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INTERNATIONAL NEWS

What Did Trump's Tariff War Really Do to US-China Trade Gap?

When Donald Trump first ran for president, he made decreasing the trade deficit and fighting back against China key components of his platform.

So, it was no real surprise when, a year into his presidency, he followed through on campaign promises to impose tariffs on China, sparking what would become a multi-year trade war. After two years of tit-for-tat tariffs, negotiations between the two countries produced the Phase One trade deal in January last year. The agreement, though it included a promise on China's part to purchase $200 billion worth of U.S. goods and services, left in place 25 percent tariffs on $250 billion in Chinese imports, including apparel and footwear.

The future of the trade relationship between the dual superpowers is unclear. As president-elect, Joe Biden said he wouldn't remove the tariffs he inherited from Trump right away, but instead promised to conduct a full review of the Phase One deal. In March, his administration delivered to Congress its 2021 Trade Agenda, a document that identifies "addressing China's coercive and unfair economic trade practices" as a key policy agenda and commits to "using all available tools to take on the range of China's unfair trade practices."

As economists and historians parse out the exact consequences of the U.S.-China trade war, one of the central points of debate will almost certainly be the extent to which Trump succeeded or failed in narrowing the country's trade deficits.

According to a report released by the U.S.-China Business Council earlier this year, data suggested the deficit decreased between the U.S. and China in 2019, but increased with the rest of the world at the same time, leaving the overall trade deficit broadly unchanged.

According to recent analysis from two Federal Reserve economists, however, even the degree to which the trade deficit with China decreased may be greatly exaggerated.

The report, written by Hunter Clark, an assistant vice president at the Federal Reserve Bank of New York, and Anna Wong, a principal economist at the Federal Reserve Board, analyzes an unusual discrepancy between the trade deficits suggested by the two countries' data.

Historically, the U.S.-reported bilateral goods trade deficit has been about $95 billion larger than that reported by Chinese counterparts, they said. In 2019—months after the trade war began in 2018—that gap suddenly narrowed and in 2020 it reversed. According to Clark and Wong's analysis, this development primarily reflected a sudden divergence between U.S. imports from China as reported by the U.S. Census Bureau and China exports to the U.S. as reported by China Customs.

Where the U.S. Census Bureau's data showed exports falling sharply in 2018 and 2019, its Chinese counterpart reported a more subdued decline. Then, when numbers rebounded in 2020, China Customs' data reported a much stronger upswing—one that led its numbers to overtake those reported by the U.S. "for the first time ever," according to the two Federal Reserve economists.

They offered two "likely" explanations for this mismatch: U.S. importers underreported shipments from Chinese in an effort to evade U.S. tariffs and Chinese exporters reported higher exports due to changes in tax incentives in China.

Ultimately, the report concludes misreporting by U.S. importers explained the majority of the sudden discrepancy. Comparing 2017 to 2020, they found an $88 billion decrease in the gap that traditionally exists between U.S.-reported imports from China and China's reported exports to the U.S.

They also determined $12 billion was due to either overreporting or a decrease in underreporting by Chinese exporters. Policy changes made by the Chinese government, the report explains, lowered gross value-added tax (VAT) rates and increased export VAT rebates between 2017 and 2020.

As a result, the average net VAT rate—unlike many countries, China does not fully rebate VATs on exports, meaning the gross VAT tax rate minus the VAT export rebate comes out to what is effectively an export tax—fell from close to 7 percent at the end of 2017 to around 2.5 percent in 2020.

Beyond this overall average rate, the percentage of export products facing zero net VAT rates grew from 5 percent of all goods in 2017 to roughly 50 percent in 2020. Given this change, Chinese exporters suddenly had less of an incentive to underreport to avoid VATs, something Clark and Wong calculated had a $12 billion impact on the Chinese exports reported by China Customs.

Factoring in their calculations for misreporting, the two economists found the gap between U.S. imports reported by the U.S. Census Bureau and Chinese exports reported by China Customs returned much closer to its historical level.

When factoring these adjusted numbers back into the trade deficits reported by the U.S. and China, the narrative of the trade war changes. Whereas the U.S. Census Bureau's data indicate the trade deficit between the two countries returned to a level in 2020 not seen since the middle of former President Barack Obama's administration, Clark and Wong's calculations indicate the deficit decreased from 2018 to 2020, but only to a level slightly better than 2017 and still above 2016.

Though the debate over whether Trump's tariffs worked or not will almost certainly continue, American manufacturers are still dealing with the consequences of the tariffs that continue to this day.

Ohio-based bedding maker Downlite is one such company. Due to continuing tariffs on one of its key raw materials, the company said it has been placed at a disadvantage compared to Chinese competitors, which don't face tariffs on their finished products. "This unintended consequence," Downlite argued, gives China-made finished goods "a clear cost advantage" over American-made products.

"It's basically just helping the Chinese right now while hurting U.S. manufacturing," Josh Werthaiser, president of Downlite's feather and down division, said in a statement.

Source: sourcingjournal.com– June 23, 2021

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USA: $25,000 Container Rates Are Supply Chain's 'New Normal': 'Contracts Are Not Being Honored'

Those looking for uplifting news regarding the state of the global supply chain will likely have to keep on waiting. One investment bank with its ear to the ground doesn't see the current supply chain woes, or the pricier costs that come with them, letting up for quite some time.

A UBS report published Monday indicates that elevated supply constraints impacting the global ocean freight system are driving bottlenecks that "probably won't be alleviated soon." What's more, the increasing costs for shipping containers likely won't see much of a correction until 12 months from now at minimum.

Analysts that cover U.S. hardlines retail for the investment bank said the company recently hosted a call with two experts in the shipping industry, who cited three major culprits to the bottlenecks: port disruptions, labor shortages and a lack of available warehouse space to store cargo.

UBS says that even if these three issues are solved, the tightness in the market will likely remain at higher levels than usual due to backlogs from demand outpacing supply for a prolonged period.

The situation has gotten so dire that the National Retail Federation (NRF) requested a meeting with President Joe Biden and other administration leaders to discuss the ongoing challenges leading to the congestion and rising freight rates. Both the American Apparel & Footwear Association (AAFA) and the Port of Los Angeles have urged the administration to intervene.

The peak shipping season of August and September is expected to throw another wrench into the equation as retailers attempt to stock up again ahead of holiday 2021, said UBS, which did not respond to a request for comment.

Even without major supply chain constraints, supply is typically lower during the peak season and container capacity becomes scarce, leading to increased shipping costs. Now, with the compounding of these issues, heightened shipping costs will undoubtedly be a bigger problem for retailers, at least in the near term.

The experts said shipping container rates have continued to climb amid limited supply, UBS said in the note. Specifically, one expert cited that from August 2020 up until now, containers going to the West Coast have cost approximately $8,000 to $9,000 per unit, with the East Coast experiencing rates of approximately $12,000. Further, one expert noted spot prices have moved as high as $20,000 to $25,000 in some instances.

This is a drastic change from two years ago, in June 2019, when West Coast containers were commanding rates of roughly $1,000, with the East Coast units averaging $2,200, UBS said.

Other markets have seen massive increases as well. According to Drewry's World Container Index data released on Thursday, the rate for a standard 40-foot container shipped from Shanghai to Rotterdam, Netherlands was up 534 percent year over year, reaching $11,196. This was the highest rate among the eight major East-West trade routes examined by Drewry (freight forwarder Zencargo reported on June 9 that transporting the same container on the same route cost $10,522). The Drewry composite, which measures all eight shipping rates, was up 306 percent year-over-year to $6,957.

French, Japanese freighters slap surcharges on shipments to China

Making matters worse, container transportation companies out of Japan (Ocean Network Express, or ONE) and France (CMA CGM), have added surcharges on sea freight shipments bound for China's Port of Yantian due to the congestion and container shortages. To cover the costs of re-routing shipments headed for Yantian, CMA CGM is implementing a $1,250 per container surcharge, while ONE added a $1,000 fee.

CMA CGM implemented the surcharges on June 11, but select nations have until July 21 before they get hit with the charges, including the U.S. and its overseas territories, Brazil, Argentina, Colombia, Ecuador, Panama, Venezuela, Uruguay and Paraguay.

Both ONE and Maersk are omitting calls at Yantian terminals in an effort to maintain schedules, amid congestion and delays in Europe, the U.S. and Asia. Maersk reported that the eastern area of the terminal at Yantian, which handles mainline vessels, is operating at 45 percent of its normal productivity.

However, despite ongoing Covid-19 restrictions at the Port of Yantian, Everstream Analytics reports that operations further normalized, with yard density and vessel waiting times decreasing "significantly" in recent days as of Tuesday. The port operator expects normal operations to resume from the end of June.

Perhaps the biggest frustration regarding the excessive costs is the length of time it will take to have any semblance of normalcy. The experts UBS cited also believe that rates will not see much of a correction until 12-18 months from now. Even when the supply/demand dynamics level out, there will likely be an elevated "new normal" for container prices.

"Further, in many cases, contracts are not being honored. This has caused some importers to look domestically for products," the note said.

Major railroads feel heat from congestion

Constraints throughout the chain are having a negative impact on some of the country's biggest railroad systems, particularly BNSF Railway and Union Pacific Corp. (UNP), according to the UBS discussion.

"It appears that both BNSF and UNP are facing a slower pace of containers leaving their terminals in the Chicago area (and also Memphis for BNSF) and the build-up/lack of space is causing both Western railroads to meter the flow of intermodal trains and containers going from Southern California into the Midwest," UBS said in the note. "While drayage capacity is likely a constraint it appears that warehouse space constraints in Chicago and Memphis may also be an issue."

However, the rising ocean freight rates are likely to drive sequential quarter-over-quarter growth in ocean-related revenue for freight forwarders in the second quarter.

"Commentary from the experts on our call lead us to believe the considerable tightness in ocean container shipping markets and disruption at ports is likely to support strong ocean container volume, gross revenue and net revenue performance from freight forwarders in the second quarter and this support is likely to persist into 2022," the note said.

U.S. still encounters non-essential land, ferry restrictions

In its June 22 weekly summary of supply chain impacts still ongoing from the Covid-19 pandemic, Everstream Analytics noted that the U.S. extended restrictions for non-essential travel at land and ferry crossings with Canada

and Mexico through July 21 to reduce the spread of the coronavirus. The border posts have been closed since March 2020 and restrictions have been extended on a monthly basis since.

And despite the U.S.'s higher vaccination rate and faster recovery, congestion across global markets still persists. Inbound and outbound flights via China's Shenzhen Bao'an International Airport remain canceled after authorities imposed restrictions due to the discovery of a case of the Delta coronavirus variant. Airport congestion is likely to occur as a result, Everstream said.

Indonesia, which has the fourth-largest population in the world, tightened mobility restrictions in "red zones," including Jakarta, for two weeks from June 22 due to an increase in Covid-19 cases. Authorities in South Africa tightened measures nationwide from June 15 and moved the country from "level two" to "level three" on its five-tier virus transmission risk scale.

On a positive note, Japan lifted its Covid-19 state of emergency travel restrictions in nine out of 10 prefectures on June 20, including Tokyo. Okinawa remains the only district with the restrictions in place, which will be enforced until July 11.

Source: sourcingjournal.com– June 23, 2021

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Japan's apparel imports decline during January-April'21

Japan's apparel imports declined by both weight-wise and value-wise in the first four months of 2021, as per Apparel Resources

From January-April'21, Japan garment imports declined by 5.52 per cent to 853.70 billion yen as compared to 903.54 billion yen in the same period of 2020, noting 5.52 per cent yearly downfall.

In terms of weight, Japanese apparel import declined to 2,070.28 million kg in the mentioned period as against 2,076.55 million kg in the corresponding period of 2020 which is a 0.30 per cent yearly decline.

The fall has been witnessed due to lowering demand of woven clothing in Japanese apparel market, while knitted segment remained positive

The share of knitted garments in overall imports was 433.52 billion yen while woven garments constituted 420.17 billion yen.

Low unit prices in 2021 have put exporters to Japan under immense pressure as per kg garments imported by Japan valued just 410 yen in 2021's first four months as compared to 440 yena year earlier.

Particularly in April '21, the country's import revenues slumped by 7.25 per cent to 223.82 billion yen as compared to April '20.

Source: fibre2fashion.com– June 23, 2021

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Cotton growing regions face severe climate risks

The first-ever global analysis of climate risks to global cotton production reveals that runaway climate change could expose half of all global cotton growing regions to high risks from temperature increases, changes to rainfall patterns and extreme weather events by 2040.

Adapting to climate change – physical risk assessment for global cotton production was commissioned by the Cotton 2040 initiative, which is facilitated by London-based sustainability non-profit Forum for the Future and supported by the Laudes Foundation. The analysis was conducted by Cotton 2040 partner and climate-risk specialists Acclimatise, part of Willis Tower Watson.

Under a worst-case climate scenario, it stresses that all global cotton growing regions will be exposed to increased risk from at least one climate hazard by 2040. While these increases range from very low to very high risk, half of the world's cotton growing regions will face drastic changes with high or very high-risk exposure to at least one climate hazard. Other key findings include:

-All six highest cotton-producing countries – India, the USA, China, Brazil, Pakistan and Turkey – are exposed to increased climate risk, particularly from wildfire, drought and extreme rainfall.

-The highest climate risk overall is projected for two regions – north western Africa, including northern Sudan and Egypt, and western and southern Asia.

-Some regions are set to face high or very high exposure to up to seven climate hazards.

-Cotton exposure to heat stress (defined as temperatures above 40°C) will be an increased risk across 75% of cotton growing regions, with the risk being high or very high across above 5% of regions.

-40% of global cotton growing regions are projected to experience a decrease in growing season as temperatures increase beyond the optimum temperature range for cotton growing.-

-Water scarcity and extremes in rainfall – from insufficient in some regions to extreme and more intense in others – will present increased risks for the world's most productive cotton growing regions. This will add extra pressure to a fibre already under scrutiny for its water footprint, affecting yields and potentially threatening to cause conflict and societal unrest.

-Exposure to increased risk from drought will impact around 50% of cotton.

-20% of the world's cotton growing regions will be exposed to increased risk from fluvial flooding by 2040, and 30% of cotton growing regions will be exposed to increased risk from landslides.

-All cotton growing regions will be exposed to increased risk from wildfires.

-60% of cotton will be exposed to increased risk from damaging wind speeds, and up to 10% will be exposed to increased risk from storms.

Wake-up call

"This analysis is a wake-up call for the cotton industry, on which much of the apparel sector is currently hugely reliant," said Sally Uren, chief executive at Forum for the Future. "In order to build resilience for a highly disrupted and uncertain future, the widespread shifts to sustainable forms of cotton production must be bolstered by ambitious and aligned action to reduce carbon emissions while also preparing the industry to operate in a very different world."

"As it stands, emission reduction commitments and targets are being missed by the majority of countries, meaning that warming of more than 3°C is probable by the end of this century," added Willis Tower Watson director Alastair Baglee. "However successful we are with decarbonisation, we will face decades of unavoidable climate change and disruption. Preparing today is essential if we are to limit the impacts of climate change on society."

Cotton has a market value of about $12 billion, makes up about 31% of all raw material used in the global textile market with a yearly economic impact of over $600 billion and supports the livelihoods of around 350 million people who cultivate or process it. Approximately 90% of farmers grow cotton on less than two hectares of land and are located in developing countries, mainly in Central and West Asia, Southeast Asia, and Africa.

The global analysis is complemented by an in-depth analysis of physical climate risks and socio-economic vulnerabilities to the cotton value chain in India. This highlights that climate impacts extend beyond direct impacts to cotton production, affecting the entire value chain, including workers involved in harvesting and processing, as well as supply chains.

Source: innovationintextiles.com– June 23, 2021

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Garment production in Vietnam may slow down due to pandemic

Vietnam's textiles and garment sector is likely to be affected by the pandemic-induced situation getting more convoluted. The situation in Ho Chi Minh City (HCMC), in particular, will drag the sector down in the remaining months of the year, admit industry insiders. The government has been urged to prioritise vaccination for garment and textile workers.

Most garment and textile firms are willing to cover all vaccination costs.

The infection has already hit some HCMC industrial parks, so if staff of garment and textile firms get infected, work would stop and fulfillment of orders would slow down, Pham Xuan Hong, head of HCMC Association of Garment, Textile, Embroidery and Knitting (AGTEK), told a local newspaper.

The labour-intensive sector needs concentration of workers in certain places inside factories, and therefore, the risk of COVID-19 breaking out there is quite high, said Le Tien Truong, chairman of Vietnam National Textile and Garment Group (Vinatex). The production chain is likely to be broken amid the outbreak, he said.

In the first three waves of the pandemic, no Vinatex affiliates reported any infection. In the ongoing fourth wave, some enterprises in the northern province of Bac Ninh and the central city of Da Nang have reported infected workers.

"This is the first time in 18 months of COVID outbreaks that workers in Vinatex affiliates have been infected with the disease, forcing them stop production and face considerable losses," the Vinatex chairman said.

If production comes to a halt due to the pandemic, goods delivery will be delayed, causing losses for producers and exporters, he said.

Affected enterprises will have to shift to transporting goods by air, instead of by sea to ensure timely shipment. This would make the shipment prohibitively expensive, Truong added.

Source: fibre2fashion.com– June 23, 2021

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Council for the Development of Cambodia approves 3 garment projects

The Council for the Development of Cambodia (CDC) recently approved three garment-related projects worth nearly $15 million that are expected to generate more than 3,200 jobs. The projects are located in Kandal province's Takhmao town, northern Takeo province's Bati district and Phnom Penh's Russey Keo district.

CDC said it will issue final registration certificates for JAK Garment Co Ltd's $2.4-million factory in Sitbou commune's Kampong Pring of Takhmao town and Premier Tech Garment (Cambodia) Co Ltd's $4.3-million venture in Sophy commune's Trapaing Chhouk village of Bati district, both of which are expected to create 1,053 and 1,748 jobs respectively.

The third company to receive the go-ahead was Chanco Textiles (Cambodia) Co Ltd's $8.2-million garment, blanket, pillow and pillowcase plant in Tuol Sangkae commune's Chong Khsach village of Russey Keo district. The unit is predicted to generate 424 jobs, Cambodian media reported citing a CDC statement.

CDC approved 238 investment projects worth a total of $8.2 billion last year, down by 12 per cent from 2019.

Source: fibre2fashion.com– June 23, 2021

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Pakistan's exports to EU rose by 33% since 2013: envoy Kaminara

Pakistan's exports to the European Union (EU) market have increased by 33 per cent, mostly in the textile sector, since it got the generalised system of preferences (GSP) plus status in late 2013, according to EU ambassador to Pakistan Androulla Kaminara, who recently said the EU would review progress on reforms and implementation of conventions by Pakistan after every two years.

If Pakistan fails to fully abide by the obligations required, special trade incentives like GSP plus status would be withdrawn immediately, she told the Sarhad Chamber of Commerce and Industry.

"There is a huge potential for the export of Pakistani fresh fruits and food items to the EU markets," she was quoted as saying by Pakistani media reports.

The EU Review Report 2020 said Pakistan had signed 27 conventions in different sectors and improvement was seen on some of them, including human rights, development of transgender persons, and protection of journalists, she said.

Kaminara hoped Pakistan would further expedite the legislation process and reforms as part of EU commitments.

An EU-Pakistan Business Council would be formed to cement trade and economic ties, the envoy added.

Source: fibre2fashion.com– June 23, 2021

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NATIONAL NEWS

Can FTAs be leveraged for FDI?

The thrust on FTAs with large developed markets like the US, Canada and the European Union has been gaining momentum for some time. The Indian stakeholder-industry has shown a more affirmative attitude to bounded trade deals with the US, Canada, the UK and the EU, albeit with an approach that can best be described as one of cautious optimism.

These are large markets and have the potential to become big export destinations for Indian products. While the larger picture appears to be trade, one can't ignore the attendant potential benefit the preferential access to these large markets brings—an inducement for FDI in manufacturing.

Of course, traditional wisdom states that FDI in manufacturing gets attracted to protected markets, where it is cheaper to set up a manufacturing unit rather than pay the tariffs required to serve the market through exports. This type of FDI has a long history, going back to the industrialisation of the UK, Canada and Australia.

A 2002 World Bank report cites studies that confirm high tariff rates on imported goods induced FDI inflows into the UK, Canada and Australia, at that point in time.

While an MNC's decision to undertake foreign investment is guided by many factors such as infrastructure, human capital, tax policy consistency and such endowments in the recipient country, the size of the market is a significantly decisive factor in the choice of the FDI recipient country. Most studies find a highly-pronounced positive effect of the size of the host market on FDI inflows.

Therefore, to the extent that an FTA creates an extended market by including access to the FTA partner countries' market, a positive relationship between FTAs and FDI would emerge.

Due to tariff eliminations, the markets of the FTA partner countries can be served from a single unified location. This effect allows some firms to grow beyond what they would have been able to achieve in the national market of a single country.

Empirical studies have shown that trade pacts and investments are complements when the partner countries differ in relative endowments and are at different stages of development, while trade pacts and investments could be substitutes when the partner countries are similarly endowed and competing for the same FDI.

This assumes a greater significance in the wake of the recent events which the pandemic has brought into focus—the importance of reliable and resilient supply chains over, simply put, the lowest cost supply chains. There is a diversification move by MNCs seeking plurality of production and to secure uninterrupted supply chains in order to avoid disruptions; a move which has prompted investments to move horizontally rather than vertically—a more risk-neutral model. A country with a modest market size but FTA access to large markets is likely to score over a large country with a big standalone market, especially if it can offer other incentives and create a more conducive environment.

For example, Vietnam, which in itself is not a very large market, has successfully leveraged its preferential tariff access to many large Western and Asian markets through its trade agreements. This (making Vietnam a preferred destination for FDI in manufacturing) has been one of the major determining factors for MNCs diversifying under a China-plus-one strategy.

Many ASEAN and South Asian countries (including India) have been competing for the same FDI. Another example is Bangladesh, which has duty-free access to the EU, UK and Canada in textiles under their GSP (General System of Preferences) for LDC countries, thereby making Bangladesh a preferred destination for FDI in textiles and a competitor for Indian textiles that do not have similar duty-free access to these large markets.

Given India's stage of development, it would only be prudent to seek a parity in tariff concessions in these large markets, through FTAs. Finding FTA partners in large Western markets would indisputably be a boost in the arm for the manufacturing industry in the country and would allure many more.

Source: financialexpress.com– June 24, 2021

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Commerce Ministry writes to EU seeking linkage between free trade and investment talks

India-EU joint statement at leaders summit mentioned 'independent' investment pact, but India officials say it was an oversight

The Commerce Ministry has shot-off a letter to the EU stressing that the negotiations for the proposed bilateral investment protection treaty and a free trade deal have to be necessarily linked, an official tracking the matter said. While the negotiations can take place on parallel tracks, they must conclude together, the letter stated.

The EU, which is not keen to link the two, is yet to respond, the official told BusinessLine.

"The EU had been pushing for an investment protection agreement separate from a trade deal for some time but India did not agree as it believed it could lead to a loss in bargaining power in the negotiations. However, in the joint communication following the India and EU leaders' recent meeting, it was the EU's wish for independent negotiations that got reflected. The Commerce Ministry letter to the EU is aimed at correcting it," the official said.

In the high profile EU-India leaders meeting in May this year attended virtually by Prime Minister Narendra Modi and leaders of 27 EU member countries, the two sides decided to resume negotiations on the broad-based trade and investment agreement that were suspended in 2013 due to differences in market access issues for goods, such as auto and alcohol, and mobility for professionals.

Separate agreements

The portion in the joint statement that made India uncomfortable was that it mentioned a beneficial trade agreement and an investment protection agreement separately. "We also agreed to the launch of negotiations on a stand-alone investment protection agreement," the statement said. Indian officials said that it was an "oversight".

The Commerce Ministry tried to repair the situation by coming up with a press release that day emphasising that the trade agreement and the investment protection agreement need to conclude together. "Negotiations

on both the trade and investment agreements will be pursued on parallel tracks with an intention to achieve early conclusion of both agreements together," the release said.

New Delhi believes that it makes sense to keep goods, services and investments all under one umbrella when a free trade agreement is being negotiated. It ensures that if one side is keen on wrapping-up one aspect of the talks fast, it would be forced to treat the other aspects of the agreement also seriously and make compromises to move ahead on all items in order to get the entire treaty in place.

"The EU is very interested in fast-tracking a bilateral investment protection agreement as India suspended all its Bilateral Investment Treaties (BIT) with partner countries, including EU members, in 2017.

It then asked EU countries to get into negotiations for a fresh agreement individually with India based on the model BIT passed by its Union Cabinet, but the EU wanted a single agreement covering all its members. If India agrees to independent negotiations, there are apprehensions that the investment treaty will be given priority by the bloc," the official said.

The EU is India's third largest trading partner, accounting for €62.8 billion worth of trade in goods in 2020 or 11.1 per cent of total Indian trade, after China (12 per cent) and the US (11.7 per cent), per figures shared by the EC.The EU is the second-largest destination for Indian exports (14 per cent of the total) after the USA.

Source: thehindubusinessline.com– June 23, 2021

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Moody's slashes India growth forecast for 2021 to 9.6%

Moody's Investors Service recently slashed India's growth projection to 9.6 per cent for 2021 from its earlier estimate of 13.9 per cent, saying faster vaccination progress will be the key to restrict economic losses in the June quarter. High-frequency economic indicators show the second wave of COVID-19 infections hit the economy in April and May, it said.

In its report titled 'Macroeconomics India: Economic shocks from second COVID wave will not be as severe as last year's', Moody's said economic activity in May is likely to signify the trough, with states now easing restrictions.

"The virus resurgence adds uncertainty to India's growth forecast for 2021; however, it is likely that the economic damage will remain restricted to the April-June quarter. We currently expect India's real GDP to grow at 9.6 per cent in 2021 and 7 per cent in 2022," the rating agency said.

Earlier this month, it had projected India to clock a 9.3 per cent growth in the current fiscal ending March 2022, but a severe second COVID wave has increased risks to India's credit profile and rated entities.

Stating that stringent lockdowns in economically significant states will mar April-June quarter economic activity, Moody's said the 10 states that have been hardest hit by the second wave collectively account for more than 60 per cent of the pre-pandemic level of India's GDP.

Four states—Maharashtra, Tamil Nadu, Uttar Pradesh and Karnataka—contributed the largest shares among all states in fiscal 2019-20.

Moody's said faster vaccination progress will be paramount in restricting economic losses to the current quarter. As of the third week in June, only about 16 per cent of the population had received one vaccine dose; of those, only about 3.6 per cent had been fully vaccinated.

"Mobility and economic activity will likely accelerate in the second half of the year as the pace of vaccinations pick up. The government recently announced a strategy to centralise vaccine procurement in order to boost vaccinations, which if successful, will support the economic recovery," it added.

Moody's expects the overall hit to India's economy to be softer than that during the first wave last year. However, the pace of recovery will be determined by access to and delivery of vaccines, and the strength of the recovery in private consumption, which could be hampered by the deterioration of balance sheets of low- and middle-income households from job, income and wealth losses.

Source: fibre2fashion.com– June 23, 2021

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Motilal Oswal estimates India's real GDP growth to be 8.7% in FY22

Motilal Oswal Financial Services recently projected real gross domestic product (GDP) growth of 8.7 per cent in fiscal 2021-22, down from 11.1 per cent it had forecast earlier. It, however, revised up the forecast for fiscal 2022-23 from 4 per cent to 5.4 per cent. It also expects the Reserve bank of India (RBI) to shift from its accommodative stance to neutral by the year-end.

The recent surge in industrial metals and agricultural commodities is likely to have a much larger impact on the wholesale price index (WPI) over the consumer price index (CPI), it said. Although the GDP deflator is still more closely linked with WPI, RBI's policy instrument is CPI.

"Thus while higher WPI-based inflation will drive nominal GDP growth higher, it will not present any additional concerns regarding the monetary policy," the company said in its Economic Outlook for the second quarter of this fiscal.

CPI inflation is expected to ease to 5.7 per cent in FY22 from 6.2 per cent in FY21. Average inflation of 6 per cent in two years reduces the possibility to ease any further.

At the same time, the company said, the government may not only marginally over-achieve its FY22 fiscal deficit target but also meet its spending target.

There are three notable trends in FY22 so far. First, RBI has announced higher dividends to the government by ₹40,000 crore. Second, an additional fertiliser subsidy of ₹14,008 crore has been announced. And third, the Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY) valued at ₹90,00 crore has been extended to seven months up to November.

Motilal Oswal said the Indian government's fiscal deficit could remain unchanged at ₹15.1 lakh crore (or 6.6 per cent of GDP) due to a higher denominator nominal GDP in FY22.

However, total spend could also be the same at budget estimate level—implying a decline of 0.8 per cent year-on-year in FY22 due to higher-than-targeted total spending in FY21.

Source: fibre2fashion.com– June 23, 2021

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India attracted US$ 6.24 billion total FDI inflow during April, 2021

Measures taken by the Government on the fronts of Foreign Direct Investment (FDI) policy reforms, investment facilitation and ease of doing business have resulted in increased FDI inflows into the country. The following trends in India's Foreign Direct Investment are an endorsement of its status as a preferred investment destination amongst global investors:

India has attracted total FDI inflow of US$ 6.24 billion during April, 2021and it is 38% higher as compared toApril, 2020 (US$4.53 billion).

During April, 2021FDI Equity inflows amountingto US$ 4.44 billion were reported in the country which is an increase of 60% over the FDI Equity inflow of April, 2020 (US$ 2.77 billion).

During April, 2021,Mauritius is the top investing country with 24% of the FDI Equity inflows, followed by Singapore (21%) and Japan (11%).

'Computer Software & Hardware' has emerged as the top sector during April, 2021 with around 24%share of the total FDI Equity inflow followed by Services Sector (23%) and Education Sector (8%) respectively.

Karnataka is the top recipient state during April, 2021 with 31% share ofthe total FDI Equity inflows, followed by Maharashtra (19%) and Delhi (15%).

Source: pib.gov.in– June 23, 2021

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Higher commodity prices behind rise in exports to China in pandemic year

In the year when global trade was plagued by the pandemic and India's exports to most nations across most categories suffered, shipments to China increased to $ 21.2 billion in FY21 from $16.6 billion in FY20.

While offering hope to policymakers, the rise of more than 27 percent was still considered baffling, especially when exports to India's northern neighbor had fallen by 0.8 percent in 2019-20, even before the pandemic.

But rather than being a sign of sudden growth in India's industrial prowess or export clout, in-depth assessment shows higher global commodity prices was the main driver of this growth, government officials said.

Most of this is due to iron ore exports from India, 86 percent of which was shipped to China in 2020-21. Half of the $ 4 billion increase in exports to China in FY21 ($ 2.1 billion) came from iron ore exports, government officials said, pointing to data reviewed by Moneycontrol.

Higher prices

This becomes clear when seen in the context of iron ore prices, which have skyrocketed since November. Similarly, about a billion dollars worth of the growth came from downstream products which were also affected by higher iron ore prices. This included export of various products made of iron and non-alloy steel.

"The value of shipments carrying product categories such as semi-finished and flat rolled iron and steel products saw a boost in FY21," a senior Commerce Department official said. The largest consumer of metals and other construction products on earth, China has seen prices of hot rolled steel coils, cement and copper all climb by more than 30 percent, according to Reuters.

Other commodities such as organic chemicals and petroleum constituted the third and fourth largest exports to China. Prices of both commodities had seen an uptick in 2020.

Higher amount of cumin seeds and chili peppers are also finding their way to China, led by growing appetite for Indian cuisines.

From being the third-largest destination of Indian exports, China has now become the second on the list. China's importance in India's overall exports has continued to incrementally rise over the last four years, with shipments to China now constituting 7.3 percent of all exports, jumping up from 5.3 percent.

Banking on commodities

Overall, the sudden rise in global prices of key input materials such as steel, chemicals and plastics over the past 4 months have helped India's exports recover. Ironically, this comes even as the Commerce Department has been aggressively trying to raise the share of value-added manufactured goods in the overall export basket.

Despite continuous efforts of the Narendra Modi-government to increase exports of high-value manufactured goods across major markets, commodities continue to dominate India’s overall export basket. "We have believed for some years now that long-term dependence on raw materials would be inherently detrimental to the export sector. At the least, it would rob the industry the chance to transition to higher value products, up the value chain," a senior Commerce Department official, said.

Interestingly, a report by the Confederation of Indian Industry (CII) has pointed out that since 2012, China itself has increasingly banked on imported commodities. "Beijing has instead, focused its efforts and state-run industries on creating a large pool of value-added products which fetch greater price in global markets," a senior trade policy expert said.

As the Chinese economy has transitioned to higher levels, a better educated populace, coupled with government policy has led to an accelerated growth in high-technology items, such as telecommunications equipment, automotive products, cellphones, he added.

As a result, China has abandoned labour intensive sectors such as textiles, leather, plastics and consumer goods manufacturing, which India hopes to capture soon.

Source: moneycontrol.com– June 23, 2021

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Going beyond policy announcements to raise MSMEs' contribution to India's exports

Despite the pandemic-induced slowdown, Indian merchandise exports have been growing well, to an all-time monthly high of $32.27 billion in May, showing broad-based recovery from last year.

Small businesses are a mainstay of this performance, accounting for around half the country's merchandise exports. Commerce Secretary Anup Wadhawan has pegged merchandise exports to cross the targeted $400 billion this year. Going forward, to achieve the Prime Minister's goal of a $5 trillion economy, Indian exports (merchandise and services) would have to increase from $526.55 billion in FY 19-20 to about $1 trillion.

With that target in mind, the current contribution of the MSME sector to merchandise exports would have to at least double from $150 billion to $300 billion. In addition, Nitin Gadkari, the minister for MSME, has time and again highlighted that MSMEs are poised to increase their contribution to India's merchandise export to 60 percent over the next couple of years.

As we target Indian exports to increase, along with a higher share for MSMEs, it would be prudent to evaluate the preparedness of MSMEs on multiple dimensions. This exercise is even more crucial now as we await India's new Foreign Trade Policy 2021-26 slated for release in the next couple of months.

The upcoming policy is expected to be aligned to achieving the goal of a $5 trillion economy, and the 2019 report of the High-Level Advisory Group (HLAG) on trade had a number of proposals including strengthening EXIM Bank credit, using data analytics for an export strategy, optimise FTA (Foreign Trade Agreements) negotiations and usage, increase investments in infrastructure, especially ports, reduce logistics costs, etc.

The current Foreign Trade Policy 2015-20 mentions MSMEs only twice over its extensive 164 pages. Given the significant role of MSMEs in achieving these macro goals, it would be fair to expect more detailed attention given to MSMEs in the upcoming Foreign Trade Policy. What impacts MSME exporters the most is lack of awareness and knowledge of government schemes and international export/import standards, inadequate understanding of processes and documentation, low garnering of export

credit, lack of access to markets. These have also been highlighted in the report by the HLAG on trade, along with its recommendations.

However, the effectiveness of policy lies in its implementation. Though the extant policies cover various areas affecting MSMEs, the 'implementation to intent' ratio is very small and leaves much more to be desired. One of the primary reasons for unsatisfactory implementation is inadequate State capacity. For a department that is expected to look after and promote more than 60 million MSMEs, there are not more than 500 employees to do so, which is terribly inadequate.

This bandwidth needs tactful expansion. One established option to do so is to use industry associations all over India that are used to interacting with both the government and the industry, especially MSMEs. Some of these industry associations are already authorised to issue some export documents for exporters.

Industry associations also conduct various programmes to educate the aspiring and existing exporters. The bandwidth of these industry associations can be utilised to increase the breadth and depth of engagement with exporters. The much-awaited Foreign Trade Policy 2021-26 should ensure maximising this collaboration.

Further, our embassies and trade commissions abroad are also in dire need of increased capacity. Each of these bodies have a limited bandwidth of not more than two officers who look after the trade division, while some countries such as the United Kingdom and Germany deploy dozens or even hundreds of employees in their trade and investment divisions in various countries, including India. The strength in India's missions in strategic partners must be increased substantially to promote Indian businesses and trade in those countries.

While export promotions are usually only dealt with by the Union government, there is also a lot that states can and must do, especially those states with a large number of MSMEs, for instance the top five — Uttar Pradesh, West Bengal, Tamil Nadu, Maharashtra and Karnataka, as per the 2015-16 NSS 73rd round survey. These states need active export promotion departments and councils to promote the existing local businesses to ramp up their exports and encourage/assist others to start exporting.

Raising the 'implementation to intent' ratio through these measures are key to strengthening the impact of policy, and the dream of the $1 trillion exports contributing to the $5 trillion economy would be closer to reality.

Source: moneycontrol.com– June 23, 2021

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Exporters having tripartite agreements with multinationals under GST scanner

The tax department has held back the export benefits of many companies that have three-way contracts, or tripartite agreements, with multinationals, the Economic Times mentioned in a report citing people dealing with such cases.

The indirect-tax department is of the view that many fintech companies, captive units of multinational banks and several other entities providing IT and IT-enabled services that have such agreements don't really export services but are merely intermediaries or agents.

As per current regulations, exports do not attract GST but exporters can claim refunds of the tax paid on inputs from the revenue department. This policy is aimed at making Indian goods and services more competitive in the international markets.

"All tripartite agreements may not fall within the purview of intermediary services and hence it is important to examine whether the services are rendered on own account," the publication quoted Abhishek A Rastogi, partner at law firm Khaitan & Co as saying.

But according to the tax department's rationale, if the Indian company is merely implementing what is being dictated by the foreign entity, then it is an intermediary and is not exporting any services. Three-way agreements are usually signed among the Indian entity claiming the tax credit, a multinational and the multinational's client.

The business daily said in one of the cases, an Indian arm of a multinational has an agreement with two companies based outside India — a group company and the group company's client — and does part of the IT implementation project for the client. In this case, the tripartite agreement was questioned and the refund held back, said people in the know.

This fresh scrutiny of fintech and IT/ITeS companies came after a split decision by a division bench of the Bombay High Court on refunds.

Source: timesnownews.com– June 23, 2021

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Labour Minister says, India is making collective efforts to reduce gender gaps in labour force participation

Union Minister for Labour and Employment Shri Santosh Gangwar has said that India is making collective efforts to reduce gender gaps in labour force participation. The country is ensuring education, training, skilling, entrepreneurship development and equal pay for equal work.

Delivering Ministerial Address on Declaration and Employment Working Group Priorities at G20 Labour and Employment Ministers' Meeting here today, Shri Gangwar said, the new Code on Wages, 2019 shall reduce gender-based discrimination in wages, recruitment and conditions of employment. Women are entitled for all types of work in all establishments. Employers have to ensure their safety and provisions for working hours. Women can now work even during night hours.

Shri Gangwar said, the duration of paid maternity leave has been increased from 12 weeks to 26 weeks. Pradhan Mantri Mudra Yojana provides financial support to women entrepreneurs to start small enterprises. Collateral free loans worth Rupees 9 thousand billion have been disbursed under this scheme. There have been around 70% accounts of women in this Scheme.

The Minister added that the new Code on Social Security may now include even self-employed and all other classes of work force into the folds of social security coverage. A voluntary and contributory pension scheme introduced in 2019 for the unorganised sector workers provides for minimum assured pension after the age of 60 years.

While supporting the adoption of the Joint Ministerial Declaration, the Minister emphasised that such an initiative by the member countries shall be very helpful for the overall development and capacity building of entire young generation, which is rapidly evolving and has now become more challenging due to the pandemic.

The Employment Working Group deliberated upon key issues, including women employment, social security and remote working. The subject for the meeting being Fostering an inclusive, sustainable, and resilient recovery of labour markets and societies.

In 2014, G20 Leaders pledged in Brisbane to reduce the gap in labour force participation rates between men and women by 25% by 2025, with the aim of bringing 100 million women into the labour market, increasing global and inclusive growth, and reducing poverty and inequality.

In recent years, almost all G20 countries made progress in terms of equal opportunities, participation of women in the labour market and reduction of the gender pay gap.

The process of reducing gender inequalities has slowed down due to the impact of the COVID-19 pandemic on the global economy. The measures implemented by G20 countries helped to mitigate the employment and social impact of the COVID-19 crisis.

Yet, evidence from many countries shows a disproportionate impact on women. Acknowledging the risk of increasing gender inequalities in labour markets and societies, G20 Leaders at the Riyadh Summit called for a roadmap to achieve the Brisbane goal along with improving the quality of women's employment.

In response to this call, the G20 Roadmap Towards and Beyond the Brisbane Target has been developed for achieving equal opportunities and outcomes for women and men in our labour markets as well as societies in general. This Roadmap builds upon the G20 Policy Priorities for Boosting Female Participation, Quality of Employment and Gender Equity (Australia, 2014)and the G20 Policy Recommendations to Reduce Gender Gaps in Labour Force Participation and Pay by Improving Women's Job Quality (Germany, 2017).

Many factors continue to hinder the participation of women in the labour market and the improvement of the quality of their employment. Overcoming these barriers is key to achieving not only the Brisbane target and previous commitments of member States, but also aiming at full gender equality in the labour market and in societies.

To achieve this goal, it should be ensured that policy measures are informed, by behavioural insights, based on data and evidence and adapted in accordance with national circumstances. Against this background, the G20 Roadmap Towards and Beyond the Brisbane Target has been set as: Increasing the quantity and quality of women's employment; Ensuring equal opportunities and achieving better outcomes in the labour market; Promoting a more even distribution of women and men across sectors and occupations; Tackling the gender pay gap; Promoting a more balanced distribution of paid and unpaid work between women and men; and Addressing discrimination and gender stereotypes in the labour market.

Source: pib.gov.in– June 23, 2021

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How India's e-commerce rules have spawned confusion

The Centre has proposed additions and changes to the Consumer Protection (E-commerce) Rules, 2020. This has caused confusion among e-commerce firms and stakeholders. Mint explains what the new rules entail.

The Centre has proposed additions and changes to the Consumer Protection (E-commerce) Rules, 2020. This has caused confusion among e-commerce firms and stakeholders. Mint explains what the new rules entail

What are the new draft e-commerce rules?

On 21 June, the consumer affairs ministry proposed amendments to the e-commerce rules to address complaints against "unfair trade" practices followed by e-tailers. The government is aiming for a tighter regulatory framework, arguing that the amendments are largely meant to protect consumer interest, adding another layer of compliance for e-commerce firms. The rules are open for comments and industry suggestions till 6 July. These apply to large marketplaces such as Amazon, Flipkart, Myntra, and to food aggregators Swiggy and Zomato, as well as single brand e-commerce sites and big tech, including Facebook Marketplace.

What do the proposed rules entail?

The ministry has proposed that e-commerce firms should register with the department for promotion of industry and internal trade (DPIIT), and sought to tighten the nozzle on 'flash sales'. They also need to submit information to law enforcement agencies within 72 hours during investigations and stop all related parties from selling on their marketplaces.

This could affect how online marketplaces function and work with sellers, who have been accused of giving preferential treatment to entities they hold indirect stakes in. DPIIT's Press Note 2 of 2018 prohibited e-commerce firms from owning or controlling seller inventory.

Do rules prohibit flash sales on online marketplaces?

The ministry said no e-commerce company shall organize sales at significantly reduced prices, high discounts or any other such promotions or attractive offers for a predetermined period of time on selective goods

and services to draw a large number of consumers. Conventional flash sales are not banned.

What is creating the confusion?

The amendments have come as a surprise for the e-tailing industry, even as large e-tailers, including Flipkart and Amazon India face investigation from the Competition Commission of India. E-commerce firms are unclear what the Centre means by 'conventional flash sales', the liability of a marketplace for sellers, and the government's definition of 'deep discounting'. Further, not allowing 'related parties' to sell on their own marketplace may lead to more complex supply chain structures and creation of more indirect units.

What is the likely impact?

Marketplaces and stakeholders are expected to hold discussions with all major industry bodies this week to seek further clarity and submit their responses. The rules come at a time when DPIIT is working to release a separate e-commerce policy and the IT ministry is working on the Personal Data Protection Bill, leading to multiple ministries governing operations of e-commerce firms in India. This is likely to create fresh regulatory bottlenecks, overlaps, and ambiguities in terms of law for e-commerce players in the country.

Source: livemint.com– June 23, 2021

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Action against cartelisation to rein in cotton prices: Garment exporters

Garments exporters have said that the Textile Ministry's intent to find evidence of cartelisation due to sudden spikes in cotton yarn prices will help check price rise, prevent supply chain imbalances and protect lakhs of livelihood.

"We are happy to note that the Textile Commissioner's office has been advised to find evidence of cartelisation, which is resulting in these spikes and hurting the overall interest of the industry. With Ministry's support, such a study can set precedents for a data driven management of the supply chain imbalances," A Sakthivel, Chairman, Apparel Export Promotion Council (AEPC) said.

The Textile Ministry, together with the Textile Commissioner's office, is seeking to find a solution in partnership with the industry for the overall interest of the industry, Textile Minister Smriti Irani said at an event organised by the Cotton Textiles Export Promotion Council (TEXPROCIL), an AEPC release pointed out.

The Minister said there is a need to undertake a third-party study of sudden spikes in cotton yarn prices which affects the prospects across the value chain of Indian textiles, the release added.

Sakthivel, in a letter to the Textiles Minister, said that AEPC would cooperate for a third-party study on the spikes in cotton yarn prices. "He said that these steps will help in curbing the steep increase and unpredictability in availability of cotton and yarn which is hampering the apparel industry's order book planning and overall competitiveness of the entire value chain," the release said.

Source: thehindubusinessline.com– June 23, 2021

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