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INTERNATIONAL NEWS

Brexit disruption forces German exporters to think again

“A catastrophe” is how Henrik Follmann describes Brexit’s impact on his family’s chemicals company. Based in northern Germany, it recently scrapped plans to expand its UK factory because of Britain’s departure from the EU.

Follmann Chemie had planned to invest about £2.5m in making more adhesives at the plant it bought three years ago in Andover, southern England, to boost exports to EU clients. But its chief executive said this plan was wrecked by the extra difficulties of shipping goods both ways across the English Channel: “Brexit has been a nightmare, building up costs and time.”

“We were going to build extra production and storage to supply customers on the continent, but we delayed it and have now taken a strategic decision to cancel this and to expand in the EU instead,” said Follmann, the third generation of his family to run the company.

Follmann has had a tougher Brexit than many companies. But its experience of increased costs and delays to shipments between the UK and the EU is typical of many businesses grappling with the extra bureaucracy and pitfalls created by the new customs checks.

Even though the UK and EU agreed a last-ditch trade deal to avoid tariffs on most goods when Brexit came into force on January 1, trade between the two has been disrupted by higher shipping costs, transportation delays, health certificate requirements and more complex customs requirements at the border.

The UK’s Office for National Statistics on Wednesday said British exports to the EU in the first three months of this year fell 18.1 per cent from the previous quarter, while imports from the EU were down 21.7 per cent. In contrast, UK trade with non-EU countries grew slightly in the same period.

There have been signs of a partial recovery from the initial post-Brexit disruption, as UK trade with the EU increased in March, albeit at a slower pace than with other countries. But for the first time since comparable records began in 1997, the UK imported more in March from outside the EU than within it, underlining how British trade has shifted away from the bloc.

"It is probably too soon to talk about the long-run effects of Brexit on trade, even though we have seen these big moves in the data recently, it could be that firms are starting to learn how to deal with these customs procedures," said Lisandra Flach, economics professor at Ludwig-Maximilians-University in Munich.

The UK has been steadily declining as a trading partner for the rest of the EU since the 2016 Brexit referendum. Its share of exports from the 27-country bloc has fallen from more than 17 per cent before the vote to 14 per cent last year, according to Eurostat. In January and February of this year, the UK's share of EU exports outside the bloc fell below 13 per cent.

Follmann said he feared that some big UK clients were considering shifting some production to the EU to serve customers in the bloc. There are already signs that foreign direct investment in the UK has been weighed down since the EU referendum.

In the five years to March 2021, the number of FDI projects into the UK was up only 12 per cent compared with the previous five years because of sluggish investment growth from North America and western Europe, the main investing regions, according to data from fDi Markets, an FT-owned company tracking foreign investments. This was well below the 33 per cent expansion across EU countries.

The number of foreign greenfield investment projects into the UK fell 40 per cent in the 12 months to March 2021 compared with the previous 12 months. While this is largely the impact of the pandemic, the drop was larger than the 30 per cent contraction registered for investment into the EU.

"A lot of adjustments by companies have already happened in the years before Brexit," said Flach, who co-wrote a report for the German government on the impact of the UK's departure last year.

Germany accounts for a quarter of all EU exports to the UK meaning it has been affected more than most countries by Brexit disruption. Many of the small and medium-sized companies that are the backbone of Germany's export-focused economy have struggled with the extra customs checks and bureaucracy now needed to ship goods to the UK.

"There is no vaccination against Brexit," said Klaus Winkler, chief executive of Heller, a specialist in making crankshaft machines to mill engine parts that is based in Nürtingen, near Stuttgart in south-west Germany. It has a UK plant that assembles many of its machines in Redditch.

"A lorry travelling from Nürtingen to Redditch takes twice the time and we have to put a lot more hours into all the bureaucracy," said Winkler. "It is quite cumbersome. We had to increase the stock levels and have maintained them because it hasn't improved."

Paul Maeser at the BDI, Germany's main industry association, said many smaller companies had asked it for help with the new UK customs requirements. "Some of them have said they just can't cope with this any more, so they won't continue to serve this market," he added.

Heller and Follmann have encountered problems with the rules of origin clauses in the Brexit trade deal. These stipulate that all goods must be able to demonstrate that they "originate" in the EU or the UK — containing about 50 per cent UK content for most products — in order to qualify for zero tariff treatment.

Some of the products Follmann exports to the UK are made by third parties outside the EU, meaning they have started to incur tariffs. "We didn't anticipate that," its CEO said, adding that container shipping costs to the UK have risen 20-30 per cent.

Winkler said some Chinese clients needed Heller's products to be built in the EU, not the UK, meaning it has had to rework its production to assemble more machines in Germany.

The UK has pushed back full customs checks on some products entering from the EU until January, which means that even some of the continent's biggest exporters are concerned that Brexit disruption could get worse.

BMW, which has factories in the UK and the EU, said: "We welcome the fact that the Brexit deal resulted in a zero tariff trade arrangement, however, the additional administrative complexity has added costs to our businesses and the full weight of this will not be felt until full UK customs controls are implemented in January 2022."

Source: ft.com – May 15, 2021

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China's textile sector sees steady expansion

China's textile industry saw steady expansion in the first three months of the year, data from the Ministry of Industry and Information Technology (MIIT) showed.

The added value of textile firms with annual operating revenue of at least 20 million yuan (about 3.09 million U.S. dollars) rose by 20.3 percent year on year, according to the MIIT.

The firms raked in 43.4 billion yuan worth of profits, surging by 93 percent from the same period last year. Their combined operating revenue expanded by 26.9 percent year on year to about 1.05 trillion yuan.

China's online retail sales of clothing products registered a year-on-year growth of 39.6 percent between January and March. Garment exports totaled 33.3 billion dollars during the period, up by 47.7 percent year on year.

Source: china.org.cn– May 16, 2021

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UK Exports to China Resume High Growth Trend in Q1 2021, After Plunging in 2020

UK companies are seeing a significant rise in exports of goods and services to China, in spite of the ongoing deterioration in political relations between the two governments. Indeed, China as a trading partner for the UK, overall, in terms of both imports and exports of goods and services is showing signs of reaching new highs, in 2021, after a hiatus last year.

By contrast, over 2020, UK exports to China fell by a precipitous 37.7 percent, to £13.8 billion (US$18.6 billion) from £22.9 billion (US$30.1 billion) in the previous year. The bulk of the decline was made up of goods exports which decreased by 42 percent, while services exports fell by 16 percent.

The mending UK-China trade picture

According to recently released data by the Office for National Statistics (ONS) for the first quarter of this year, the UK's exports to China were up by 6.2 percent at £3.9 billion (US$5.5 billion), versus £3.6 billion (US$5.1 billion) in Q1 2020. This made China the seventh largest market for UK exports in that period.

Meantime, exports fell sharply to Hong Kong, which typically acts as a conduit for UK goods into mainland China, from £2.3 billion (US$3.2 billion) in Q1 2020 to £1.5 billion (US$2.1 billion) in Q1 2021, dominated by a major decline in unrefined precious metals exports. Yet despite the quarter's weak export performance, Hong Kong remained the UK's eleventh largest export market for that period and ahead of other much larger Asian economies.

These included Japan in 12th place with £1.45 billion (US$2.04 billion), South Korea in 14th with £1.18 billion (US$1.66 billion), and India ranked 17th with £1.04 billion (US$1.46 billion). Exports to other smaller Southeast Asian economies, where the UK has recently secured free trade deals, such as with Singapore and Vietnam, came in with exports at £948 million (US$1331 million) and £149 million (US$209 million), respectively, over Q1 2021.

It is worth noting that the rise in UK exports to China over Q1 2021 exhibited a rapidly surging trend over the course of the first three months. This is especially reflected by the 60 percent rise in March 2021's exports over the previous month. On an annual basis, the UK's exports to China, in that month, were the third largest expansion in exports ever in respect of all international export markets, up by 40 percent, in March 2020.

Of course, this is mainly attributable to the low baseline arising from China's strict coronavirus pandemic lockdown which took effect across the country in early 2020. Even so, the UK's annual rise in exports to China, for that month, significantly exceeded both Europe's overall 25 percent increase in exports and the 28 percent global average increase.

While exports to China were rebounding over the first quarter of the year, seven of the top ten traditional UK export markets, including the United States and in western Europe, experienced substantial decreases. Other than China, economies recording increased exports from the UK were Belgium and Switzerland, although exports to the latter rose solely on account of surging re-exports of unrefined precious metals.

Sector and region-specific export gains

The Q1 2021 increase in exports to China was led by UK manufactured goods such as machinery and transport equipment achieving £1.8 billion (US$2.5 billion) in export value. Motor vehicles also performed well with exports of £1.05 billion (US$1.47 billion). Other major industry sectors evidencing a strong pick up in export levels. over the quarter were also mainly concentrated in the manufacturing sectors, including chemicals (£784 million), pharmaceuticals (£531 million), mechanical machinery (£509 million) and material manufactures (£346 million).

Click here for more details

Source: hellenicshippingnews.com– May 17, 2021

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Chinese garment factories shut operations in Myanmar

Chinese-funded garment factories in Myanmar have decided to shut operations due to COVID-19 led disruptions, says Khin May Htway, Managing Partner, MyanWei Consulting Group, which advises Chinese investors in Myanmar.

Foreign investment in garments surged in Myanmar over the past decade as economic reforms, an end to Western sanctions and trade deals helped establish the sector as the greatest symbol of its nascent emergence as a manufacturing hub. Myanmar garment shipments rose from less than $1 billion in 2011, about 10 per cent of exports, to more than $6.5 billion in 2019, about 30 per cent of exports, according to UN Comtrade data.

However, the sector has been rocked by the pandemic resulting in tens of thousands of garment factory jobs lost in Myanmar, says Oman Observer. Then the coup happened. In the weeks that followed, many garment workers joined protests or couldn't get to work as streets became battlegrounds. The turmoil also jammed the banking system and made it difficult to get goods in and out of the country, factory owners said.

With international condemnation of the coup growing, European and US fashion brands last month issued a statement through their associations saying they would protect jobs and honour commitments in Myanmar.

However, many have recently halted orders there including the world's second-biggest fashion retailer, Sweden's H&M, Britain's Next and Primark, and Italy's Benetton. Next said it would split its orders previously going to Myanmar between Bangladesh, Cambodia and China, while Benetton said it would mainly move the business to China. H&M and Primark have not commented on how they will redistribute orders.

In Vietnam, garment factory owner Ravi Chunilal said he was starting to get more business from European buyers diverting from Myanmar.

Peter McAllister of Ethical Trade Initiative, a labor rights organization said that it would be very difficult for Myanmar's garment sector to recover if Chinese investors left.

Source: fashionatingworld.com– May 15, 2021

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If 2021 kills fast fashion, Hong Kong's garment industry could come back to life

Walking through Central last week I noticed something that made me sigh. Fresh in the wake of the closure of The Gap and the fire sale that followed "Coming this Summer", American Eagle with its range of much the same casual wear as The Gap will be opening in exactly the same spot on Queen's Road. Why?

Top Shop recently threw in the towel after eight years. H&M and Abercrombie & Fitch, with their topless male models, have all been crushed by the rents. Zara remains in its trophy store, having previously sent H&M retreating to a side-street after a bidding war with the landlord. One would have thought the appeal of funding a new store such as American Eagle has long since passed.

Fast fashion's move into Central some 10 years ago was strategic, to catch mainland tourists and tap that consumer base. A shop on Queen's Road close to multiple luxury brands demonstrated to unfamiliar visitors what a hot brand you were, and established unfamiliar names beside the familiar ones.

At that time, the rate at which tourists were coming to Hong Kong was growing at about 15 per cent per year, and at just shy of 3 million inbound per month, it was worth being in the booming fast-fashion business on China's doorstep. But of course, that has changed on multiple levels due to fatigue with tourists, the protests , Covid-19 , and now, a different type of consumer in Central that prefers Japanese tat from Don Don Donki to brighten their day. Perhaps next up will be a pachinko parlour.

THE TIMES THEY ARE A-CHANGIN'

The new problem fast fashion faces isn't isolated to Hong Kong. The coronavirus pandemic, along with growing awareness of the environmental impact of fast fashion, might mark the start of the end. The press is more often documenting and discussing the damage done by the industry, from sourcing cheap materials, running up production in low-cost Asian places to transporting the booty around the world, only for the stuff to quickly fall out of fashion or simply collapse and be thrown away.

I don't often admit this in public, but I had a brush with fast fashion at the peak of its hype without understanding the concept of 'ten wears' versus 'ten years' useful life. Although the arm did not fall off my trendy new Zara suit after the first trip to the dry cleaner as I thought it might – it was stitched on rather than glued, which the Japanese did to try to cut production costs in the 1990s – the outfit was unwearable after about a month and became pinstriped floor cloths. I learned my lesson and humbly went back to my tailor Haresh for a new suit, faithfully copied from one he made me ten years earlier that was still in good order. Sorry, Haresh.

Certainly, from an environmental, social and governance (ESG) standpoint the industry looks horrible through the lens of a modern assessment of business plans, and purchasing shares in a company that designs obsolescence into its products and treats workers poorly is rapidly becoming a thing of the past.

Additionally, if the ESG movement really gets going this year, with climate conference COP26 in Glasgow and aggressive climate change targets already being set by governments around the globe, then companies could find themselves sanctioned by investors if they fail to comply with acceptable ESG standards.

BIG BUSINESS

At full throttle, the fast fashion industry accounted for a reported 3 per cent of global GDP, or around US$2.5 trillion. The lockdowns during the pandemic have had several impacts on the garment industry overall: we don't buy new clothes, and when we're working at home, we tend to slob. This has led to the "Zoom suit" which means you only must look professional from the waist up on your video call – I've worn one on occasions.

In countries where the lockdown has been harsh, the impact on retail has been severe. The usual outlets that offer browsing and casual shopping have been firmly closed and rummaging online is just not the same. When we do get chances to socialise, we are seeing far fewer people at once, so the fashion conscious feel less pressure to wear something new on every date.

The daily wear and tear factor on clothing has also been reduced, with less travel on public transport where your togs are quickly damaged and rapidly get grubby. I for one have not had to visit a dry cleaner in a year.

RETAIL FIX

With the easing of lockdowns, the press has been quick to report a surge of shoppers at stores such as Primark, Zara and TK Maxx. I have a feeling this footfall will be temporary, like the surge to get a haircut, go to the gym or the pub – everyone needs a retail fix.

There is also a risk that the returning wave of consumers will be quickly exhausted, with a portion of potential shoppers having been scarred by lockdowns and opting to preserve savings now rather than repeatedly going out to buy cheap clothes. And when buying, perhaps they will look for something that lasts more than ten wears, even if it means paying up. With higher prices being paid comes lower sales volumes and an expectation of better value for money, specifically better quality.

This all sounds very gloomy for apparel, and presumably garment manufacturing in Asia, but could this mean something positive for Hong Kong? It might.

A GOOD REPUTATION

Although Hong Kong has witnessed the decline of most of its manufacturing industries over the past 40 years, the garment industry is one of the most important segments of what is left. International firms trust the quality and appreciate the short lead times in manufacturing due to the tightness of the local supply chain for clients that source product on an OEM or ODM basis.

Theoretically, this could position Hong Kong advantageously if consumers move upmarket, and may even bolster the industry, with over half its exports historically going to where the pandemic had its biggest impact on consumers: the UK and the US.

Although finance and property define the economy today, between the early 1950s and late 1970s Hong Kong was a major exporter of textiles and a significant part of the population were employed in the garment industry. Its heyday passed in the early 1980s as China’s factories hollowed out the industry. However, Hong Kong remains a major hub for clothing sourcing to this day, where the demand is driven by a strong history of fabrics procurement, sales and marketing, logistics, international design and the ease of doing business.

As of December, 2018 there were over 14,500 companies in the garment industry in Hong Kong employing 80,718 people, mostly in sourcing and associated import-export trade – almost as many as work in the Port of Hong Kong itself. A strategic change in the way fast-fashion serves consumers could see a positive impact here, particularly in and around Sham Shui Po where the garment industry is located.

Many designer labels continue to look to Hong Kong to source high quality product including Calvin Klein, Donna Karen, Ralph Lauren, Tommy Hilfiger and Yves Saint Laurent. And local labels such as Baleno, Bossini, Crocodile, Episode, G-2000, Giordano and Jeanswest are still around but have suffered. Perhaps a decline of the fast fashion mammoths on Queen's Road could reopen doors for them soon and with the competition from successful online retailer YOOX Net-a-Porter specialising in offloading surplus high quality branded goods at bargain prices, perhaps the high end stores' presence will diminish also.

In the meantime, I'll be pulling my 16-year-old vintage Bossini Hawaiian shirt out again this summer, it still looks good. And I am guessing my already sagging Gap jeans will be on their last legs by the time American Eagle are done. You never know, its fire sale may be the last time cheap branded jeans can be had around here.

Source: scmp.com– May 17, 2021

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Sri Lanka: Exports sector: Industry resilience put to test

Despite positive predictions at the beginning of the year, uncertainty has once again gripped the Sri Lankan export sector following the most recent surge in Covid-19 cases, leading experts to believe that the current export target needs to be revised.

Speaking to The Sunday Morning, EDB Chairman Suresh de Mel stated that the evolving situation has made the future uncertain, and the impact on the sector from the recent surge of Covid cases is yet to be analysed. He explained that this lack of analysis is due to unpredictable situations in both Sri Lanka and its export markets, making it difficult to make an accurate calculation.

“Sri Lanka and our export markets are going through a challenging situation, and it will take us some time to understand the actual effects of this. If we look at India, it is very uncertain what our exports to India will be. On the one hand, our exports to India may reduce, and on the other hand, with the decrease in India’s exports, we may be able to pick up the slack. These will include products such as fruits, vegetables, and spices. But I don’t know if it will be enough to compensate for the impact felt by our industry.”

This comes despite positive predictions from de Mel last February, when he was confident that the resilience of the sector and its performance last year would help it reach the 2021 export target of $ 16 billion. Now, however, this goal may have to be revised in light of the current situation, he noted.

At the time, he stated that the target was fairly achievable thanks to the industry’s resilience, as well as the new initiatives put forth by the industry and the overall resilience of its stakeholders. He explained that the EDB had predicted a $ 15.68 billion target for merchandise and service exports for 2021, with $ 12 billion expected to come from merchandise exports, which is a $ 2 billion increase from last year, leaving the remaining $ 3.68 billion to come from service exports.

He went on to state that they forecasted an income of $ 5.4 billion from the apparel sector, $ 1.47 billion from tea, $ 998 million from rubber, $ 809 million from coconut, $ 229 million from seafood, and $ 173 million from gems and jewellery, for 2021.

When speaking with the paper last February, other industry experts were also positive about the future of local exports, with fewer challenges expected after the export sector's 2020 revenue, which surpassed its initially revised target after the pandemic's outbreak. During that time too, they noted this as proof of the sector's resilience.

Sri Lanka's merchandise export earnings remained at $ 9.9 billion in 2020, which was 104% of the revised forecast of $ 9.5 billion, according to Export Development Board (EDB) data. The board initially set a target of $ 13.5 billion for the merchandise export sectors in early 2020, before the pandemic struck.

As per Customs statistics, export earnings in December 2020 amounted to $ 931.65 million, which was 13.75% higher than in November 2020, and only 6.91% lower than December 2019.

The EDB attributed the reductions during the October and November period to the second outbreak of cases in Sri Lanka, alongside adverse global market conditions for Sri Lanka's key exports, which were aggravated by the second waves in those respective markets, leading to a low demand for local exports.

Excluding the markets of the US, the UK, and Germany, other countries among Sri Lanka's top 10 export markets showed an increase in exports towards the end of the year. Exports to China and Turkey increased 30.97% and 31.01% in December 2020 compared with December 2019, respectively. Exports to the European Union (EU) (4.86%) and CIS (Commonwealth of Independent States) (5.92%) regions recorded increases in December 2020 compared to December 2019, while exports to other regions had declined.

Total merchandise export earnings from January-December 2020 were $ 9,912 million, compared to $ 11,940 million recorded in a similar period the previous year – a decline of 16.98%.

Major exports such as apparel and textiles ($ 4,405.84 million), tea ($ 1,240.94 million), rubber and rubber-based products ($ 816.17 million), and electrical and electronic components ($ 328.28 million) recorded decreases of 21.01%, 7.83%, 9.66%, and 13.87%, respectively, during January-December 2020 compared to the similar period the previous year. Furthermore, exports of apparel, one of the economic sectors hit hardest by Covid-19, was recorded at $ 4,405.84 million, which was higher than the revised forecast of $ 4.1 billion in April.

However, the export of coconut and coconut-based products ($ 664.54 million), spices and concentrates ($ 335.47 million), and other export crops ($ 67.59 million) recorded positive growth rates during the period. Earnings from the export of PPE (Personal Protective Equipment)-related products increased by 47.42% to $ 876.44 million in January to December 2020, compared with $ 600.45 million recorded in the corresponding period of the previous year.

This strong performance was mainly due to the increased exports of other made-up textile articles (HS 630790), and articles of apparel and plastic clothing accessories (HS 392620). As a result of increased export of articles of apparel and plastic clothing accessories, export of plastic products increased by 139.96% to $ 176.35 million in January to December 2020, compared with the value of $ 73.49 million recorded in the corresponding period of the previous year.

The top five export markets during the period of January-December 2020 were the US ($ 2,507.2 million), the UK ($ 910.47 million), India ($ 604.5 million), Germany ($ 570.39 million), and Italy ($ 457.32 million) attributed to over 50% of exports recorded in the period.

As the largest single export destination, the US has absorbed $ 239.73 million worth of exports in December 2020, recording a decline of 15.33% in comparison to $ 283.12 million absorbed in December 2019.

The services exports estimated by the EDB, which includes ICT/BPM (information communications technology/business process management), construction, financial services, and transport and logistics, show export earnings of $ 2,976 million for the period of January to December 2020 compared to $ 3,888 million recorded in the corresponding period of the previous year, which is a decline of 23.46%.

The current situation

Despite the current uncertainty, de Mel stated that the EDB is continuing to push through and look for new opportunities that may have arisen during the crisis, to benefit the sector. Speaking to The Sunday Morning, National Chamber of Exporters CEO Shiham Marikkar also expressed that while the export sector is going through a tough time, it is better than the previous year. He explained that markets have opened up compared to May 2020, and exports have been moving.

"Exports are moving. Issues such as the congestion we faced last year at the Port Authority have been streamlined. But now our exporters are confused." This confusion among local exporters, he noted, was due to the current restrictions in the country. He pointed out that the provincial-level restrictions in effect have hindered exporters by limiting the movements of employees and raw materials.

However, he stated, the EDB has played a crucial role in trying to address these issues by co-ordinating with exporters to streamline these issues. He stated that while it is difficult to make long term plans due to the current situation, the industry will work together to reach whatever goal is set for them.

Echoing de Mel's statements, Colombo Chamber of Commerce President Saranga Wijeyaratne stated that there may be a need for a revision to the current export target. He explained that when the target was drafted, they did not predict a third wave in the country.

He stated that in 2020, Sri Lanka experienced a temporary positive balance after a long time, due to import controls and well-performing exports. Due to this, he stated that the Government predicted a continual rise in exports in 2021; however, it was disrupted by the current Covid wave.

"We think both the exporters and the Government did not have enough time to implement their plans. Our exporters also faced issues with importing raw materials, since two of our largest markets for raw materials are China and India. While China does not have an immediate health crisis, they have placed a lot of limitations on trade, and India is currently facing a very bad situation."

Wijeyaratne stated that this is not the time for the Sri Lankan export sector to look at creative new exports. Instead, he suggested that the sector focus on exports that have developed a competitive advantage over the years, such as tea, apparel, and spices.

"I think we need to focus on the already established products. I do not think focusing on creative newer markets will go well for us. If we had a proper plan for these products, I think we would do well," he concluded.

Source: nation.lk– May 16, 2021

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Tunisia: Trade deficit shrinks with each passing month

Tunisia's trade balance deficit has continued its downward trend. During the first four months of 2021, it stood at – 4420.7 million dinars (MD), from – 4844.5 MD recorded during the same period of the year 2020, that is to say an improvement of 423.8 MD, according to a note on "Trade at current prices April 2021" published by the National Institute of Statistics (INS) Friday.

This improvement is explained by the increase in exports (+21.4%) and imports (+13%). The coverage rate has therefore gained 5.4 points to 77.5%, from 72.1%, at the end of April 2020.

Under the general regime, trade is in deficit of -8987.8 MD (-7709.1 MD in 2020), while it is in surplus under the offshore regime by 4567.1 MD (+2864.6 MD in 2020).

Exports saw an increase of (+21.4%) at the end of April 2021, against a fall of (-20.6%) during the four months of the year 2020. They reached 15,201 MD, against 12521,2 MD during the same period of 2020.

The INS explains this rise, on the one hand by the increase recorded in the sectors of the textiles/clothing and leathers (35%), mechanical and electrical industries (34,1%), and on the other hand by the sector of manufacturing industries (34,3%), as well as that of the whole of the products by 21,4%.

On the other hand, the sector of the agriculture and the food-processing industries recorded a fall of (-5,5%). Similarly, the sector of energy and lubricants has dropped by (- 27.5%) and that of mines, phosphates and derivatives by (-2.2%).

Imports increase by 13%

Imports saw an increase of +13%, against a decline of 21.5% during the four months of the year 2020. In value, imports have reached 19,621.7 MD, against 17,365.8 MD during the same period of the year 2020.

This rise is explained by the increase recorded in imports of the sector of the mines, phosphates and derivatives by 35,1%, that of the mechanical and electrical industries by 23,7% and that of the agriculture and the food-processing industries by 16,9%.

Similarly, imports of textiles / clothing and leather have risen by 21.3%.

On the other hand, the imports of the sector of energy and lubricants dropped (-19,7%), at the end of April 2021.

Source: en.africanmanager.com– May 16, 2021

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Pakistan: Exports to China rose by 31pc, says Dawood

Adviser to Prime Minister on Comm-erce and Investment Abdul Razak Dawood has said that Pakistan's exports to China have increased by 31 per cent over the past nine months.

In a series of tweets on Sunday, Mr Dawood shared details of the achievement.

"The Second Phase of Pakistan-China FTA (FTA-II) became operational on 1st January 2020. MOC is glad to share that during Jul-Apr 2021 our exports to China have increased by 31% to USD 1.951 Billion from USD 1.491 Billion in corresponding period last year.

"The exports increased by USD 459 million during this period. This shows that our FTA-II is working for which the credit goes to our exporters. I encourage the exporters to aggressively utilise the tariff preferences in FTA-II. .

"I also commend the efforts of MOC's Trade & Investment Officers @Hussain26Haider @badrpk and urge them to provide even greater facilitation to our exporters & Investors," he said.

Source: dawn.com– May 17, 2021

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Pakistan: Free trade: an engine for growth or for exploitation?

Free trade is a theoretical framework that allows trading partners to import and export goods and services without any sort of barriers and restrictions. Free trade is, in fact, a trade policy under which governments impose no restrictions, whatsoever, on imports and exports to each other on the basis of comparative advantage.

Free trade agreements (FTAs) are treaties under which the countries regulate their trade by waiving off specific set of duties, taxes and tariffs apparently to get maximum benefit out of their comparative advantage positions. What are advantages and disadvantages of such free trade arrangements for the countries like Pakistan and what are the best practices that could be quoted as examples to be followed in the world?

There is no denying the fact that it is a competitive world and almost all countries of the world are in a race to get maximum out of their trading partners. The ways and means to get maximum benefits may vary but the goal is only one to achieve a healthy social and economic development. The Free Trade Areas or Agreements provide ways and means to improve trade benefits in the form of better economic outlook and growth through technology transfer by less government spending.

It creates economic efficiency, less corruption and less subsidies ensuring economic growth. But it entails side effects of jobs outsourcing with poor working conditions and degradation of natural resources. If we go deep into the analysis of such agreements, we find these contracts useful in one way or the other but at the same time having their own implications for the economy.

Almost all countries of the world are engaged in some sort of trading blocs in the form of free trade and preferential trade agreements. Free trade areas and regional trade organizations or associations are further diversification of such trading blocs. Pakistan is also part of such arrangements, as we have signed FTAs with China, Sri Lanka and Malaysia; while enjoying preferential trade agreements (PTAs) with Iran, Indonesia and Mauritius. Pakistan is also part of South Asia Free Trade Agreement (SAFTA) under the auspices of South Asian Association for Regional Cooperation (SAARC) and has a Transit-trade agreement with neighbouring Afghanistan.

Pakistan is also going to sign Transit-trade agreement with Uzbekistan soon opening gate for trade with Central Asian Republics. Pakistan and United States have also a Trade and Investment Framework Agreement (TIFA) for promotion of trade and investment as part of larger arrangement to attract investment.

There are numerous free trade areas, organizations and associations promoting trade and investment in the world. Free trade areas generally consist of countries or group of countries having no tariffs and non-tariff barriers in and amongst the member countries but have their own trade policy with non-member countries depending on their own relations with those countries. The best examples of such areas are North American Free Trade Area (NAFTA), the European Free Trade Association (EFTA), China backed Regional Comprehensive Economic Partnership (RCEP) etc who have almost zero taxes and duties on most of their goods and services within their own territories.

As we know that China backed group of fifteen Asia-Pacific economies excluding United States have formed recently a world’s biggest trading bloc called as Regional Comprehensive Economic Partnership (RCEP). The RCEP was signed as trade pact on the occasion of online ASEAN summit in Hanoi on November 15, 2020 paving way to cement China’s economic partnership with Southeast Asia, Japan and Korea. Interestingly, the United States has gone into isolation by not becoming member of RCEP and TPP (Trans-Pacific Partnership) consisting of the fastest growing biggest economies of the world.

The India at the last moment also pulled out of this partnership but RCEP member states have kept open doors for India to join any time at its own convenience. According to one estimate, the RCEP will account for 30% of global economy having 2.2 billion consumers on its list that is almost 30% of world’s population. Its objective is to progressively reduce duties and taxes and to get away with non-tariff barriers to promote trade and investment in their member states, which provide a great deal and opportunity of economic growth and development in the region.

If we look at world trade scenario and free trade regimes, the role of World Trade Organization (WTO) seems to be very important and crucial. It started with General Agreement on Tariffs and Trade (GATT) and reached at the consensus formation of WTO via long sessions of Doha Talks but is still under clouds owing to multiple reasons.

The WTO is generally considered closer to the concept of open and free trade institution in the world, although it only provides a system of rules and regulations to run free and fair trade without distortions, so that competition and innovations may not hamper efficiency in trade and trade products.

The WTO is also considered as ploy of developed world that is being used for exploitation of developing countries as their consumer market and is working on the whims and whimsical directions of those who dictate the world trade. But fact of the matter remains that WTO is the only international trade organisation dealing with the global rules of the trade and its functions include but not limited to secure and ensure smooth and free flow of trade in the world without harming the interest of global consumers.

Now coming towards Pakistan and its trade dynamics, we see various arrangements made by the government of Pakistan in the past and evolved a mechanism to achieve best of the results for trade promotion, but could not succeed to enhance its exports, which are backbone of the economy in any country of the world. Pakistan's total trade volume is accounted for more than $75 billion out of which our exports are hardly touching $24 billion mark. Further, our main exports are textile and textile related products. The reasons are varied and myriad in nature, which can be discussed at length in the ensuing details of Pakistan's trade.

As we all know that Pakistan is a developing country with limited resources facing disruptions and inconsistent trade policies due to mismanagement of various political regimes in the past. The political developments in Pakistan have been a constant source of disturbance and proved to be main hurdles in economic and trade development policy framework, especially imports, exports and balance of trade facing a lot of challenges and were badly disturbed. The free trade agreements are still to be tested so far as results are concerned, whether they are beneficial or adversely affecting our trade.

The FTA with China has entered into the second phase of its implementation and Pakistan wants to go along with it whether in favour of our exports or not owing to strategic interest entrenched in our cooperation with China. Pakistan is almost trading 313 tax free items with China, which will be stretching over to 5,000 such items in the coming five to ten years time under FTA arrangement.

The trade volume has significantly improved with China as it has surged from almost $4 billion in 2004-5 to over $20 billion now in 2021. The balance of trade is definitely not in favour of Pakistan, as we are lagging behind in all respect of our industrial infrastructure and exportable products. But we have achieved a reasonable level of trade partnership with China, which will be improving in the coming days and months.

Pakistan is mainly exporting stone, salt, sulphur, sugar confectionary, fish, molluscs, invertebrates, ores slag and ash. There are other items as well like meat, dairy products, oil, fresh and processed fruits, which are in high demand by Chinese importers. But all in all, we are running trade deficit of about $17.5 billion so far as trade with China is concerned. Questions are naturally arising as how to improve trade balance with strategically important country in the presence of FTA that allows both of the trading partners to get maximum out of it?

The only way forward is to get more ingress into the Chinese market through aggressive campaign for tradable items by our commercial councillors and diplomats. China is a big market and we can export so much by diversifying our exportable items. Need of the hour is to adopt aggressive economic diplomacy all over the world through our foreign Missions, especially China, United States, Malaysia, Iran, Middle East, Central Asia, EU and Africa being the main potential trade partners.

Like China, we are in a great trade deficit with Malaysia with whom Pakistan has signed FTA. But the question is whether Pakistan is benefitting from FTAs or we are at a loss due to our own shortcomings of weak industrial infrastructure having nothing diversified exportable items to these countries.

One is compelled to say that our own weaknesses are more contributing towards our trade deficit than to malign free trade arrangements, which could be beneficial in case of robust industrial infrastructure and diversified exportable products.

It all depends on the comparative advantage of the country like Pakistan to extract maximum benefits from FTAs, which is not a bad option if we are not benefitting from regional trade arrangement like SAARC owing to Indian obduracy. But we are already getting maximum benefit from FTA with Sri Lanka due to compulsorily attached advantages for such free trade arrangement.

The preferential trade agreements are contributing maximum in trade development of Pakistan, especially trade with neighbouring Iran. Although volume of trade is not much due to sanctions against Iran but there is a lot of potential of exports and barter trade.

The main exports to Iran are meat, rice, cotton, agricultural products and imports from Iran are mainly petrochemicals, steel and liquefied petroleum products. The trade can be enhanced by removing tariffs and non-tariff barriers and it can prove to be a win- win situation for both countries. It also applies to Turkey, where a lot of cooperation is already under way to enhance trade in merchandise through such arrangement.

The US-Pakistan Trade and Investment Framework Agreement (TIFA) signed in 2003 was, in fact, meant to create jobs through economic growth by enhancing investment in various sectors of economy. The objective of this agreement was to expand bilateral trade and investment in goods and services.

The growth model through this framework was envisaged to enhance digital trade, improve business climate, strengthening intellectual property rights as well as aiming at women empowerment, labour reforms and skill development for workers. The U.S is one of the largest markets for exports of Pakistani goods and services, so it could possibly be the main destination for Pakistani products to enjoy truly international exposure. It is not out of place to mention here that currently Pak-US trade volume is touching over $ 7.00 billion.

To put it in a nutshell, there are advantages and disadvantages of free trade for countries like Pakistan. If we weigh the pros and cons of free trade arrangements, the advantages are more than disadvantages owing to multiple reasons, especially the competitive world creating efficiencies enhancing exports resulting in overall economic growth and development. When trade barriers are removed, the manufacturers compete with each other directly and market forces compel them to become increasingly efficient to capture more of the market share to earn profits. That's how the free trade creates a competitive efficient markets resulting in economic growth.

Source: tribune.com.pk– May 16, 2021

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Pakistan: Continuation of regionally competitive energy tariffs must for exports: APTMA chief

The country will witness an increase in the textile exports by up to $16.5 billion in June 2021 and $20 billion in June 2022 if the government assures the continuation of Regionally Competitive Energy Tariffs of $6.5 per MMBtu of Gas/RLNG and 7.5 cents per unit of electricity.

The Patron-in-Chief of All Pakistan Textile Mills Association Gohar Ejaz stated this in a statement issued here on Sunday.

While appreciating the support of Imran Khan's government for the export industry, he said that Pakistan's textile exports foresee an increase up to $16.5 billion during FY21 in comparison to the exports in FY18, which were $13.5 billion and will continue to grow up to $20 billion in June 2022. "And this is how, the surge in textile export will help the country to take total exports up to $27 billion in exports in June 2021 and $30 billion in June 2022."

Ejaz said that the Imran Khan government has supported the textile ministry owing to which the exports trajectory is on the higher side, but the industry wants the government to continue the support with electricity tariff at 7.5 cents per unit and gas/RLNG at 6.5 per MMBTU to achieve the milestone of $16.5 billion in textile exports in June 2021 and $20 billion in June 2022.

"The regionally Competitive Energy Tariffs policy, as has been proposed by the Pakistan Institute of Development Economics (PIDE), played a pivotal role in the surge of current year's exports and is critical to sustaining enhanced exports, employment and bringing in new investment."

Textile industry has capitalized, he said, on the given incentives to help the government achieve the ultimate aim of export maximization, job creation and the realization of economic prosperity. Pakistan's export industries (including textiles) witnessed an exceptional growth of 9pc in 9 months of FY21.

The increase in exports demonstrates the competitiveness of Pakistan's exports; when inputs are provided at regionally competitive prices, exports were achieved despite an unfavorable international environment.

“The industrial electricity tariff of regional competitors is much lower than Pakistan, making us not competitive in the increasing market competition,” Ejaz said adding that the objective to become an export powerhouse cannot be achieved until power tariffs are revised to a competitive and stable level.

Industry fears that the power sector will not be able to deliver on a sustained stable and competitive basis which will negatively impact the market sentiments. “Competition is the key principle for the development and expansion of the industrial market.”

Source: thenews.com.pk– May 17, 2021

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NATIONAL NEWS

CBIC starts special drive to clear pending GST refund claims by month-end

The Central Board of Indirect Taxes and Customs (CBIC) has launched a special drive to clear all pending GST refunds by month-end. The 15-day Goods and Services Tax (GST) refund drive is on the lines of an ongoing similar drive organised by the CBIC for refund of customs and duty drawback claims.

In an instruction to all Principal Commissioners of Central Tax formations, the CBIC said there is a need to focus on timely disposal of all pending GST refund claims in order to provide immediate relief to business entities, especially MSMEs, in the difficult times of second wave of the COVID-19 pandemic.

"It is hereby instructed that a 'Special GST Refund Disposal Drive' will be launched by all Central Tax formations during the period from 15th May 2021 to 31st May 2021 for processing and disposal of all pending GST refund claims on priority," it said.

The CBIC further said that the GST law provides 15 days for issuing acknowledgment or deficiency memo and total 60 days for disposing of refund claims without any liability to pay interest.

"It is, however, expected that all Central Tax formations will take up all the pending GST refund claims for processing on priority and endeavour to dispose them of much earlier than the statutory time limits, preferably before a period of 30 days from the date of receipt of the refund application," the CBIC added.

It is expected that during this special drive, all GST refund claims, pending as on May 14, shall be disposed of by May 31, 2021.

The tax officers will coordinate with the major trade and industry associations (especially those that cater to exporters and MSMEs) for the assistance and handholding of taxpayers, including for submission of required documents/ reply by the taxpayers (if a claim is pending for want of a required document/ reply to notice, etc).

The CBIC also asked taxmen to ensure that communication with taxpayers is done through the GST portal, or if need be, through email using the official email ID of the officer.

All communication with taxpayers must be done through the GST portal, or if need be, through email using the official email ID of the officer.

The Special Refund Disposal Drive should be widely publicised among the trade and industry.

"It is urged that in these difficult times, all central tax officers should endeavour to make their best efforts and contribution in the fight against COVID-19, by liquidating the pending GST refund claims by May 31, 2021," the CBIC added.

Source: economictimes.com– May 16, 2021

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'India needs policy-change reforms'

The Indian economy has been slowing, now at 5-6 percent range, and will need quite a bit of policy-change reforms, in a difficult world environment, to be successful in the decade ahead," said Martin Wolf, Chief Economics Commentator, Financial Times. He was in conversation with The Indian Express.

Observing the country since his early days as a World Bank economist in the '70s, he called India's economic reform policy "inconsistent, not sufficiently positive", and its three engines — trade, credit and government-spending — "pretty weak". He said, "We're going back to what my friend (economist) Raj Krishna called the Hindu rate of growth, which is 3-4 per cent. That will be a catastrophe because that's a per-capita growth of 2 per cent and then India's catch-up story would end." He cautioned, "India is de-globalising, not back to what it was before but more than the world is; owing to policy choices: increased protection and decreased attention to export competitiveness."

Calling attention to three indicators for future planning: "Long-term performance, the Covid-19 impact, and the challenges ahead", he said, in the long run "credit, trade, fiscal policy, will all be constrained". Credit-to-GDP ratio has been slowing (after 2010) despite no financial crisis, there are "bad loans" in the banking sector, demonetisation (in 2016) was a "crazy" step instead of "radical financial restructuring", trade ratios have been "falling rapidly" since 2013-14.

Wolf added that India's GDP growth at purchasing power parity from 5 per cent (in 1990) to about 15 per cent (by 2025, IMF forecast) has been "pretty well" but incomparable to "China's spectacular 5 per cent (1990) to 35 per cent (2025) growth story". India's "steady growth" (6 per cent a year) peaked at "close to 9 per cent in the early 2000s" but saw "a real collapse" last year. "Among the developing countries, India had a really, really bad negative hit (Bangladesh did astonishingly well)," he stated.

With the US-China relationship deteriorating, India should "seize opportunity" and "reopen the economy", become a trade-growth hub, raise international competitiveness, start green revolution, reform education, labour markets and financial sector to be the "fastest-growing economy, at 8-plus per cent, in 20 years".

Source: indianexpress.com– May 15, 2021

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30 lakh MSMEs register in 10 months on govt's new Udyam portal; India's registered MSME base at over 1 cr

The Modi government's new portal for MSME registration, which was launched amid Covid on July 1, 2020, along with the revised MSME definition, has topped the 30-lakh registration mark. As of May 16, 2021, 30,00,822 MSMEs were registered on the Udyam Registration portal, which replaced the erstwhile process of filing for Udyog Aadhaar Memorandum (UAM), as per the online data available with the MSME Ministry.

Importantly, nearly 28 lakh registered enterprises were micro units followed by close to 1.78 lakh small enterprises and 24,657 mid-sized enterprises. The Reserve Bank of India had last year mandated businesses registered under Entrepreneur Memorandum (EM) part II and UAM till June 30, 2020, to file for new registrations on the Udyam Registration portal. However, it wasn't clear that how many of these 30 lakh MSMEs were new entities and those that had migrated from EM II and UAM.

While the government had recorded these 30 lakh registrations in ten-and-a-half months, there were 1.02 crore registered MSMEs under UAM between September 2015 and June 2020 apart from nearly 22 lakh units registered under EM II between 2007 and 2015, as per FY21 annual report of the MSME Ministry. Hence, out of the 1.24 crore registered MSMEs (UAM and EM II) in India, 24.1 per cent were registered so far on the new portal assuming all Udyam Registrations were existing MSMEs from UAM or EM II.

"While there is no data to show how many Udyam Registrations so far are new enterprises and how many have migrated from UAM or EM registrations but that is not a big figure. Many existing MSMEs are yet to apply for Udyam Registration due to reasons such as lack of awareness or lack of will as it is business as usual for them with their UAM or EM registrations and they haven't faced any major challenge with the change in the law.

The government and RBI would have to be a bit more stringent in getting MSMEs to register on new portal as the idea behind it is to consolidate MSME registration data at one place," Pankaj Kumar, President, Indian Industries Association had told Financial Express Online.

The new Udyam Registration portal is integrated with the CBDT and GST networks along with the public procurement portal Government e-Marketplace to make end-to-end MSME registration paperless. MSMEs used to be registered at District Industries Centres (DICs) before the MSME Development Act, 2006 came into effect.

Later, as per the provisions of the act, MSMEs had to file EM- part I at DICs before starting an enterprise EM-part II after commencement of production. As per the National Sample Survey (NSS) 73rd round conducted by National Sample Survey Office during FY16, there were 6.33 crore unincorporated non-agriculture MSMEs in India, of which 6.30 crore were micro firms, 3.31 lakh were small enterprises and 5,000 were mid-sized businesses, the annual report noted.

Source: financialexpress.com– May 16, 2021

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Interest for delayed payment on imported goods liable to GST: AAR

Clarity was being sought as to whether GST was payable on delay in payment of imported goods.

In what could impact several businesses at a time when Covid pandemic has disrupted supply chains and payment mechanisms, an Authority for Advance Ruling (AAR) has ruled that that interest for delayed payment on imported goods is liable to GST under reverse-charge.

As per the details of the case an Indian arm of a Turkey headquartered transformer component manufacturer had imported goods. The Indian arm had obtained a credit facility from the Citi Bank based on corporate guarantee issued by the holding company.

For this a stamp duty had to be paid by the Turkey based company on behalf of the Indian arm and reimbursement invoice was raised for the recovery.

The Indian arm had approached the AAR to seek clarity as to whether GST was payable on delay in payment of imported goods and whether the amount paid for reimbursement of stamp duty is liable to GST.

AAR observed that the holding company had "tolerated the act" of receiving payment after a lapse of a period of 120 days from the date of the invoice in respect of the goods supplied by them to the Indian arm.

For this interest had to be paid by the Indian arm and is liable for GST on reverse charge mechanism, a research note by Nangia Anderson said.

Source: economictimes.com– May 15, 2021

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Breaking down Covid's impact on MSMEs: Demand, supply shocks that are determining issues for small firms

SMEs form one of the major pillars of the Indian economy is an established fact due to their immense contribution to employment, national income, and exports. Their contribution in terms of innovations is hardly measured at the national level, and therefore, goes largely unnoticed. The unexpected engulfing of the global economy by Coronavirus jolted the Indian economy as well including its SMEs.

The Covid-19 first wave (FW) and the national lockdown implemented to contain it during March-May 2020 gave an unprecedented blow to this vibrant sector. It had otherwise got accustomed to emerge and work continuously under constraints/challenges of various kinds: the most important being first, accessing finance in the right quantity and at the right time, second, attracting and retaining qualified workforce, and third, penetrating regional, national and international markets. The emergence of the Covid-19 Second wave (SW) is equally unexpected, for which the sector is ill-prepared, as it has hardly recovered from the blow received from the first wave.

The second wave of Covid-19 is likely to make a devastating impact on the SME sector in India, which has become fragile due to the onslaught of Covid-19 FW. This is so despite its known merits such as flexibility, adaptability, simple organizational structure, effective internal communication between owner and employees, etc.

However, national and cross-country data suggest that relative to large firms, SMEs have lower productivity and wage levels, more often comprising obsolete technology and unskilled or semi-skilled labour, and therefore more vulnerable to supply and demand shocks. Covid-19 FW and SW both have, precisely, generated supply as well as demand shocks to SMEs. A description of these shocks is appropriate to understand the complexity of the problems encountered by Indian SMEs.

As a prelude, it is important to understand the nature/structure of SMEs in India, in terms of their end-market relationship. A major proportion of SMEs serves B2C markets followed by B2B markets, and a minority accounts for a combination of both B2C and B2B markets. In general, B2C SMEs are more fragile, often cash-starved, comprise obsolete technology with unskilled/semi-skilled labour, dispersed across the country, in metros, cities, towns, and villages. They invariably make use of local resources, local skills and meet local needs. On the contrary, B2B SMEs are either metro/city-based or located around large firms, often supported by the latter (in terms of markets, finance, technology/technical inputs, and even human resources). Therefore, they are better equipped with technology, skilled labour, and relatively established markets. The B2C cum B2B SMEs often fall in the second category. A major proportion of B2C SMEs operates in the informal sector, irrespective of their location. In rural India, they are largely own-account enterprises (household enterprises).

It is important to note that only the Economic Census of our country throws light on the magnitude of own-account enterprises (in terms of the number of enterprises and employment). Therefore, assessing the impact of Covid-19 on SMEs is done either by ignoring this segment altogether or based on a guesswork. Of course, we do not have any periodical data gathering exercise even for larger/formal/registered SMEs (excluding SSI/MSME Census, the latest one was done in 2005/06). Given this, the only option for an assessment of the impact of Covid-19 is field surveys or interviews. However, it is possible to gauge the likely impact if one can understand the possible supply and demand shocks that emerge from the Covid-19 crisis.

Supply shocks are exhibited as follows: (i) Complete stoppage of production due to the national lockdown (during Covid-19 FW) and regional lockdowns (during Covid-19 SW), (ii) subsequent impact due to a disruption of the supply chain (of inputs and outputs), locally, regionally, nationally and internationally, (during Covid-19 FW) and partial impact (due to Covid-19 SW), (iii) mass movement of labour from metros and cities to towns and villages (during Covid-19 FW) and partial movement (during Covid-19 SW), and (iv) reduced financial flow in the informal money market, thereby adversely affecting the operations and output of informal/unregistered SMEs.

As a result, Covid-19 FW would have severely curtailed the output emerging from the SME sector (which account for about 1/3 of the GDP), which was reflected in the sharp negative growth of Indian GDP (according to estimates, GDP would have contracted by about 20 per cent in the first quarter of 2020/21). The impact of Covid-19 SW is likely to be more devastating, despite the absence of nationwide lockdown and state governments dealing with only partial lockdowns in most affected regions (which are more developed regions/states of the country comprising metros such as NCR Delhi, Mumbai, and Bengaluru).

Demand shocks are in the form of (i) severely curtailed consumer demand, which would directly affect B2C SMEs (particularly in consumer goods industries, services such as tourism, hotels, roadside eateries, shops, mobile cart shops, small transport operators, etc.), (ii) curtailed industry demand, which would affect subcontractors (B2B SMEs – intermediate product manufacturers), (iii) curtailed export demand, which would affect both B2C and B2B SMEs. However, only a negligible share of Indian SMEs operates in the export market and therefore disruption in the global value chains of MNCs may not directly hamper Indian SMEs to any considerable extent.

When supply and demand shocks emerge simultaneously and repeatedly, the wounded and already vulnerable sector will diminish in size sharply, thereby affecting employment, income, and even exports. "Inflicting wounds on the already wounded entities will bring down morale and motivation to perform".

Overall, the brunt of lockdowns, national or regional, will be borne by the formal/registered SMEs and informal/unregistered SMEs, which are primarily confined to metros and cities. The SMEs located in towns and villages will bear the brunt due to a decline in informal finance availability. But some of the own-account enterprises (which are primarily meant for meeting local demand, by making use of local resources and local skills) may survive and some (self-financed) may even escape the brunt altogether. Given this, policymakers need to strategize their disbursal of fiscal and monetary stimulus accordingly.

Source: financialexpress.com– May 16, 2021

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Truckers demand relief measures as losses mount to Rs 42,000 cr due to lockdowns

With around 65 per cent of the total truck fleet in the country out of the road owing to lockdown and lockdown-like conditions in most of the states, the truck industry losses have mounted to around Rs 42,000 crore from the start of the fiscal till mid of this month, All India Motor Transport Congress (AIMTC) has said.

The transport sector, which is the lifeline of the nation and essential services provider to the people of the country, bears the first impact of the lockdowns and the curfews, it said.

The industry has sought relief from the government by way of EMI moratorium, soft loans provision without collateral, tax waiver, extension of validity of insurance, among others, AIMTC Core Committee chairman Bal Malkit Singh said.

The AIMTC has also warned of the industry going completely out of business and large-scale unemployment if the relief measures are not provided to it.

Almost 80 per cent of the country is under lockdown. As a result of this, about 65 per cent of the total around 95 lakh trucks are standing idle as there is no demand and only 40 lakh trucks are on the roads, Singh said.

He said that the per day industry's losses have gone up to Rs 1,600 crore in May from Rs 400 crore in the beginning of April as more states announced lockdown and lockdown-like restriction in the subsequent period amid the massive spike in Covid-19 infection cases in the country.

“In the first 15 days of April, the industry was facing Rs 400 crore per day, which rose to Rs 800 crore per day by April 30. They have now doubled to Rs 1,600 crore per day till May 15. So, as of May 15, the industry's cumulative losses were a whopping Rs 42,000 crore, said Singh.

He said that the rising diesel prices, besides the impact of the lockdown was adding to the woes of the industry.

Already bewildered and chastised by excessive taxation and forced lockdowns, the breath of the transport sector is being further snatched by rising diesel prices, said Singh.

Petrol price on Sunday was increased by 24 paise per litre and diesel by 27 paise, pushing rates across the country to record highs and that of petrol in Mumbai to near Rs 99 a litre.

The increase led to rates in Delhi climbing to Rs 92.58 per litre and diesel to Rs 83.22, according to a price notification of state-owned fuel retailers.

Rates had already crossed Rs 100-mark in several cities in Rajasthan, Madhya Pradesh and Maharashtra and with the latest increase, price in Mumbai too was inching towards that level.

A litre of petrol in Mumbai now comes for Rs 98.88 and diesel is priced at Rs 90.40 per litre.

This is the ninth increase in prices since May 4 when the state-owned oil firms ended an 18-hiatus in rate revision they observed during assembly elections in states like West Bengal.

(But) There is no tangible support coming from the government in terms of any relief and the situation in the transport sector is getting critical with every passing day.

The way out is the relief package that we have asked for otherwise the industry will collapse, leading to large scale unemployment as well as disruption in the crucial supply chain," Singh said.

There is acute fear among the drivers due to the current COVID-19 crisis and a reverse migration is taking place in the drivers community along with the labour and transportation staff, Singh added.

Source: financialexpress.com– May 16, 2021

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Liquidity Woes: Services exporters hit as benefits held back

Services exporters have urged the government to release benefits under a key scheme for FY20 at the earliest, as the sector has been gasping for liquidity in the wake of the Covid-19 pandemic.

Exporters said their FY20 entitlements under the Service Exports From India Scheme (SEIS) could be to the tune of Rs 3,000-4,000 crore. Through this scheme, the government offers exporters duty credit scrips at 5-7% of the net foreign exchange earned, depending on the nature of services.

Realising that the government faces resource crunch, the state-backed SEPC has proposed that the Centre limit the SEIS benefits to a maximum of Rs 5 crore per exporter for various services sectors.

However, sectors, including travel and tourism, healthcare, education and aviation, which have been worst hit by the pandemic should be exempted from this ceiling and allowed the full entitlement, according to the SEPC (Services Export Promotion Council).

The Council has already made representations to commerce and industry minister Piyush Goyal and finance minister Nirmala Sitharaman, seeking to expedite the release of funds. Earlier this month, former commerce and industry minister Suresh Prabhu wrote to the finance minister to consider the Council's request and swiftly release the SEIS benefits.

The SEPC has said that the SEIS is the only incentive scheme available to services exporters, and the eligible ones have already been factoring in the incentives in their pricing and business sustainability strategies. Many multi-national companies have taken into account the 5-7% incentives under SEIS available to their Indian operations while taking investment decisions in India, it highlighted.

The SEIS was introduced in the Foreign Trade Policy (FTP) for 2015-20; the validity of the FTP has now been extended up to September 2021.

Exporters say unlike the Merchandise Exports from India Scheme (MEIS), there is no notification so far on the SEIS for 2019-20, even though it is a part of the current FTP. Last year, when the commerce ministry first extended the validity of the FTP, benefits under the MEIS were allowed to continue until a new scheme replaced it (from January 1). However, the ministry had said a call on whether to extend the SEIS validity would be taken soon. Nevertheless, exporters are certain that at least FY20 benefits should be cleared at the earliest. Services exporters had claimed 5,569 SEIS scrips worth Rs 3,475 crore in FY18.

A surplus in India's services trade has been substantially offsetting the merchandise trade, thus keeping a leash on overall trade deficit. Thanks to the pandemic, services exports dropped almost 6% year-on-year in FY21 to $203 billion, while merchandise exports contracted by just over 7% to about $291 billion, according to a quick estimate by the commerce ministry. While merchandise trade witnessed a deficit of nearly $99 billion in FY21, the surplus in services trade was to the tune of $86 billion, which narrowed the overall trade deficit to just about $13 billion.

Highlighting that industry has to get out of the mindset of subsidies, as these are detrimental to the country's long-term interests, Goyal had made a case (before the pandemic) for discontinuing the SEIS in its current form.

"For example, we now give subsidies on services exports. I have gone through the list in great details, barely 2,200 companies take that subsidy. Some of them are such large names, making 1000s of crores of rupees of profit, that there is no business of giving them a subsidy," he said.

Trade analysts, too, have pitched for a revamp of the SEIS, but only when it announces the next FTP. This, they say, will maintain policy stability. They have also favoured quick release of benefits to ease liquidity woes of various services sectors, especially those battered by the pandemic.

Source: financialexpress.com– May 17, 2021

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India's Covid crisis hits work at ports as risk to global trade grows

India's devastating Covid-19 crisis is threatening operations at some of its biggest ports, raising concern the action could trigger shipping delays that reverberate through global supply chains.

Karaikal Port in southern India invoked force majeure until May 24 after operations were "severely affected" from the pandemic, according to a notice on its website. The terminal, which claims to be India's biggest non-state port, handles coal, sugar and petroleum among other commodities. Gopalpur port in Odisha has also declared force majeure, according to IHS Markit.

The situation may echo global trade disruptions seen last year after virus restrictions slowed shipments into China. While India accounts for only fraction of the global trade that China does, any delays in offloading vessels and releasing them to their next destination could create supply chain bottlenecks.

India has 21.9 million tons of cargoes scheduled to arrive this month but with labor shortages and force majeure at some ports, many of the vessels could see discharge delays, according to IHS Markit associate director Pranay Shukla. That may have a knock-on effect on scheduled loadings at the exporting countries.

Cargo movement at Visakhapatnam Port, one of India's major marine terminals, is also partly affected after the local traders' body announced force majeure in the port area until May 19, according to G. Veeramohan, president of the Vizagapatam Chamber of Commerce and Industry.

State-run refiner Hindustan Petroleum Corp., which uses the Visakhapatnam port to import crude oil, is unaffected as it uses an offshore mooring facility for unloading tankers, Chairman Mukesh Kumar Surana said.

Large parts of India are under lockdown by provincial governments that are reeling from surging infections amid a shortage of vaccines and medical infrastructure such as hospital beds and oxygen. The stay-at-home orders are constraining the movement of people and materials to and from the country's ports, even as Prime Minister Narendra Modi's government resists a nationwide lockdown.

A force majeure clause typically absolves a company from meeting their contractual commitments for reasons beyond their control.

Source: business-standard.com– May 15, 2021

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Reeling under the pandemic curbs

Weavers find the going difficult with no takers for their products

Shyam Sundar, a GenX weaver, decided to stick to the line of work that his ancestors engaged in, at a time when many his age from the community looked for greener pastures leaving their traditional occupation.

Adapting himself to the changed circumstances, he came out with new computer-aided designs and even produced products from organic cotton and natural dyes to meet the environment-conscious customers who were ready to pay a premium price for such products.

Much against odds, he stayed afloat producing colourful sarees during the first wave of the pandemic last year. Now the weaver, who heads Indira cooperative society, is clueless on continuing the work. With the virulent second wave ravaging the country, there are no takers for the products produced in the last six months.

Similar is the reality of weavers who toil at the house-cum-worksheds in and around Chirala. Silence reigns at this once-bustling town renowned for handloom products. Usually, the demand that gradually increases from the harvest season peaks during the month of May coinciding with the marriage season. But now, many functions have been postponed to a later date.

“Earlier, many women used to throng our worksheds for various social occasions. Nowadays, there is hardly anyone to buy our products,” lamented weaver B.J. Narasimhan while showing the piled-up stocks.

It is high time the Union government comes out with an economic revival package to support the sector which provides employment to over 31.45 lakh households in the country, said National Federation of Handlooms and Handicrafts president M. Mohan Rao.

As an immediate step, the Centre should provide ₹18,000 for six months to each weaver in addition to supply of essential commodities through PDS outlets. Economic activity could be revived by earmarking ₹5,000 crore for distribution of free Dhoti and saree to 23 crore families below the poverty line in the country. Another ₹2,000 crore should be allotted for market intervention, he said.

With an allocation of ₹1,500 crore, loans taken by weavers should be waived off and soft loan of ₹one lakh arranged to each weaver to start production, he adds while pressing for reserving 450 million kg of hank yarn and 24,000 tonne of silk yarn for the weavers.

Source: thehindu.com– May 17, 2021

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Gujarat: Traders upset by business loss from local shutdowns

Having suffered losses last year, it was only a few months ago that the trading community in Gujarat had started doing brisk business. Traders had even come to terms with the prolonged night curfew, where it didn't much affect their businesses. But the state government's partial lockdown policy has made the majority of traders restless with the business environment becoming unpredictable.

Since April 29, enforcement of a slew of restrictions has been made more stringent to curb the ferocious second wave of Covid-19 running across the state. Since the directive demands retail outlets and commercial establishments to remain shut, retail trade is once again in the doldrums.

Hence, despite the high number of Covid cases, many traders are demanding that markets be allowed to operate. "We are upset due to the constant uncertainty in the government's policies. It is affecting our business, as there is no clarity over the lockdown rules. Last month, the authorities announced partial lockdown and then implemented full lockdown for non-essential shops and services," said Paresh Parikh, convenor of Vadodara Vepar Vikas Association (VVVA) that has hundreds of members.

"Earlier, we had demanded complete lockdown to break the Covid chain. But the state government allowed the markets to remain open till 8pm. When the Covid cases spiked, a partial lockdown was implemented. But the partial lockdown has had no effect on the Covid cases that are still on the rise. Then why should our businesses suffer?" Parikh asked and insisted that either the government should go for complete lockdown or lift restrictions fully.

VVVA has hundreds of members that trade in electronic items, industrial parts, steel, hardware, textile, and groceries. "The industries are functioning at 50% capacity but the shops have been asked to remain closed. How do we supply industrial products then? The government should be clear in its policies so that we can plan for the future. We have to pay the rent for the shop, staff salary, and bear other expenses too," said a hardware trader from Vadodara.

Due to the lockdown, demand has taken a major hit across all the sectors, be it readymade garment stores or accessories, electronics or others. Consumer durables are among the worst affected when it comes to retail sales.

Bhavesh Waria, president, Ahmedabad Electronics Dealers' Association (AEDA), said, "Sales of electronics and home appliances have gone down by a significant 30% in 2020-21. April to June accounts for maximum business for most electronic retailers and this year with restrictions similar to lockdown coupled with the second wave, we're witnessing a similar downfall."

The situation is no different in other sectors as well. "Retailers are compelled to reduce salaries of their staffers or lay them off because they are unable to meet operating expenses with little revenue inflows. The partial lockdown like measures came as a big blow to business. Retailers failed to take advantage of demand which is usually generated ahead of Eid," said Vasant Tirodkar, vice-president, CG Road Retailers' Association in Ahmedabad.

Shop owners in Surat, too, have protested against the state government and demanded rollback of partial lockdown. The traders argued that the big companies and offices are being allowed to operate normally while shops are being kept closed. "The government isn't even announcing any compensation or relaxations in taxes for the traders. We are facing a double blow as the income is zero but the expenses are the same," the traders said.

Source: timesofindia.com– May 16, 2021

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Many DGFT staff affected by COVID-19

The Directorate General of Foreign Trade (DGFT) has been hit particularly hard by COVID-19 cases, with several of its staffers across the country required to persist with public dealings to ensure smooth export- import clearances amid the second wave of the pandemic.

“As you can see, we have had a very (tough) situation in our offices,” said Amit Yadav, DG, DGFT. “The Pune office was 100% affected; in the Chennai office, a very large number of people were infected. In our DGFT headquarters itself, more than 100 people, and I am talking about people working in the office, not their family members, were affected.”

The high caseloads among the DGFT staff, he said, was ‘because we continued public interactions for a very long time and staff were coming to office using public transport.’

“Despite this, we have had staff coming in on the weekends and even on holidays like Eid today, to get certain things done. And there are hardships, more than 100 people in my office, including senior officers, were affected till last week by COVID-19. So, my challenge was the limited team that was available. But I think in the way it spread, everyone who had a greater public dealing got impacted,” he told exporters at a meeting hosted by the PHD Chamber of Commerce and Industry.

“We are interactive and responsive, sometimes it may be something that was beyond our control, so, from an individual perspective, it may look like why is it not happening... I think the machinery and the consultations and the clearances which may be required gives that time factor, though we are trying to overcome those,” he said.

Source: thehindu.com– May 15, 2021

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