LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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News Highlights

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TRADE PACT WITH EFTA MAY BE THE FIRST FOR INDIA WITH COMMITTED INVESTMENTS, JOBS, SAYS OFFICIAL

The proposed free trade agreement between India and the European Free Trade Association (EFTA) countries, with a commitment of $100-billion investments from the four-country bloc into India over the next 15 years generating an estimated 1 million jobs, may be formalised soon as the pact "is ready" and going through legal scrutiny, sources have said.

"This is the first FTA for India where it has been able to get a commitment on investment and employment from the partner nations. The EFTA countries are looking at investing in joint ventures in areas such as pharmaceuticals, especially medical devices, certain chemicals, food processing and engineering products," an official tracking the matter told *businessline*.

Free trade pact

EFTA countries, which include Switzerland, Finland, Norway and Leichtenstein, re-started their negotiations for a free trade pact with India, formally called a broad-based Trade and Investment Agreement, in October 2016. The various chapters contained in the proposed pact include trade in goods, rules of origin, trade in services, investment promotion & cooperation, trade & sustainable development, and customs & trade facilitation.

The promised investments that will flow into India from the EFTA countries is likely to be made from their provident funds, the official said. The JV areas that the countries have short-listed mainly include areas where there is no competition from India. "EFTA has agreed to the condition of investments being made in India because they are getting market access. Also, they are not our competitors in the identified sectors. For instance, in

India most of the medical devices are being imported from China. The pact will lead to diversification of imports which is absolutely necessary," the official added.

Exports to EFTA

India's exports to the EFTA bloc in 2023 (calendar year) were at $1.87 billion, with items such as chemicals, pharmaceuticals, apparel and pearls, precious & semi-precious stones, dominating the export basked.

On the other hand, it imported goods worth $20.45 billion from the EFTA countries in 2023 with inflows of pearls, precious or semi-precious stones, precious metals, and coins valued at $16.7 billion.

A senior government official had earlier clarified that India will not go against the interests of its generic drugs industry in any of the Free Trade Agreements (FTA) it is negotiating with its partner countries, and had rejected the demand for `data exclusivity' provision in the free trade pact with the EFTA bloc.

"There is a likelihood that the free trade pact between India and the EFTA can be formalised before the Indian elections are announced as all the ground work has been done," the official said.

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Why a warm December has clothing retailers waiting for a summer comeback

Read more at : India's top exports decline in April-January | Mint (livemint.com)

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PM MITRA's Rapid Rollout Backed By Indian Industry Experts

Industry experts recently emphasised that expeditious implementation of the ambitious PM MITRA scheme, aimed at developing seven PM Mega Integrated Textile Regions and Apparel (PM MITRA) parks, will significantly attract large investments, including Foreign Direct Investment (FDI), in the sector while generating substantial employment. Mithileshwar Thakur, secretary general of Apparel Export Promotion Council (AEPC), reportedly stated that PM MITRA parks aim to tackle longstanding challenges in the textile industry, integrating the entire value chain under one roof, inspired by the PM's 5F vision while Rakesh Mehra, chairman of Confederation of Indian Textile Industry (CITI), hailed the PM MITRA scheme as a pioneering effort for capacity building and investment attraction.

Prime Minister Narendra Modi, during the inauguration of Bharat Tex 2024, had unveiled plans to establish seven PM MITRA parks across various states, emphasising the creation of opportunities for the entire textile sector.

These parks, set to be located in Tamil Nadu, Telangana, Gujarat, Karnataka, Madhya Pradesh, Uttar Pradesh, and Maharashtra, aim to generate around ₹70,000 crore of investment and create 20 lakh employment opportunities.

The Union ministry of textiles is overseeing the execution of these projects, with each park to be managed by a special purpose vehicle (SPV) owned by the centre and state governments.

According to a recent report by rating agency ICRA, the PM MITRA parks, along with other government schemes, are expected to drive growth in the textile sector even as these schemes offer Competitive Incentive Support (CIS) and facilitates convergence with other government schemes to incentivise speedy implementation and attract investment.

State governments are required to provide land parcels and utilities to support the establishment of these parks, ensuring seamless operations and growth in the textile value chain.

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Indian Manufacturing Sector Sees Further Pick-Up In Growth In Feb 2024

India's manufacturing sector entered the end of this fiscal (FY24) with a further pick-up in growth in February, according to the HSBC India purchasing managers' index (PMI). The seasonally-adjusted HSBC India manufacturing PMI recovered further from December's 18-month low, rising from 56.5 in January to 56.9 in February, pointing to the strongest improvement in the health of the sector since September last year.

Production rose at the fastest pace in five months, fuelled the quickest increase in sales since last September and the strongest expansion in new export orders for 21 months, according to a release from S&P Global.

An improvement in demand for raw materials, meanwhile, supported the rebuilding of input inventories, while supplier delivery times were broadly stable. Concurrently, purchasing cost inflation retreated to a 43-month low, with selling charges increasing to a lesser extent as a result.

Production levels were raised in tandem with a further steep increase in inflows of new orders. The upturn in manufacturing output was the strongest seen for five months.

Similarly, factory orders expanded at the quickest pace since September and one that was above the long-run series average. Firms indicated that marketing efforts continued to bear fruit, helped by a positive demand environment.

Input costs meanwhile increased only fractionally, with the rate of inflation subsiding to the weakest in the current sequence of inflation that stretches back to August 2020.

Prices charged by Indian manufacturers increased at a slower rate, the joint-weakest since March 2023.

February saw a further pick-up in manufacturers' purchasing activity, with the rate of growth up to the fastest since September 2023. Firms reportedly scaled up buying levels in response to greater production requirements, sustained increases in sales and to build safety stocks.

Despite the uptick in growth momentum, manufacturing employment in India was little-changed halfway through the final fiscal quarter.

The February survey data also indicated sustained optimism among manufacturers regarding the year-ahead outlook for production. The overall level of confidence was the second-highest since December 2022.

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FM calls for clarity on classification-related issues under GST at the earliest

Union Finance Minister Nirmala Sitharaman on March 4 asked the central and state GST officials to provide clarification on classification-related issues under the indirect tax regime at the earliest.

"Sitharaman stressed that clarity on classification-related issues should be looked into at the earliest through appropriate channels. She exhorted the GST officials to engage with stakeholders to understand their concerns, enhance compliance, streamline processes, and work collaboratively towards making the tax system more transparent and efficient," the Finance Ministry said in a statement.

Sitharaman was speaking at the inaugural national conference of enforcement chiefs of the states and the central Goods and Services Tax (GST) in New Delhi. The conference aimed at facilitating understanding and streamlining operations of the tax authorities in enforcement actions undertaken by different indirect tax authorities.

Minister of State for Finance Shri Pankaj Chaudhary, Revenue Secretary Sanjay Malhotra, Central Board of Indirect Taxes and Customs (CBIC) Chairman Sanjay Agarwal, GSTN

CEO and other heads of enforcement like the Chairman Central Board of Direct Taxes (CBDT), Directorate of Enforcement (ED) Director, Narcotics Control Bureau Director were also present at the conference.

The GST law provides a classification framework based on Harmonized System of Nomenclature (HSN) codes for goods and services.

The GST system encompasses a wide range of goods and services, making classification complex. Determining the appropriate classification for specific goods or services can be challenging, especially for items that don't neatly fit into predefined categories. There can be ambiguity in the classification guidelines provided by the GST authorities, leading to confusion among taxpayers. This ambiguity may arise due to differences in interpretation or lack of clear guidance on certain items.

Incorrect classification can result in the misapplication of input tax credit, leading to compliance issues and potential tax liabilities. Classification disputes between taxpayers and tax authorities arise due to disagreements regarding the correct classification of goods or services, leading to lengthy and costly legal proceedings.

Sitharaman urged all the GST formations to leverage technology to plug the loopholes as well as provide better taxpayer services. She also emphasised the need for seamless coordination across states.

“The enforcement chiefs of Centre and states can leverage this platform for discussing obstacles, exchanging successful strategies and advancing towards a more robust and harmonious tax infrastructure,” she said.

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Duty Benefits For Bangladesh Prolonged Until 2029 By WTO Decision

Bangladesh’s continued access to duty-free markets for three years post-graduation from the least-developed country (LDC) category was affirmed by 166 members of the World Trade Organisation (WTO) at the Ministerial Conference in Abu Dhabi recently.
This extension ensures that Bangladesh will receive LDC-specific technical assistance and capacity-building for a three-year period after the UN General Assembly’s decision to graduate from the LDC category becomes effective.

The decision was reached after intense negotiations spanning over five days during the 13th WTO Ministerial Conference from February 26 to March 1.

Bangladesh, which joined the LDC group in 1975 and is set to leave it in November 2026, faced uncertainty regarding potential trade losses amounting to $7 billion annually post-graduation due to the erosion of the preferential trade facilities.

However, this uncertainty has now been alleviated until 2029.

The extension was sought by the LDC group, chaired by Djibouti, in 2020 amid the severe economic repercussions of the COVID-19 pandemic. The subsequent outbreak of the Russia-Ukraine war further compounded the challenges faced by the LDCs and the low-income countries, bolstering the justification for the extension.

Although the decision to extend trade benefits to graduated LDCs was made at the 12th Ministerial Conference in Geneva in June 2022, the timeframe was not specified until the recent Ministerial Conference in Abu Dhabi.

Mustafizur Rahman, a distinguished fellow of the Centre for Policy Dialogue (CPD) in Bangladesh, highlighted the opportunity for Bangladesh to negotiate trade benefits with the key partners such as the European Union, China, India, the UK, and South Korea.

However, Bangladesh will not benefit from trade preferences in the US, as it lacks a preferential duty programme for LDCs.

Bangladesh’s international trade, primarily reliant on duty benefits under the LDC category, has propelled it to become the second-largest apparel supplier globally after China even if currently, 73 per cent of the country's shipments enjoy LDC-linked market access, making it the highest beneficiary among the 45 LDCs.

Regarding the Trade-Related Aspects of Intellectual Property Rights (TRIPs), no decision was made at the summit, implying that Bangladesh will not be eligible for patent waivers in pharmaceutical production post-transition.

While the EU typically grants a three-year grace period to graduating LDCs, Bangladesh is already guaranteed trade benefits until 2029.

The European Commission acknowledged the WTO's efforts to improve the implementation of special and differential treatment for developing countries in key areas of market access standards.

However, consensus was not reached on key issues such as fisheries subsidies and public stockholding of food during the Ministerial Conference in Abu Dhabi.

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Exporters want continuation of the cash subsidy up to 2026 and alternative after LDC graduation

The central bank in a circular on January 30 of this year has almost halved the cash incentive on export receipt with effect from January 1 as a measure of preparation for the graduation of the country to a developing nation from the Least Developed Country (LDC) in 2026.

Because after the LDC graduation of the country, Bangladesh will not be able to pay the direct cash subsidy to the exporters as per the rules of the World Trade Organization (WTO). Bangladesh is set to become a developing nation in 2026.

So, the government has been phasing out the direct cash assistance to the exporters so they can be able to sustain and can become competitive in their business in the post LDC era.

What said the January 30 circular of Bangladesh Bank (BB)

The central bank in the circular said the maximum rate has been set at 15 percent and the minimum at 0.5 percent with effect from January 1 to June 30 this year.

Currently, 43 sectors are eligible for the aid, with the government spending about Tk 9,025 crore annually in the past three years.

The cash assistance on the export earnings of apparel makers in all markets has halved to 0.50 percent from 1 percent. The rate, however, has been kept unchanged at 4 percent for the shipment to emerging markets.

The support on furniture exports was lowered from 15 percent to 10 percent, for plastic products from 10 percent to 8 percent, for software and information technology-enabled services from 10 percent to 8 percent, and for motorcycles shipment from 10 percent to 8 percent, the BB circular showed.

Only four sectors – diversified jute products, vegetables, fruits and products in the agro-processing sector, potatoes, and halal meat and processed meat exporters -- will qualify for the highest rate. It was 20 percent for them previously.

The subsidy has been reduced for three promising destinations, namely Japan, India and Australia. Of the $8.5 billion garment shipment to the non-traditional markets, the three countries account for half.

In the January 30 circular the cash support has been significantly reduced for the top five garment items that make up more than 56 percent of the total shipment from the sector.

The exporters, especially the apparel exporters and the textile millers demanded the revision of the circular and to make it effective from February 1 instead of January 1.

The garment exporters also demanded for not withdraw the cash subsidy on top five apparel and not to withdraw cash assistance on the three promising markets including India, Australia and Japan.

Finally, the government has revised the decision and followed the demand of the garment exporters and the finance ministry and the central bank again issued another circular on February 12 to revise the subsidy plan of the government.

What said the Bangladesh Bank’s February 12 revised circular on cash incentive

The new circular said the decision of cash subsidy will come into effect from February 1 instead of the of January 1, as announced earlier while some markets and products have been brought back under the facility following pleas from the business community.

The BB said the rates would be applicable from February 1 this year and would remain in place until June 30.

In another move, India, Japan and Australia have been included in the list of the emerging countries where garment exporters will receive a 3 percent cash incentive.

The January 30 notice excluded the countries, leaving exporters disappointed since the shipments of garments to the three nations are on the rise.

It also withdrew the decision that had seen the end of cash incentives for five major garment items. That means the five top garment items which consists 56 percent of the total garment export will also enjoy the previous rate.

What the sector leaders say

On the latest decision of the government on cash incentive, Faruque Hassan, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA) said it is good that the government extended the time and the cash incentive should be extended up to 2026 until the graduation as the WTO permits it.

Hassan also thanked the government for rethinking the cash incentive for three important markets including India, Australia and Japan.

He also demanded alternative cash subsidy in the post LDC period like India, China and other countries give to their industries to become more competitive in global trade.

Mohammad Hatem, executive president of Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) said for continuation of cash subsidy up to 2026.

He also demanded for alternative cash assistance to the exporters after the LDC graduation. He also said the government could have continued the previous rates up to June. Hatem is in favour of paying the previous rates up to 2026.

What an economist says

Masrur Reaz, chairman of Policy Exchange said the cash incentive should paid in a rational way as it is not needed for all sectors. But some sector needs for the cash incentive to be more competitive.

Gradual phasing out of the cash incentive is good decision. Reaz also said for introducing the alternative cash subsidy for different sector after the LDC graduation of the country.

Background

Before the latest move, the government used to pay cash incentive ranging from 1 to 20 percent to exporters of various products including garments, to enable manufacturers to compete better globally.

The garment sector is the is the biggest export earning sector in Bangladesh which fetched $47 billion out of total $55.55 billion in the last financial year, is also the biggest source of foreign currencies in Bangladesh.

With the incentive from the government, the primary textile sector has also thrived as a key backward linkage integration, which can currently meet nearly 90 percent requirements of raw materials in the knitwear sector and 40 percent in the woven sector.

At one point the governments used to pay a 25 percent cash incentive to help them capture a major share of the global clothing market.

Concluding remarks

Bangladesh is set to be graduated to a developing nation by 2026 from the LDC. A lot of new issues will also emerge with the LDC graduation. A lot of changes will also take place in the financial sector and also in trade because of the LDC graduation. Since, Bangladesh is an emerging economy, the policy should also be taken with enough judgement.

If the cash incentive is withdrawn at one go, the industrial sector may face challenge and the sustainable LDC graduation may be in trouble. At the same time, few sectors cannot be spoon fed forever. They also need to be competitive and the new sectors should also come up in the economic activities.

The government should play a vital role here with paying the cash incentive in selective sectors so the trade can also grow. The government should also introduce alternative to cash incentive after the LDC graduation so the sectors, like the garment one can grow further and be more competitive in the global trade.

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Embracing tradition Bangladesh can rise in the global fashion industry

In the realm of global fashion, heritage holds a unique appeal. It interlinks tradition with innovation, crafting narratives that resonate across cultures and generations. For Bangladesh, a country rich in history and textile heritage, embracing this essence presents an unparalleled opportunity to ascend the ranks of the global apparel market. As the nation sets its sights on a lofty $100 billion export target, harnessing the power of heritage fashion items emerges as a strategic imperative.

The global luxury fashion market size was valued at USD 123.05 billion in 2022. It is estimated to reach USD 198.55 billion by 2031, growing at a CAGR of 5.46% during the forecast period (2023–2031). Our neighboring country India has been exporting heritage fashion garments worth $5 billion annually.

Last year, Bangladesh exported garment items (woven and knitted items) worth $46.99 billion where the contribution of heritage fashion products was very low.

Bangladesh’s locally manufactured textiles like muslin, jamdani, silk, Nakshi Kantha and khadi, which are rooted in the nation's cultural past, have the potential to significantly increase substantial portion of the global market share of high-value apparel products.

The BGMEA has been trying to diversify the export items for the past few years to achieve the $100 billion export target. Recently it organized the first-ever Bangladesh Heritage Festival 2024 at the BGMEA Complex in Uttara to promote and celebrate the cultural and heritage treasures of Bangladesh.

Bangladesh's apparel industry has long been synonymous with mass production and competitive pricing. However, in an increasingly discerning market landscape, differentiation is key. Heritage fashion offers a distinct advantage in this regard, transcending the ephemeral trends to embody timeless elegance and cultural resonance.

By infusing contemporary designs with traditional techniques, Bangladesh can carve out a niche that celebrates its rich heritage while captivating global audiences.

One of the defining characteristics of heritage fashion is its sustainability. In an era marked by growing environmental consciousness, consumers are increasingly gravitating towards products with a smaller ecological footprint. Bangladesh's emphasis on handcrafted textiles and natural dyes aligns seamlessly with this ethos, offering eco-conscious consumers an alternative to mass-produced, environmentally taxing garments.

Moreover, heritage fashion fosters a sense of community empowerment. By championing local artisans and preserving traditional craftsmanship, Bangladesh can uplift marginalized communities and empower women in particular, who often play a pivotal role in the textile industry. This social dimension adds depth to the narrative surrounding Bangladeshi fashion, resonating with consumers who value ethical production practices and social responsibility.

In a global marketplace saturated with fast fashion, heritage items stand out as a beacon of authenticity and quality. Bangladesh's strategic positioning as a hub for heritage fashion can thus serve as a catalyst for elevating the country's apparel exports to unprecedented heights. By leveraging its cultural heritage as a source of competitive advantage, Bangladesh can unlock new avenues for growth and innovation in the global fashion arena.

However, realizing this vision requires a concerted effort from various stakeholders. Government support is instrumental in providing infrastructure and incentives to foster the growth of heritage fashion enterprises. Investments in skills development and technological innovation can enhance the competitiveness of Bangladesh's artisanal sector, enabling it to meet the demands of discerning global consumers.

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