment items.

Because the international clothing retailers and brands have been paying more transportation costs for rerouting and ultimately the costs will be pushed to the local suppliers.



Moreover, the garment manufacturers have to choose the expensive air shipments for sending the goods timely to the retailers and brands and in case of air shipment the profit is almost zero.

For instance, sending of a kilogram of garment item to the European markets through seaways is less than 20 cents but in case of air shipment it is more than \$3.50 per kilogram.

Bangladeshi garment exporters send goods under freight on board (FoB) method in which the buyers bear the shipping costs, Hassan said.

But in some cases, the garment items are shipped under the costs and freight (C and F) method in which the suppliers bear the transportation costs.

In the C and F method the suppliers have been paying additional costs of shipping for rerouting the shipping lines to avoid the Red Sea problem, Hassan said.

Mohammad Ali Khokon, president of Bangladesh Textile Mills Association (BTMA) said the cost of shipping has already increased in cases of import of goods through the Red Sea channel.

Bangladesh imports a lot of things through the Red Sea channel. For instance, the local textile millers import cotton from USA, Brazil, Australia and from some other Latin American countries.

What an economist and buyers say

Ahsan H Mansur, executive director of Policy Research Institute (PRI) said export from Bangladesh will be affected more than import because the local exporters ship goods to two main destinations including Europe and USA through this Red Sea channel.

Bangladesh imports a lot of goods from Asian countries like India and China and this is why they need not to use the Red Sea channel.



But, some goods those which are imported from the countries like Brazil, Argentina, USA and from the European countries will be affected from higher freight charge from rerouting of vessels.

In such cases there is a possibility of price hike to a bit and may trigger the inflation in the domestic markets, Mansur said.

Two European clothing buyers said the freight charge may increase between 30 percent and 40 percent because of rerouting of shipping lines from the Red Sea channel. Ultimately the local suppliers will have to bear this additional cost.

Importance of the Red Sea channel

More than 40 percent of Asia Europe trade takes place through this route which has the Suez Canal artery and the Bab el-Mandeb Straight leading to the Gulf of Aden.

About 30 percent of global container traffic and one million barrels of crude oil is transported through this route every day.

The continent traffic through this route fell to 200,000 in December from 500,000 in December as almost all the global giant shipping lines have been avoiding this risky route in carrying the goods, different media reports also said.

Oil, grain, cotton, machinery, natural gas, industrial raw materials electronic goods and toys and other goods 12 percent of global trade trade is carried through thousands route.

In fine, the Red Sea problem has started affecting the global trade at a time when the global economy was rebounding from the severe fallouts of the Covid 19 and Russia Ukraine war. So the garment shipment recover may be delayed to a bit. In such a time improving efficiency is important so the additional costs may be covered. Until any improvement the retailers and brands should also consider the situation so that the business takes place in win win situation.

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