# India scraps cotton import duty to aid exporters

REUTERS, *New Delhi*

India has scrapped customs duties on cotton imports for five months, the government said on Saturday, as it seeks to boost supplies of contamination-free natural fibre for textile exporters amid strong overseas demand for yarn.

The easing of import restrictions by the world's second-largest cotton producer is likely to lend support to global prices but is unlikely to trigger a surge in purchases as the rupee's depreciation has made imported cotton slightly more expensive than domestic supplies.

The current 11 percent import duty will be suspended until October 30, the government said in a statement.

India's textile sector, like others, is under pressure from rising input costs as supply chains are disrupted by the Iran war.

The measure is expected to support domestic producers, particularly small and medium-sized firms, by improving cotton availability, the government said.

However, industry officials said Indian cotton is currently the cheapest in the world and that ample supplies from this year's crop are available domestically, which is likely to limit imports.

"At current price levels, imports are not economically attractive," Vinay Kotak, president of the Cotton Association of India, told Reuters.

"Export-oriented mills need contamination-free cotton and, to meet that requirement, around 600,000 bales could be imported during the duty-free import window."

The cotton is likely to be sourced from Australia, Brazil, the United States and Africa, which have surpluses, industry officials said.

India last year allowed duty-free cotton imports from mid-August through the end of December, helping drive imports to a record 4.7 million bales in the current marketing year, which began last October 1.

# Sri Lanka raises fuel prices

AFP, *Colombo*

Sri Lanka raised fuel prices by up to six percent on Sunday, in line with IMF plans to recover energy costs and phase out subsidies to stabilise the economy.

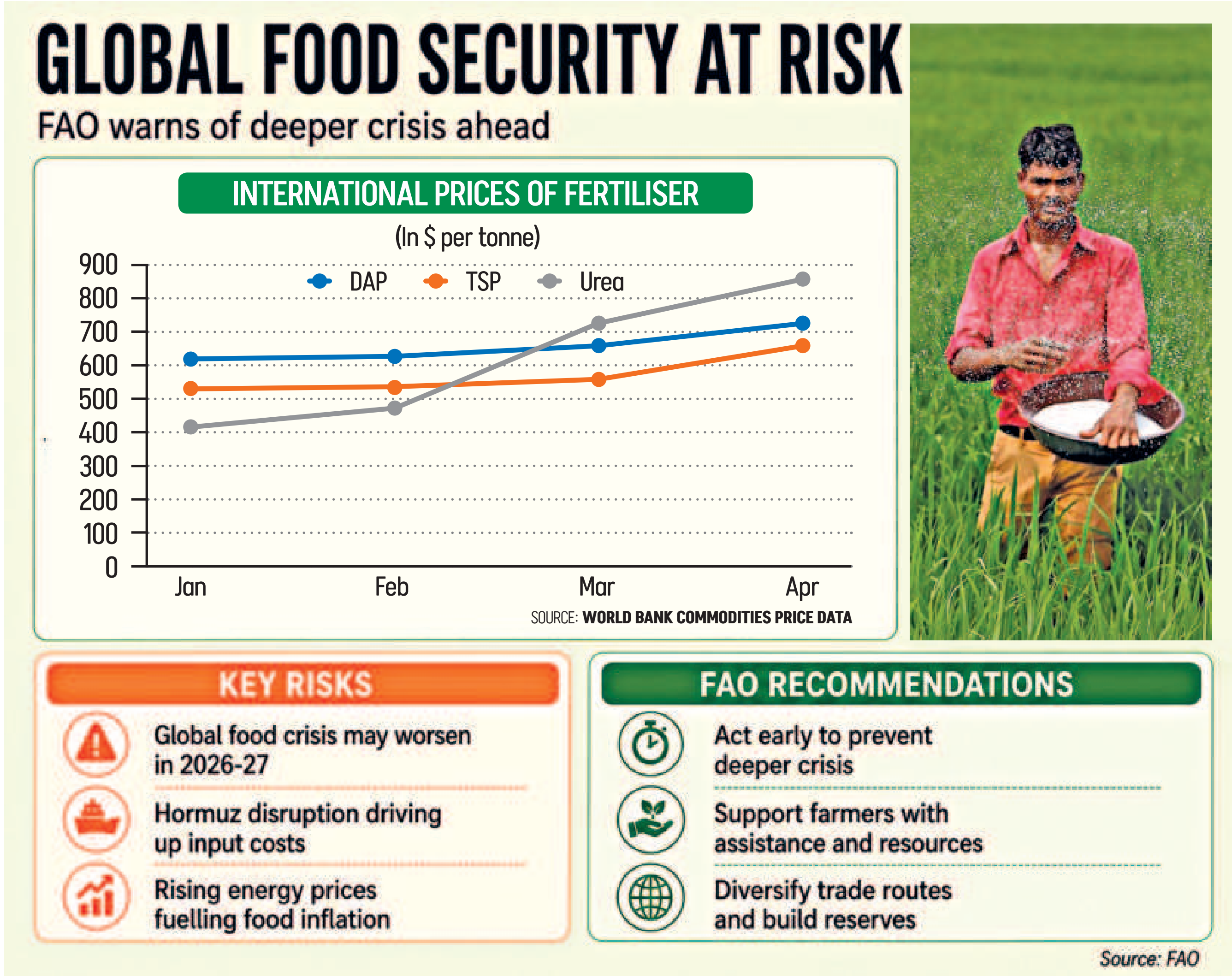
Petrol was raised to 434 rupees ($1.33), up from 410, while diesel increased to 407 rupees a litre from 392, the state-run Ceylon Petroleum Corporation said.

The price hike came days after the International Monetary Fund released a $695 million instalment of a $2.9 billion bailout loan, agreed in early 2023 to stabilise the cash-strapped South Asian nation.

The IMF wants Sri Lanka to ensure cost recovery for both fuel and electricity tariffs, which have been subsidised by the government since the start of the conflict in the Middle East in February.

President Anura Kumara Dissanayake, in a letter to the IMF made public by the Washington-based international lender, said fuel subsidies will be phased out by September.

Since the United States and Israel began attacking Iran on February 28, triggering a global energy crisis, Sri Lanka has raised petrol and diesel prices by about 48 percent. Electricity has increased by a third.




AI-ASSISTED INFOGRAPHIC

## MIDDLE EAST TURMOIL

# FAO warns of global food security emergency

STAR BUSINESS REPORT

The world risks facing a deeper food security crisis in 2026 and 2027 unless governments act quickly to cushion the impact of disruptions in the Strait of Hormuz, the head of the Food and Agriculture Organization (FAO) has warned.

"The decisions we make now will determine whether this remains a manageable shock, or evolves into a deeper global food security crisis in 2026 and 2027, and beyond," FAO Director-General Qu Dongyu said at a special event on the Middle East crisis during Rome Nutrition Week in Italy from May 25 to May 28.

Describing the situation as "a systemic shock to the global agrifood system", he said the biggest impacts may emerge months from now as farmers cut back on planting and fertiliser use because of rising production costs and supply chain constraints.

According to the FAO, severe disruptions in the Strait of Hormuz have already affected the movement of oil, liquefied natural gas, sulfur and fertilisers, driving up agricultural input costs and putting upward pressure on seed prices because of their dependence on fertilisers. As energy prices rise, agrifood systems become more expensive across all regions.

Input import-dependent countries, in particular, are facing rising bills, while vulnerable households are losing purchasing power as inflation erodes incomes, the UN agency said.

For many countries, especially in Africa and parts of Asia, these impacts are not occurring in isolation. They are compounding existing pressures from debt distress, climate shocks, conflict and constrained public finances.

Bangladesh meets most of its fertiliser requirements through imports, and Gulf nations such as Saudi Arabia and the United Arab Emirates are major suppliers.

In the fiscal year 2023-24, the country's demand for urea was 27 lakh tonnes, of which more than 17 lakh tonnes had to be imported, according to Bangladesh Chemical Industries Corporation data.

As global prices of fuel and fertiliser -- especially urea -- have risen, Bangladesh is already feeling the strain.

The FAO chief said the actions taken now will be critical in determining whether the world can manage the shock caused by the situation in the Strait of Hormuz or face a far more serious food security crisis in the years to come.

"We must act early before humanitarian and economic costs rise," the director-general said.

The warning comes days after the FAO cautioned that the closure of the strategic waterway could trigger a severe global food price crisis within six to 12 months if preventive measures are not taken.

FAO Chief Economist Maximo Torero earlier said the situation should not be seen as a temporary shipping problem but as the beginning of a broader agrifood shock that could spread through global food systems via higher energy costs, fertiliser shortages, lower crop yields and food inflation.

The impact is already visible. The FAO Food Price Index, which tracks monthly changes in the international prices of a basket of globally traded food commodities, rose for a third consecutive month in April, driven by high energy costs and turmoil linked to the conflict in the Middle East.

To reduce the risks, the FAO urged countries to avoid export restrictions on fertilisers and agricultural inputs, support farmers through focused assistance and ensure timely financing for food production.

The UN agency also called for greater diversification of trade routes, stronger regional integration, strategic reserves and more resilient agrifood systems to reduce dependence on critical trade chokepoints.

The FAO has warned that the situation could become even more challenging if a strong El Niño event materialises, disrupting rainfall patterns and agricultural production in several regions.

"We have a window to act, but that window is narrowing," Qu said.

The FAO said traditional emergency packages centred exclusively on fertiliser-intensive systems may no longer be viable under current conditions.

"Countries should support adaptive strategies such as intercropping, improving nitrogen efficiency and promoting crops that are less dependent on synthetic fertilisers."

It suggested prioritised support, saying resources should be directed towards the most vulnerable populations through well-designed social protection systems and rural support mechanisms.



# We need a new industrial policy

MAMUNUR RAHMAN

The World Bank recently released two important reports. One is Industrial Policy for Development: Approaches in the 21st Century. The other is the South Asia Economic Update for April 2026: Working with Industrial Policy. Both send a clear warning to Bangladesh: growth without urgent reforms is not sustainable.

The South Asia Economic Update presents troubling figures. Bangladesh's growth may slow to 3.9 percent in 2026. Poverty has risen for three years in a row, with about 1.4 million more people falling into poverty. Inflation remains high at 8.5 percent. Wages for poor workers have not kept pace. The banking sector remains dangerously fragile. Non-performing loans stood at 30.6 percent in December 2025, and several banks have very little loss-absorbing capacity left.

I have worked on many industrial policies for Bangladesh and represented small and medium-sized enterprises (SMEs). I sat on the core committee for years. I saw how things happened behind closed doors. External influences changed final drafts at the last minute. Donors and powerful groups made sudden demands. Small enterprises were left behind every time. I watched this pattern repeat for two decades.

Our National Industrial Policy 2022 is highly ambitious. It contains 42 action points. Yet almost none have been implemented on the ground. SMEs remain neglected in practice.

The industrial policy report pays close attention to small businesses. SMEs cannot access financing easily. High costs and risks stand in their way. Brazil's innovative "Simples" programme helped informal firms formalise. South Korea used targeted support to grow SMEs. Romania gave tax breaks to its software industry. These offer direct lessons for us.

The World Bank economic update says SMEs face severe barriers, including high regulatory costs and unreliable power supplies. Only large export firms have grown well. The tax-to-GDP ratio has fallen below 7 percent, limiting our ability to invest in priority sectors.

A new idea is now emerging globally. The Economist recently highlighted the "partial nationalisation" of industries. This concept matters for fast-growing sectors such as AI. Global giants control most AI value today, leaving small nations far behind.

Partial nationalisation means the state takes a modest stake, not full government control. It could involve 20 percent to 30 percent ownership in strategic AI projects, including cloud hubs and Bangla language models. Profits from these investments could fund social programmes. Norway did this with its oil wealth. Singapore did it through sovereign funds.

Bangladesh faces a major deadline in 2026 as it prepares to leave least-developed country status. Trade preferences will end permanently. The WTO will impose stricter subsidy rules. AI will not wait for our committees to finish their work.

The Economist update also warns about rising global protectionism. The United States has imposed a blanket tariff, including a 19 percent reciprocal tariff on Bangladesh. This hurts our export competitiveness. Yet intra-South Asia trade could triple if tariffs are lifted. That is a huge opportunity for us.

The report calls for urgent reforms. We need smart deregulation and a stronger competition policy. We must fix the banking sector decisively. We must improve electricity reliability. Without these steps, resilience will not last.

We should not allow external actors to rewrite our drafts at the last minute. I have seen this happen too many times. A well-researched draft enters the final meeting, only for outside pressure to change everything overnight. This must stop.

The floppy disk era of policy advice is over. The World Bank's chief economist said so himself. It is time to write our own code for Bangladesh. Let us update the 2022 policy with honesty. Let us implement what we write. Let us put SMEs at the centre. And let us explore partial nationalisation in strategic AI sectors. That is the only path to real development.

*The writer is coordinator of Ella Alliance and founder of Ella Pad*

# From lottery draws to fiscal spending, China broadens digital yuan footprint

REUTERS

China's central bank is making a broad push to increase the use of digital yuan at home and abroad, several industry sources said, setting Beijing on a different -- and potentially competing -- path from the United States in shaping the future of money.

In a series of measures, many revealed here for the first time, the People's Bank of China (PBOC) is giving banks policy incentives and behind-the-scenes directives to expand the use of digital yuan, also known as e-CNY, in areas ranging from lottery draws to green electricity charges and fiscal spending.

Banks are also being pressed to grow digital yuan use in cross-border transactions, particularly along Belt and Road Initiative routes, with lenders racing to develop compatible products including loans, letters of credit and bills, the sources said.

All the sources declined to be named as they were not authorised to speak to the media.

The PBOC did not respond to Reuters' request for comment.

China's bet on the digital yuan is in stark contrast with the US, where President Donald Trump has embraced stablecoins while banning domestic circulation of central bank digital currencies.

Some of the industry sources said Beijing's move is partly driven by a desire to reduce its dependence on a global payments system dominated by Western institutions and anchored to the dollar as the world's reserve currency.

The digital yuan serves as a technological backstop, helping ensure China's international trade flows continue uninterrupted during future geopolitical shocks, a concern underscored by external instability linked to the Middle East war, one of the industry sources said.

"The war has exposed the risks of dollar weaponisation, highlighting the urgent need for de-dollarisation among Middle East oil producers," brokerage China Securities Co wrote in a report, saying the Iran conflict is accelerating yuan internationalisation. As a result, the yuan's global influence could expand "from trade into the realm of geopolitics," it wrote.

To be sure, the digital yuan is starting from a low base and faces structural limits on how far it can expand.

Cumulative digital yuan transactions had reached 16.7 trillion yuan ($2.47 trillion) as of November since its 2019 debut, according to the latest official data, compared with 279 trillion yuan in China's UnionPay card transactions in 2025 alone.

President Trump has long treated the stock market like his personal scoreboard, but his latest financial disclosure suggests something far more active.

In cross-border digital payment, "China and the US are the two engines for the global economy and they're both pushing their own standards," said Xin Yan, CEO of Sign, which builds digital infrastructure for governments and institutions.

China's digital yuan is more compatible with the banking system but "it is not friendly for foreigners," Xin added.

The latest push gained momentum after China earlier this year began allowing interest payments, opens new tab on digital yuan holdings in a major policy shift. In April, authorities more than doubled the number of authorized operating banks to 22.

The move effectively turns the digital yuan into an on-balance sheet deposit liability for banks, significantly boosting their incentive to promote adoption as it counts toward deposit assessment targets and enables development of more credit and wealth management products, industry sources and analysts said.

A fintech industry insider who provides IT services to banks said that although progress had been slow in recent years, the Chinese government appears "serious this time" about driving broader adoption of the digital currency.

Digital yuan deposit balances and account numbers are now key metrics in how banks are evaluated, the person said, adding that the goal is to build critical mass and an ecosystem that pulls in broader participation.

To boost domestic usage, the PBOC is testing applications using "smart contracts" -- embedded programs that trigger automatic payments when predefined conditions are met.

Pilots include lottery draws, prepaid cards, government fiscal spending and supply chain financing, the industry sources said.

Authorities are also testing the digital yuan to curb medical insurance fraud and track green electricity consumption, leveraging its ability to trace money flows with precision, said the sources.

Local governments have set numerical adoption targets and are piloting internal use cases including salary payments and healthcare disbursements, one person at a payment company said.

The PBOC is also considering establishing a clearinghouse similar to China UnionPay to process digital yuan transactions among all operating banks and improve efficiency, sources said. These uses have not been previously reported.

PHOTO: REUTERS/FILE

**The headquarters of the People's Bank of China in Beijing. In a series of measures, the central bank of China is giving banks policy incentives and behind-the-scenes directives to expand the use of digital yuan.**