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NEWS CLIPPINGS –08-11-2018

CAI trims cotton crop size estimate to 343 lakh bales on weather woes	Business Line https://www.thehindubusinessline.com/economy/agri-business/cai-trims-cotton-crop-size-estimate-to-343-lakh-bales-on-weather-woes/article25428912.ece?homepage=true

Arrivals at markets up as prices rise

As prevailing weather conditions and water scarcity hit cotton yields in key growing regions, trade body Cotton Association of India (CAI) has further trimmed its crop estimate to 343.25 lakh bales (each of 170 kg) for the season 2018-19 beginning from October 1.

Earlier CAI, at the Cotton India 2018 meet in Aurangabad last month, had projected the crop size at 348 lakh bales for the year 2018-19, 365 lakh bales lower than 2017-18.

CAI cited water shortage and climatic adversities as factors affecting the crop in the key growing regions of Gujarat, Maharashtra and Karnataka. "The CAI has revised downwards the crop estimate for Gujarat by 2 lakh bales, Maharashtra by 1 lakh bales, Karnataka by 1 lakh bales and Orissa by 75 thousand bales than compared to its previous estimate due to unfavourable weather conditions," the trade body said in a statement.

The CAI has projected total cotton supply during October 2018 at 50.13 lakh bales, which consists of the arrival of 26.13 lakh bales in October 2018, imports in October 2018, which the Committee has estimated at 1 lakh bales and the opening stock at the beginning of the season as on October 1, which the Committee has estimated at 23 lakh bales.

Arrivals mount

On the arrivals front, record-breaking cotton arrivals were registered in October, mainly due to the absence of rain during the last 60 to 70 days in the entire cotton belt of India.

"Due to the dry and hot weather, kapas bolls opened in early stages this year. Farmers are getting a higher price for their crop at ₹5,300 per quintal as against ₹4,500reported around same time last year. Due to this, arrivals are considerably higher in October this year," CAI stated in its statement.

CAI has estimated cotton consumption during October 2018 at 27 lakh bales, while the export shipment of cotton in October 2018 has been estimated at 2.50 lakh bales.

The stock at the end of October 2018 is estimated at 20.63 lakh bales, including 16.53 lakh bales with textile mills, while the remaining 4.10 lakh bales are estimated to be held by CCI and others (MNCs, traders, ginners, etc).

CAI has estimated domestic consumption for the season at 324 lakh bales, while the exports are estimated to be 51 lakh bales, 18 lakh bales lower compared to the 69 lakh bales last year.

The carry-over stock at the end of the 2018-19 season is estimated by CAI at 15.25 lakh bales.

RBI is a seat belt for govt., says Rajan	**The Hindu** https://www.thehindu.com/todays-paper/tp-business/rbi-is-a-seat-belt-for-govt-says-rajan/article25440423.ece

Board's objective is to protect institution, not to serve others' interests'

Amid mounting tension between the Reserve Bank and the Finance Ministry, former RBI Governor Raghuram Rajan has said the central bank was like a seat belt in a car, without which accidents could happen.

Pitching for respect for the institutional autonomy of the RBI, he said the central bank had the liberty to say 'no' if the government pushes it to be lenient. Ahead of the November 19 meeting of RBI Board, he said the objective of the board was to protect the institution and not serve others' interests. "The RBI is something like a seat belt. As a driver, the driver being the government, it has the possibility of not putting on a seat belt but of course if you do not put on your seat belt you get into an accident and the accident can be quite severe," he told a TV channel.

Historically, the relationship between the RBI and the government has been precisely this — the government wants to focus on improving growth and it does all it can within the limits set by the RBI which are based on financial stability. "So, the government will push, will try and get the RBI to be more lenient," he said, adding the central bank would examine them in close details and in reference to risks to financial stability. "We [RBI] have responsibility for financial stability and therefore we have an authority to say no," he said. "The government can keep asking and say please consider this, please consider that but at some point, it says 'okay I respect your decision, you are the financial stability regulator and I back off.'"

"Once you have appointed these Deputy Governors and Governor, you have to listen to them because that is what you have appointed them for, they are your safety belt," he said.

On Section 7

On the issue of the government citing Section 7 of the RBI Act that gives it powers to issue directions to the RBI Governor on issues of public interest, Dr. Rajan said it would be best if each side respected each other's motivation and thoughts.

"And ultimately, the RBI, after listening to the government..., provided the best professional answer it could and historically it has done that. I have no doubt it is doing that today. It has a responsibility to fulfil to the nation.”

The role of the RBI board has not been to take operational decisions but to focus on broader strategy as well as ensure good governance. “The objective of the board is... to protect the health of the institution but also to provide wise, sensible advice. The aim of the board is to be Rahul Dravid — sensible, thoughtful and not, with due respect, Navjot Sidhu.”

ASEAN member countries of RCEP offer India concession	The Hindu https://www.thehindu.com/todays-paper/tp-business/asean-member-countries-of-rcep-offer-india-concession/article25440416.ece

India can open up 83% of its market against the earlier 92%

Several Asian member countries of the proposed Regional Comprehensive Economic Partnership (RCEP) have offered India a significant concession on the extent to which it needs to open up its markets, in a bid to encourage it to join the partnership quickly, according to a diplomat from Singapore.

The RCEP is a proposed trade agreement between the 10 Association of Southeast Asian Nations (ASEAN) countries and their six free trade agreement partners, namely Australia, China, India, Japan, Korea, and New Zealand.

The grouping would comprise 25% of global GDP, 30% of global trade, 26% of FDI flows, and 45% of the population.

“The ASEAN countries are keen to have India as part of the partnership and have made India a concessional offer of opening up only about 83% of its market, as compared to the original 92% that the RCEP agreement stipulated,” the Singaporean diplomat said on condition of anonymity.

Trade with China

“And regarding India’s concerns about further opening its market to China and skewing the trade deficit between them further, the RCEP allows for bilateral agreements also to be made so India can perhaps open up to China gradually and not in one go.”

Opening up its market to China has been India’s main concern about joining RCEP, a sentiment echoed by the Commerce Ministry, NITI Aayog, and then Chief Economic Advisor Arvind Subramanian.

India has achieved some success regarding some of its other concerns, such as getting the other RCEP countries to liberalise their services markets and allow for a more free movement of service sector professionals.

“India stands to gain a lot from joining RCEP,” the Singaporean diplomat added. “At a time when so much trade is being diverted from China because of the ongoing trade tensions with the U.S., India can corner a lot of this if it joins RCEP.”

Ahead of the November 14 RCEP summit, some of the countries led by Singapore, which holds the presidency of the

ASEAN this year, have been keen to at least announce an agreement on “substantial outcomes” by December 31.

“The target is to conclude as much as possible this year,” said a diplomat from another RCEP country, adding that there was “some distinction” still between those arguing for “substantial conclusion” and those for “substantial progress”, which leaders at the RCEP summit are expected to try and iron out.

December deadline

However, the official from Singapore added that it was unlikely that India would make a decision regarding this before the general elections in 2019, even though the RCEP countries have set a December 2018 internal deadline for the “substantial outcomes”.

India and a few other countries want only a statement on “substantial progress” to be made during the summit, and for negotiations to be pushed into the second half of next year.

Apart from India, Indonesia and Australia are also due to go to elections in 2019, and while this adds to the urgency of concluding the RCEP negotiations, it makes it harder for governments to give any concessions on tariffs and subsidies closer to polls, given political compulsions, diplomats said.

Japan’s concern

During last week’s summit in Tokyo, Japanese Prime Shinzo Abe is understood to have brought up the issue as well.

“Both India and Japan are committed to freer trade, and during the visit of Prime Minister Modi to Japan, it was also agreed to work on the early conclusion of RCEP as well,” Japanese Deputy Chief of Mission Hideki Asari told The Hindu.

“Negotiators are working very very hard [to complete the RCEP negotiations by year-end]. But for any trade negotiation, the conclusion is the hardest part,” said Mr. Asari.

A closer look at FinMin, RBI stand-off	**Business Line** https://www.thehindubusinessline.com/opinion/columns/a-closer-look-at-finmin-rbi-stand-off/article25438550.ece?homepage=true

The scales tilt more in favour of the RBI standpoint over the five issues that are being hotly debated

The perceived difference of opinion between the RBI and the Finance Ministry would take its course and few know the powers of each entity when it comes to imposing its view on the other at the practical level. Given the way the arguments have been put forward by the government, it would be interesting to debate both sides of the issue.

There are essentially five issues that have come up in the debate. These can be found in the RBI circular of February 12, and they relate to NPAs (non-performing assets), tweaking PCA (prompt corrective action) norms which put some restraints on the banks concerned, providing liquidity to NBFCs, furthering lending to the SME segment, and deploying the reserves of the RBI to fund the Budget.

From a purely economic standpoint, all these issues are quite fundamental in nature and can provide solutions if there is acquiescence.

Let us first look at the IBC (Insolvency and Bankruptcy Code) related issue. The IBC was a major path-breaking reform brought in by the government to address the issue of NPAs when all else failed. The RBI, in its February circular, only cemented the rules by mandating that if a loan is in default even for a day, the resolution process has to be set in motion for 180 days, after which the the IBC would take over.

This action was applauded as it gave teeth to the IBC for solving the NPA problem. There could have been arguments on the number of days involved, but the contrary view came in when the power sector pleaded for exclusion, as given the specific problems they faced, most companies would come under the IBC. Can an exception be made?

There are two arguments against making exceptions. The first is that when exceptions were made under corporate debt restructuring, that proportion bloated to almost the size of the NPAs.

Second, if allowed for power, why not for steel, telecom or textiles? The arguments could go on and it would be back to square one and the IBC resolution process would lose its effect. The question to ask is whether we are serious about solving the NPA problem or not? If we are not, then we should not be complaining about NPAs building up.

SME lending

Related to this issue is the one on SMEs. When demonetisation happened, the RBI made an allowance for NPA recognition for this segment. The RBI does not lend to SMEs but creates an enabling framework for them, and this already exists. The priority sector lending guidelines, howsoever restrictive they may be for banks, defines how SMEs get their share.

Should banks be pushed to lend more to this sector just because it is important for the economy and cannot get finance elsewhere? This needs to be answered because if credit appraisal processes are relaxed and an unfavourable NPA portfolio results, then who would be held responsible? Infra lending is a case in point and banks have been struggling with the consequences for over two years now. By relaxing the IBC norms and forcing lending to SMEs we would be merely kicking the can again.

Third, let us look at the PCA rules. Banks which have been defined to be weak have lending restrictions placed on them until they turn the corner. In the present environment, where liquidity is an issue, there is an argument to allow the 11 banks under PCA to get some exemptions. This is analogous to a student who has failed class 9 exam but is allowed to go to class 10. The irony is that the net worth of these banks ís in jeopardy, with the main shareholder, the government, not willing to provide capital (as the approach has been to give capital to the more productive banks).

Now if these banks are not well capitalised and are struggling with NPA recognition and provisioning, letting them enter the mainstream can exacerbate the situation. This again does not look agreeable. The only compromise possible is that they lend only to top-rated PSUs so that the funds remain within the government.

Funding NBFCs

Fourth is the issue on liquidity to NBFCs. The RBI provides funds to banks which are on-lent to others, which include NBFCs. The RBI's role can be to the extent of ensuring liquidity in banks through repo, OMO (open market operations) and possibly CRR cuts. This is being done on a continuous basis.

Opening a window for NBFCs is an option, but if this is done, similar allowances may be sought for other sectors too.

It would become like the QE (quantitative easing) programmes of the West, where the banking system had all but collapsed and the central banks had to intervene and buy commercial bonds from entities. This again may not sound right to the conventional minded economist.

Today, banks have funds and are selective while lending based on credit perception. So it is more a case of liquidity being there but judgment coming in the way of the flow of funds.

Last is the question of whether the government should take the reserves of the RBI and use them to fund the Budget. In legislative terms they may have the right but this is not a good idea as it is a one-time transfer like disinvestment, once exhausted the problems resurface.

Using reserves can be for specific purposes but not for balancing the Budget. Using this theme, one can also then ask whether the government can take the reserves of PSUs proportionate to its holdings in the entities for the same purpose? The government already makes some PSUs pay larger dividend at times when the Budget is stressed.

The present situation definitely calls for introspection and the need to reformulate our premises. One can quote Ayn Rand's famous words, "Contradictions do not exist. Whenever you think you are facing a contradiction, check your premises. You will find that one of them is wrong."

As a corollary, are we really committed to cleaning up the system? In this context, it would be apt to mention Shakespeare's well-known saying, "This above all: to thine own self be true."

The writer is Chief Economist, CARE Ratings. The views are personal.

With US sanctions waiver, Chabahar Port set to commence operations by month-end	**Business Line** https://www.thehindubusinessline.com/economy/logistics/with-us-sanctions-waiver-chabahar-port-set-to-commence-operations-by-month-end/article25438869.ece?homepage=true

The port will provide India connectivity to enhance trade with land-locked Afghanistan and Central Asia

Decks have been cleared for India to start operating the Chabahar port in Iran by the end of November after the US granted exemptions to the port from the sanctions it had imposed on the Persian Gulf nation from Sunday.

“We are targeting to start operations at Chabahar by the end of the month,” a Shipping Ministry official said, ending months of uncertainty over the fate of the India-funded project.

The waiver has also re-opened the possibility of paying Iran in Euros, said the official, who declined to be named.

Temporary arrangement

India has picked Bandar Abbas-based Kaveh Port and Marine Services company to run the port on a temporary arrangement for 18 months till a full-time manage, operate and maintain (MOM) contractor is finalised by India Ports Global Pvt Ltd, the Indian state-owned entity that is implementing the project.

The start of commercial operations at Chabahar has been delayed because of difficulties in paying Kaveh Port and Marine for the services due to banking issues on transfer of funds.

“To overcome this hurdle, Iran had agreed to accept payment in rupees. But, with this changed scenario, whether they will insist on taking payment in Euros, we’ll have to see and discuss that with Iran and sort it out. Making payment in Euros should not be a problem now since Chabahar has been exempted from the sanctions; so banking transactions should not be an issue,” the official said.

“The waiver granted by the US will allow us to ask Kaveh to start operations; this is the first step,” the official said.

The fine print of the US waiver terms will also help India decide whether to dilute the tender conditions for selecting a full-time Indian MOM contractor to run Chabahar.

India Ports Global (a 60:40 joint venture between Jawaharlal Port Trust and Deendayal Port Trust) and Aria Banader Iranian Port signed a deal in May 2016 to equip and operate the container and multi-purpose terminals at Shahid Beheshti – Chabahar Port Phase-I with capital investment of $85.21 million and annual revenue expenditure of $22.95 million on a 10-year lease. Cargo revenues collected will be shared by India and Iran as per an agreed formula.

Located in the Sistan-Baluchistan Province on Iran’s South-eastern coast (outside Persian Gulf), Chabahar port is of great strategic importance for development of regional maritime transit traffic to Afghanistan and Central Asia.

The first phase development of Chabahar port will have a container terminal with two berths of 640-metre quay length and a depth of 16 metres and a multi-purpose terminal with a quay length of 600 metres and draft of 14 metres. The port has a total back-up area of 70 hectares.

India Ports Global has ordered four rail-mounted quay cranes (RMQCs) for a combined $29.8 million from Chinese port crane maker Shanghai Zhenhua Heavy Industries Co Ltd (ZPMC) and 14 rubber-tyred gantry cranes or RTGCs for about $18 million from Finnish crane maker Cargotec OYJ for erecting at Chabahar port.

Advantage India

Chabahar will provide India the much-denied connectivity to enhance trade with land locked Afghanistan and Central Asian nations.

India's participation in the development of Chabahar Port will provide India an alternative and reliable access route into Afghanistan utilising India's earlier investment in Zaranj-Delaram road built in Afghanistan, and also a reliable and more direct sea-road access route into Central Asian Region.

Chabahar Port has the potential to become a regional transit hub for Afghanistan and eastern Central Asian Countries. It is expected that volume of trade will increase substantially on the commencement of operation at Chabahar Port, the Ministry official said.

It will improve bilateral trade with Iran — currently pegged at $16 billion — and provide an opportunity to Indians to avail low-cost energy for various industries in the free trade zone in Chabahar.

After locking horns with the Centre, RBI looking for middle ground on many issues	**Business Line** https://www.thehindubusinessline.com/money-and-banking/after-locking-horns-with-the-centre-rbi-looking-for-middle-ground-on-many-issues/article25438758.ece?homepage=true

After the stand-off between the government and the RBI came out in the open, the Reserve Bank's central board members are believed to be making efforts to find a middle ground on a host of issues – including those related to tapping the central bank's reserves, relaxing the prompt corrective action (PCA) framework imposed on public sector banks, providing a separate liquidity window to non-banking finance companies, and autonomy – before its crucial upcoming meeting on November 19. Key central board members, especially Finance Ministry representatives and RBI's top-brass, have reportedly initiated parleys, apparently at the behest of the Finance Minister and the PM's Office in the run-up to the meeting.

"Earlier, differences between the government and the RBI used to be resolved behind closed doors. But now this public spat has created an extraordinary situation. This is not good for the economy. A dialogue, rather than public posturing, is the need of the hour," said a top banker.

Surplus transfer

According to reports, the government is seeking a surplus transfer of more than a third of the RBI's ₹9.60-lakh crore worth of reserves to be utilised to recapitalise public-sector banks. This capital could help most of these banks come out of the PCA framework and start lending.

Citing the example of Argentina, Viral Acharya, Deputy Governor, has warned that the transfer of excess reserves from the central bank to the government could prove to be catastrophic. Governments that do not respect the central bank's independence will sooner or later incur the wrath of financial markets, ignite economic fire, and come to rue the day they undermined an important regulatory institution, cautioned Acharya in a recent speech. In a snide allusion to Acharya's remark, Economic Affairs Secretary Subhash Chandra Garg tweeted on November 2: "Rupee trading at less than 73 to a dollar, Brent crude below $73 a barrel, markets up by over 4 per cent during the week, and bond yields below 7.8 per cent. Wrath of the markets?"

NS Vishwanathan, Deputy Governor, in a recent speech, warned that any relaxation of prudential capital norms for public-sector banks could result in a reset of their credibility/standing in international markets.

The NBFC sector wants a separate liquidity window opened by the RBI on the lines of what was done in the US, where a troubled asset relief programme (TARP) was unveiled in 2008 for buying illquid securities.

RBI relaxes ECB norms for infra companies	**Business Line** https://www.thehindubusinessline.com/money-and-banking/rbi-relaxes-ecb-norms-for-infra-companies/article25438138.ece?homepage=true

The Reserve Bank has liberalised the norms governing foreign borrowings for infrastructure creation "in consultation with the Government".

The minimum average maturity requirement for ECBs (external commercial borrowings) in the infrastructure space raised by eligible borrowers has been reduced to three years from earlier five years, a notification said.

Additionally, the average maturity requirement for mandatory hedging has been reduced to five years from earlier ten years, the central bank announced.

The provisions have been reviewed and decisions taken "in consultation with the Government of India," it added.

The move comes amid concerns surrounding the availability of funds following a liquidity squeeze and the difficulties being faced by non-bank lenders, especially those facing asset liability issues due to heavy reliance on short term funding for long term assets.

This, along with defaults by infra lender IL&FS, has hurt the credit markets.

The Government has been unequivocal in suggesting remedial measures which will address the needs of the economy.

Some measures reportedly suggested by the Government include a special window for NBFCs, and the RBI does not seem to be amenable for undertaking the measures.

The relaxations in the ECB norms follow other moves by the RBI, including last week's permission to banks to use credit enhancement to help NBFCs raise medium to long term funds.

MSP package: Farmers find price support elusive	**Financial Express** https://www.financialexpress.com/economy/msp-package-farmers-find-price-support-elusive/1375765/

An analysis of price data also showed that the average rates of seven crops including jowar, bajra, maize, urad and moong were 10-41% below MSPs in October.

Prices of 12 among the 14 kharif crops have ruled below their minimum support prices (MSPs) since arrival of the summer crop began more than a month ago, and in case of five of these crops namely paddy, tur, groundnut, niger and ragi, the prices have been on a continuous decline through the season.

While the 12 crops' prices in key mandis in October were on an average 8-40% lower than the respective MSPs, the five crops are now being sold 5-9% lower than in the first week of last month. Only cotton and sesamum are costlier to wholesalers than their MSPs

Despite a 4-52% rise in MSPs for this kharif and the PM-AASHA, a stronger price support scheme, farmers are still being denied remunerative prices for their produce. The procurement mechanism is yet to be up and running in most states.

The average mandi price of common variety of paddy, for instance, is about Rs 1,536/quintal now against Rs 1,612 in the first week of October in Burdwan, West Bengal, India's largest rice producer. Groundnut prices have also declined to Rs 4,425/quintal as on October 31 from Rs 4,650 on October 1 in Deesa mandi of Banaskanth, Gujarat, according to agmarknet portal. The average mandi prices of the 5 crops mentioned above were 8-35% below their respective MSPs last month.

An analysis of price data also showed that the average rates of seven crops including jowar, bajra, maize, urad and moong were 10-41% below MSPs in October.

However, the mandi prices of these seven crops are now higher compared with the rates in the first week of October, but still below the MSPs.

Among the crops which averaged below their MSPs during the period under review, tur prices were down 34%, groundnut 8%, ragi 23% and niger 35%. Rolling out a package of price deficiency support schemes for agricultural crops, the government had announced an extra Budget outlay of over Rs 15,000 crore for procurement of non-National Food Security Act (NFSA) crops during the June 2018-July 2019 crop year. It also enhanced the government guarantee for Nafed to undertake procurement of pulses and oilseeds by Rs 16,550 crore to Rs 45,450 crore for this fiscal. If the policy of assured price support is to be implemented throughout the country and for all 23 identified crops, then the cost could indeed turn out to be far higher.

NPA in India: RBI needs Basel norms as its defaults are higher	Financial Express https://www.financialexpress.com/opinion/npa-in-india-rbi-needs-basel-norms-as-its-defaults-are-higher/1375672/

Given how non-performing assets at state-owned lenders have ballooned to more than 10% of their total advances, and the precarious financial positions of at least 11 lenders, it is surprising the government wants capital adequacy norms prescribed by RBI to be diluted. Specifically, the government believes RBI's prescribed CRAR of 9%, as compared to the 8% as required by the Basel norms, is too high. It might seem an unnecessary cost at this point but it is actually an investment to keep a crisis at bay. While it is true that banks are now following stricter provisioning norms for stressed assets as compared to what they were doing earlier, it is nonetheless necessary for them to set aside more capital than their counterparts in other countries. That is because, as RBI deputy governor NS Vishwanathan, has explained, the losses tend to be higher in India.

To be sure, there is some improvement post the IBC (Insolvency and Bankruptcy Code) and the rollout of RBI's revised framework for stressed assets. Nonetheless, Vishwanathan has argued that, given the kind of default behaviour observed in India, applying the Basel-specified risk weights would understate the risk levels of the assets on banks' books. Studies show the probability of a non-default rating—assigned by the credit rating agencies—turning into a default rating within a certain period of time is higher in India. Also, the track record of ratings agencies leaves much to be desired, as can be seen from the recent case of IL&FS where the company was rated default almost overnight. So, relying on credit rating agencies would probably not be wise. As Vishwanathan points out, a smaller capital base only makes banks more vulnerable to defaulting on their obligations in the event of unexpected losses. Adequate levels of capital need to be maintained and the higher the capital, the more the skin in the game for shareholders.

Potentially, this results in better appraisal of credit and screening. Indeed, until the Asset Quality Review (AQR) was initiated in Q4FY16 by RBI, stressed assets were not classified properly and consequently hugely under-provided for. The upshot was an increase in loans by banks which did not have the required levels of capital and 11 of these needed to be brought under the prompt corrective action (PCA) framework. The government must understand how precious capital is—and this is entirely the taxpayers' money—and that it cannot simply be frittered away. Since 2005, the government has needed to infuse more than `2.3 lakh crore in PSBs, more than half of which has gone into banks under the PCA framework. Had the capital adequacy norms been tighter all these years, things might not have come to such a pass. It is understandable that the government should want more credit growth in the system, and to that extent, the PCA norms look like they are hindering credit growth; and, after the IL&FS debacle which has hit lending by NBFCs, this growth will be further constrained. But, as the credit growth data shows, the larger banks—including the privately-owned ones—have raised their lending and, as a result of this, India's overall bank credit growth is quite robust. Unless the government has very good data on the probability of default behaviour in India being much lower than what RBI says, it simply has to let the regulator do its job. And since this results in banks remaining solvent, the Central government should want this even more than RBI.

Government Plans More Incentives For Textile Exporters	Fashionating World https://www.fashionatingworld.com/new1-2/government-plans-more-incentives-for-textile-exporters

The Union government might consider more incentives for textile exporters, to bridge the gap between costing of products originating from the world's least developed countries and India. Under the global preferential treatment rules, textiles imported from countries such as Bangladesh, Pakistan and Vietnam are preferred over those from India. Earlier extension of lower import duty in developed countries including America, to Indian exporters, is no longer valid. Reason: growing size of Indian economy — it has crossed the threshold size and became the world's six largest economy in 2017.

The total in differential duty works out to nearly 9 per cent between products from India and the other smaller economies. With the present incentives offered by the government and the rupee's recent depreciation, the total duty differential works out to 5 per cent, on which the government announced a two per cent export incentive under the Merchandise Exports from India Scheme.

The US government has complained about the Indian incentives at the World Trade Organisation (WTO), as legally unsustainable. WTO has set up a committee on the issue.

Under the package, MSMEs registered under the goods and services tax will get a two per cent interest rebate on incremental loans up to Rs 10 million. A web portal has been launched through which such units may avail of loans up to this size. The segment accounts for about 45 per cent of the sector's manufacturing output and around 40 per cent of export.

Trade war: Can other Asian countries replace China as the world's factory?	Business Standard https://www.business-standard.com/article/international/trade-war-can-other-asian-countries-replace-china-as-the-world-s-factory-118110500099_1.html

On Thursday last week, President Trump hinted that he was close to agreeing on a trade deal with China after a phone call with President Xi. On Friday, Bloomberg reported unnamed sources in the White House saying the President had asked key officials to start work on a draft of a potential trade agreement with China. Stock markets were on the up and up.

This optimism did not last. Later the same day, White House economic adviser Larry Kudlow dampened expectations of a quick deal in a CNBC interview. The US stock market reacted negatively and ended a run of three consecutive days of gains.

The goal of forcing trade talks with China through tariffs is to reduce the trade deficit with China and establish fairer trading terms for US companies. However, the US government's other aim of bringing some manufacturing home may not be realistic. The reality is that production and distribution supply chains of products and their components are so integrally linked, it is more likely companies will find countries in Asia overall less costly to shift production to.

As the US trade dispute with China gained momentum earlier this year, analysts were putting forth suggestions about which countries would benefit most.

Countries like Taiwan, Thailand and Malaysia are luring more electronics and computer companies to their shores. Cambodia, Philippines and Bangladesh are seeking more opportunities to increase their market share in the production of apparel and footwear. Likewise, Thailand and Vietnam for household consumer goods like washing machines and refrigerators.

Indeed, in a study by American Chamber of Commerce South China (AmCham South China) published on October 29, where 219 companies were surveyed on the impact of US and China tariffs, less than one percent indicate any plans to relocate manufacturing to North America. In September, a joint study of 430 firms by AmCham China and AmCham Shanghai, found only 6 percent of respondents saying they may consider relocating production to the US.

The same report mentions that Southeast Asia and the Indian Subcontinent were the destination of choice should relocation occur.

There are however some limitations to how much production can be moved out of China.

Through years of establishing China as "the world's factory", it has nurtured a highly trained, skilled and disciplined workforce.The infrastructure, roads, ports and integrated logistical support is second to none in terms of its ability to handle the volume of goods produced. This makes China an efficient and effective production centre. Furthermore, China's workforce is more than double that of all Southeast Asia combined. So, even if there are cost benefits of moving production out of China, there simply isn't enough capacity elsewhere to takeover what China can produced.

A study by India's Department of Commerce identified about 100 products where India can replace US exports to China due to higher import tariffs imposed by China on US farm products. These include corn, grain sorghum, oranges, cotton, almonds and durum wheat.

Another report by the Confederation of Indian Industry (CII) concluded that with concerted effort, India can increase its exports of products like pumps, parts of taps, parts for the defence and aerospace industry, vehicles, automobile parts and engineering goods among others.

India if it plays its cards right, might even be a major part of the re-shaped global supply chain.

At the moment, this is still an aspiration.

Recently released data including the Purchasing Managers Index (PMI) by various Asian countries and trade deficits numberscould suggest which countries could be benefiting from the US-China trade dispute at the moment.

The Singapore Institute of Purchasing and Materials Management (SIPMM) published its monthly Purchasing Managers Index (PMI) for October on November 2. It declined by 0.5 points from 51.9 in September and came in below the 52.2 forecast of economists polled by Bloomberg.

A reading above 50 indicates that the factory activity is generally expanding and below 50 that the activity is contracting.

Similar manufacturing PMIs published by neighbouring countries show similarly dismal numbers.

Indonesia PMI last month was down to 50.5 from 50.7 the previous month, Malaysia's was lower at 49.2 compared with 51.5 a month earlier, Taiwan, 48.7 from 50.8, Thailand 48.9 from 50, Hong Kong 47.9 from 48.5, South Korea 51.0 from 51.3.

China saw a minute increase from 50.0 the prior month to 50.1 last month and in the Philippines the same 0.1 point increase to 52.0.

While India gained 0.9 points from a month ago to 53.1, Vietnam saw largest gain among major Asian economies reaching 53.9 from 51.3 in the previous month. This is not surprising considering Vietnam has been consistently identified by certain US companies as the preferred location in Southeast Asia should they relocate production from China.

Contrary to what the US hopes to achieve, the trade war it initiated with China saw its trade deficit with China widen by 1.3 percent in September to a seven-month high.

If anything, these figures indicate that in general no one gains from increased protectionism. Overall global economic growth will shrink to the detriment of all. The pain for China manufacturers will spread to its partners, for example, in South Korea and Taiwan for chips to textile suppliers in Myanmar. The trade war is expected to have negative impact not only in the US and China but also on various industries, companies and countries.

How AI will transform India's job scene	**Business Line** https://www.thehindubusinessline.com/opinion/columns/how-ai-will-transform-indias-job-scene/article25428983.ece

It will prod policy-makers to re-skill workers, rethink social policy, and examine the employment potential of new sectors

We live in the age of artificial intelligence (AI) that has provided us with immense processing power, storage capacity, and access to information. The exponential development of technology gave us the spinning wheel in the first, electricity in the second, and computers in the third industrial revolution. In 2016, the World Economic Forum called AI "the fourth industrial revolution" that has radically transformed the way we live, work, and connect with each other. However, it has also given us regulatory challenges such as data ownership and labour protection.

In particular, automation affects jobs and wage levels. A 2013 study by Oxford Martin Programme on Technology and Employment shows that since 2000, only 0.5 per cent of new jobs have been created that did not exist before. This is against 173 million jobs that would be automated in the next eight years in G7 countries, which are also the seven largest advanced economies in the world.

For the developing world, the World Development Report (2016) by the World Bank anticipates the consequence of automation as labour reallocation from labour surplus Asia to labour deficit countries of Latin America and Africa.

After examining 702 professions globally, a 2013 study by Oxford professors Carl Frey and Michael Osborne titled 'The Future of Employment: How Susceptible are Jobs to Computerisation?' has shown that "middle-skill" jobs that require routine cognitive and manual applications would be automated in the next couple of years.

As a result, they argue that India, which has 65 per cent of global IT off-shore work and 40 per cent of global business processing, will have 69 per cent of its jobs in the formal employment automated by 2030. In this context, we examine the macro- and micro-level implications of automation in India and some emerging labour policy questions.

Impact of automation

According to the International Labour Organisation (ILO), 60 per cent of the formal employment in India relies on "middle-skill" jobs, including clerical, sales, service, skilled agricultural, and trade-related work, all of which are prone to automation. Thus, automation has economy-wide implications at the macro level and workplace-level implications at the micro level for the worker.

At the macro level, there are three main transformations that automation will bring about: changes in skill demand, gender disparity in redeployment of workforce, and firm re-organisation. First, the definition of "skill" will increasingly denote workers' adaptability to work with or around automation. For example, demand for "systems skill" involving complex problem-solving abilities and social skills involving human perception will be in greater demand as opposed to physical or content skills.

Consequently, relative returns on time and effort on different jobs will vary significantly. This means work-life balance will improve for some type of jobs while others will be entirely wiped out. For example, jobs in call centres, retail, and administration taken up predominantly by women employees will face decimation whilst data clean-up and creating digital infrastructure performed by male workers will be in high demand, bringing a gendered aspect to the transformation.

Finally, automation and redeployment of workers will realign firms on "human cloud platform," where workers from any location can be hired to perform tasks. This will lead to a divergence between firm and workforce strategies in the short term.

At the micro level, automation will change the meaning of work. Jobs will be increasingly described as a set of discrete "tasks." Independent workers will perform a portfolio of tasks for specific wage-rates. At the workplace, hierarchy of supervision will be replaced by networks of collaboration with distributed and remote teams. This will significantly alter motivation and communication of the workforce. These changes will impact what the new employment contract looks like, with contingent employer obligations on minimum wage, social benefit, and collective bargaining significantly reduced.

Policy challenges

How should India regulate this "on-demand" economy with flexible jobs, transient wages, and distributed risks? There are three major areas in labour policy that require attention in the coming years — re-skilling workers and rethinking social policy in the short-term, as well as re-examining employment potential of new sectors such as care economy in the long-term.

First, automation involves re-skilling existing workers, redeploying others to new tasks and retooling potential workers who are students in the university. The 2017 IDC cognitive user adoption survey for the Asia-Pacific region indicates that 70 per cent of Indian firms plan to make additional investments in workforce-training to leverage the benefits of AI. Furthermore, the concept of "smart" work and demand for specific skills will encourage universities to redesign higher education and training and the state to facilitate job-market transition.

Second, there is an urgent need to rethink working-age population, retirement, and individual life plans. In social policy, futuristic ideas such as livelihood insurance and universal basic income presupposes state capacity to tax and distribute the additional income generated. World Social Protection Report 2017-19 by ILO shows that the share of workers covered by at least one social security programme in India is only 19 per cent as against 63 per cent in China.

Furthermore, the international norms of labour, including "rights at work" and "decent work", set by ILO needs to be modified and extended to the new economy where workers perform tasks from a "human cloud platform." Rights at work incorporate collective bargaining rights of labour and the right to form unions. Decent work is defined as productive work under conditions of freedom (existing rights protected), equity (adequate remuneration), and dignity (social policy coverage).

Third, there is an urgent need to look at new sectors beyond manufacturing and industries, which have the potential to generate paid work in the age of automation. This was pointed out by Commerce and Industry Minister Suresh Prabhu while revealing the new national industrial policy in 2018.

One important sector that has enormous employment potential is the care economy as corroborated by the 2018 ILO report 'Care Work and Care Jobs for the Future of Decent Work'. This report estimates that every day, unpaid care work employed labour equivalent to two billion people working eight-hour days, and argues that with increased investment in education, health, and social enterprises, 269 million jobs would be created by 2030. This will especially benefit women, who perform more than two-thirds of the current unpaid care work globally.

The challenges that AI places before the Indian policy-makers is epistemological, technical, and ethical. It asks us to do away with traditional, linear, and non-disruptive thinking. AI prods us to think about technology as well as social relations in a new light. Above all, the future encourages us to have shared understanding of the problem and a context-specific response to the challenge.

The writers are advisor and research director, respectively, at Cambridge Development Initiative, University of Cambridge. This article is by special arrangement with the Centre for the Advanced Study of India, University of Pennsylvania.

Cotton textile exports grew 26% in Apr-Sep; trade war to open new avenues	**Business Standard** https://www.business-standard.com/article/current-affairs/cotton-textile-exports-grew-26-in-apr-sep-trade-war-to-open-new-avenues-118110700433_1.html

India's cotton textile exports grew by 26 per cent at USD 6,235 million in the first six months ended September 2018 and the on-going trade war between US and China will open up new export opportunities, the Cotton Textiles Export Promotion Council (Texprocil) said here.

The country had exported cotton textiles (raw cotton, yarn, fabrics and made-ups) worth USD 4,917 million in April-September 2017-18, the association said in a statement.

However, exports of textiles and clothing declined by 3 per cent with exports of readymade garments registering a steep decline of 16 per cent during H1FY19.

India held a special place in global textile trade as the second largest textile exporter in the world. Today, cotton yarn & fabric exports account for over 23 per cent of India's total textiles and apparel exports.

Ujwal Lahoti, chairman of Texprocil, stated that the ongoing trade war between the US and China would possibly open up new opportunities for cotton textile exports from India and we should be ready to explore them.

The government was also in the process of putting in place alternative schemes to promote exports which would improve competitiveness, he said.

Lahoti welcomed the package for the MSME sector announced by the government. Interest subvention on pre-shipment and post-shipment finance for exports by MSMEs has been increased from 3 per cent to 5 per cent.

These measures would provide much needed support and encouragement to the MSME sector, which contributed significantly to the textiles exports. Under the package, GST- registered MSMEs would get 2 per cent interest rebate on incremental loan up to Rs 1 crore, he added.

He also noted that the jump in India's ranking in the World Bank's Ease of Doing Business will help boost exports.

Lahoti acknowledged that for textiles exporters, remarkable improvements are visible at the ports, customs and regional offices of DGFT EDI systems.

Industry hails MSME Support and Outreach initiative	**SME Times** http://www.smetimes.in/smetimes/news/top-stories/2018/Nov/07/msme-outreach-industry-reaction41298.html

The Indian industry has hailed the recent launch of a "historic" Support and Outreach Initiative for the micro, small and medium enterprise (MSME) sector.

Industry body ASSOCHAM, in a press statement, most heartily welcomed the measures announced by Prime Minister Modi for MSME sector today.

"These measures are very comprehensive, covering the whole gamut of issues faced by the MSMEs in India," said ASSOCHAM secretary general, Uday Kumar Varma.

"We are confident that these measures will certainly go a long way in mitigating the pains of the MSME sector and also give them new energy and vigour," said Varma.

He added, "These are Deepawali gifts in the true sense of the term to the MSME sector in the country."

Exporters' body FIEO has also expressed satisfaction over increase in Interest equalization rate from 3% to 5%, adding that it will provide competitiveness and level playing field to MSME exporters.

Hailing the announcement, made by the Prime Minister Narendra Modi, FIEO said increasing the Interest Equalization from 3% to 5% is very timely move and will help the exporters to get credit at competitive rates close to international benchmark.

Coming at a time when interest rates are moving northwards, the deeper support of 5% would provide much needed relief to MSME exporters who were burdened by increasing cost of credit, FIEO added.

This move shows that government is very keen to lend a helping hand to MSME to boost exports and create jobs in the country, it said.

Before the launch of the programme, ASSOCHAM, terming the programme as the much needed step to boost the confidence of trade and industry, said that the move would not only promote development of MSMEs but also help generate employment countrywide.

"Timely, easy and adequate finance is lifeline for the SME sector which is the most powerful engine of India's economic growth," said ASSOCHAM president Goenka.

Highlighting the importance of the MSME sector, Goenka also said that it is the backbone of Indian economy as it contributes about 30 per cent of India's gross domestic product (GDP) and 49 per cent of exports.

Global trade: A message to India amidst protectionist policies of Donald Trump	Financial Express https://www.financialexpress.com/opinion/global-trade-a-message-to-india-amidst-protectionist-policies-of-donald-trump/1375631/

With the hike in the US Federal Reserve's interest rate, most of the dollars invested in emerging and European markets have returned home. This deeply appreciates the significance of the dollar as hard currency and eventually makes the dollar pricier. To add to this woe of developing countries are the extreme protectionist and incoherent policies of US President Donald Trump, which are sending out confused signals to the world economy, as it was understood with the establishment of the World Trade Organisation (WTO) that performance of the global economy henceforth will be free and fair.

With a such situation in sight, India, like many other emerging markets such as Turkey and Argentina, has experienced serious fiscal issues such as current account deficit (CAD), rise in debt, inflation in fuel and market constraints for commercial transactions. The rupee has depreciated 13-14%, along with the currencies of other emerging economies like Brazil and South Africa, which witnessing fall in the range of 10-12%. Even Australian and Chinese currencies have experienced depreciations of 8% and 5%, respectively. This level of depreciation experienced by different economies suggests how investors perceive their different fundamental macroeconomic conditions, especially the level of their current account, fiscal deficits and policy outlooks. In effect, it suggests that the rising dollar raises questions about the capacity of emerging economies to service their dollar-denominated debts and the vulnerabilities this could expose their financial systems to.

Such hike in interest rate and restrictive policies of Trump are making conduct of global trade uncertain and unstable. What could be done to save the world trade from such uncertainty is an area of concern and needs to be examined.

Looking at the current situation, it is apparent that global uncertainty is raising its ugly head since Brexit, Trump's ascendancy, contagion effect of the EU crisis, and the withdrawal of the US from mega trading blocs such as the Trans-Pacific Partnership (TPP). Unpredictable and restrictive trade policies adopted by Trump to even out the trade deficit that currently the US is witnessing are proving to be an addendum in further uncertainty of the world trade. But he looks to be convinced that unfair trade is meted out to the US with the rise of China as an exporting hub, and such trade practices by China are completely non-transparent and manipulated through a systematic depreciation of the yuan. In response to such non-transparent policies of China, the US followed a 'tit for tat' policy by imposing tariffs on imported solar panels and washing machines, and then aluminium and steel.

Since March 2018, these trade skirmishes and conflicts are rising, without showing any signs of abating between the US and China. America's imposition of 25% tariffs on China's $55 billion exports to the US was further retaliated by

China with same sized tariffs on the same amount of trade from the US. To take further revenge, the US escalated trade conflict by imposing 10% tariffs on $200 billion worth of China's exports to the US.

This conflict is having a significant effect on trade and investment flows across the world as both are huge trade players in the global economy. If such a situation persists, China will look for new markets and, therefore, can have destabilising trade relations with some of its established trade partners. This new arrangement and uncertainty will continue to influence trade and investment, as businesses evaluate how increased restrictions will indirectly affect their supply chains.

The worry is that the country which has been the harbinger of free trade for the last 80 years is turning out to be its greatest critique. The US is emerging as a big threat to a rules-based trading system, which was duly acknowledged by most of the countries to engage in trade.

The current fluid situation is neither giving any definite signals to the progress of trade nor about the intention of Trump. Is it 'America first' or is it that the rules of the trading game need to be changed? If it is America first, then Trump needs to make America completely self-reliant and independent of any country's existence, and make America grow economically and politically, not to have any negative impact on its well-being. Such a perspective could be megalomaniac as America itself meddles with other nations' internal politics and policies, such as in the Middle East, in South Asia and in Latin America, to make its own position secured and strong. After all, it's all globalisation and an interdependent world.

If it is about the rules of the game, then the WTO framework may be strengthened by firmly institutionalising the dispute settlement mechanism instead of doing away with it, as was recently mentioned by Trump. Secondly, opening of economies needs to continue, as this will establish global competitiveness of countries. Lastly, unilateral reforms may be encouraged, especially for countries like China to initiate, so that structural reforms in Chinese economy are done to demonstrate to the outside world about its competition policy, IPR, currency management, etc. This would convince the US and the world economy about the fairness in the Chinese system, which has been a bone of contention for some time now, and the world economy will be more stable.