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INTERNATIONAL NEWS

COVID-19 crisis causes dramatic fall in FDI: UNCTAD

Global foreign direct investment (FDI) flows fell by 35 per cent in 2020 to $1 trillion from $1.5 trillion the previous year, according to the World Investment Report 2021 by the United Nations Conference on Trade and Development (UNCTAD), which recently said pandemic-induced lockdowns around the world slowed down existing investment projects, and the prospects of a recession led multinational firms to re-assess fresh projects.

The fall was heavily skewed towards developed economies, where FDI fell by 58 per cent, in part due to corporate restructuring and intrafirm financial flows. FDI in developing economies decreased by 8 per cent, primarily because of resilient flows in Asia. As a result, developing economies accounted for two thirds of global FDI, up from just under half in 2019.

FDI patterns contrasted sharply with those in new project activity, where developing countries are bearing the brunt of the investment downturn. In those countries, the number of newly announced greenfield projects fell by 42 per cent and the number of international project finance deals–important for infrastructure–by 14 per cent.

This compares to a 19 per cent decline in greenfield investment and an 8 per cent increase in international project finance in developed economies. Greenfield and project finance investments are crucial for productive capacity and infrastructure development, and thus for sustainable recovery prospects, the UNCTAD report said.

All components of FDI were down. The overall contraction in new project activity, combined with a slowdown in cross-border mergers and acquisitions (M&As), led to a drop in equity investment flows of more than 50 per cent. With profits of multinational corporations down by 36 per cent on an average, reinvested earnings of foreign affiliates–an important part of FDI in normal years–were also down.

The impact of the pandemic on global FDI was concentrated in the first half of 2020. In the second half, cross-border M&As and international project finance deals largely recovered. But greenfield investment–more important

for developing countries–continued its negative trend throughout 2020 and into the first quarter of 2021.

Developing economies weathered the storm better than developed ones. However, in developing regions and transition economies, FDI inflows were relatively more affected by the impact of the pandemic on investment in tourism and resource-based activities.

Asymmetries in fiscal space available for the rollout of economic support measures also drove regional differences, the UNCTAD report said.

The fall in FDI flows across developing regions was uneven, at minus 45 per cent in Latin America and the Caribbean, and minus 16 per cent in Africa. In contrast, flows to Asia rose by 4 per cent, leaving the region accounting for half of global FDI in 2020. FDI to the transition economies plunged by 58 per cent.

The pandemic further deteriorated FDI in structurally weak and vulnerable economies. Although inflows in the least developed countries (LDCs) remained stable, greenfield announcements fell by half and international project finance deals by one third.

FDI flows to small island developing States (SIDS) also fell, by 40 per cent, as did those to landlocked developing countries (LLDCs), by 31 per cent. FDI flows to Europe dropped by 80 per cent while those to North America fell less sharply (minus 42 per cent).

The United States remained the largest host country for FDI, followed by China.

Source: fibre2fashion.com– June 30, 2021

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H&M Continues To Fail In China

At the beginning of June, H&M got caught again in the crossfire when it infuriated Chinese customers after officials announced that they had banned several of the brand's products over safety concerns.

A notice published on the website of China's General Administration of Customs announced that authorities would take measures against H&M for manufacturing low-quality, hazardous products that fall below China's quality and safety standards, according to The Indian Express.

As stated in the notice, nine batches of H&M cotton dresses for girls were found to contain harmful color additives and other chemicals that might be hazardous if ingested or absorbed through the skin.

The Western media alleges that Beijing is singling out global fashion brands that made statements on forced labor in Xinjiang. And while some actions might appear retaliatory, China isn't the only country to accuse the Swedish retailer of producing low-quality garments, despite its sustainability pledge.

For instance, in 2019, the US Consumer Product Safety Commission (CPSC) announced that H&M would recall two sets of children's pajamas because they violated the Federal Flammability Standard. And in 2014, CPSC reported that the Swedish retailer recalled girls' leggings due to choking hazards.

In an increasingly polarized world, it is easy to forget that the Swedish retailer faced serious challenges in China even before these threats over its Xinjiang boycott.

What went wrong with H&M in China?

Market sophistication

On the heels of a retail revolution, fast-fashion retailers now face a new reality in China that pushes against excessive consumerism.

As consumers become more sophisticated, they expect unique shopping experiences at every channel and touchpoint; thus, they stop prioritizing pricing and discounts. That will favor incumbent retailers that produce

unique designs and offer personalized experiences but will punish fast-fashion retailers that sell inexpensive, quickly-made clothing items.

China Daily already highlighted this phenomenon in 2019 when it analyzed the challenges faced by fast-fashion retailers in China. “Many foreign fast-fashion brands have seen slowing growth in the Chinese market in recent years, in sharp contrast with earlier days when they could make some quick and easy money,” said China Daily. “But now, they are struggling to meet Chinese consumers’ increasing demand for quality goods.”

Fast retailers face a longer downturn, and H&M is not the exception. While Uniqlo has understood the “new consumption patterns” of Chinese buyers and built legions of super-fans thanks to the superior quality of their garments, H&M has lost the market because it failed to meet consumers’ increasing demand for quality goods.

According to China Daily, from 2014 to 2018, Uniqlo’s market share grew from 0.7 percent to 1.2 percent in China, but the H&M market share remained consistent at 0.4 percent.

The Western aesthetic lost authority and influence

In recent years, Western styles and trends have lost influence. With the rise of patriotism came a revival of traditional Chinese culture and fashion trends, but international fast-fashion retailers ignored the new reality and continued to promote the same old Western designs. Moreover, H&M didn’t get localization right. In fact, H&M clothing items have a strong Western aesthetic that doesn’t resonate with Chinese customers.

“Most foreign fast-fashion brands are not doing a good job in localization, as they are not familiar enough with the commercial culture and consumer mentality in China,” said Zhao Ping, deputy head of the Chinese Academy of International Trade and Economic Cooperation of the Ministry of Commerce, to China Daily. “They think that since fashion brands originated in developed countries, Chinese consumers will buy into them easily. That’s not true now.”

Low prices and promotional discounts don’t make a difference in China

Chinese netizens argue that H&M’s only leverage is that it commands lower price points. But that cannot be seen as a competitive advantage in a country

like China, which is known as the largest producer and exporter of clothing, textiles, and apparel.

Chinese consumers already have access to trendy, low-cost clothing designed by domestic players in accordance with the taste preferences of local consumers. As such, China doesn't need affordable Western brands.

In the near future, H&M should steer clear of controversies and focus on expanding its product lines to incorporates items that reflect the local culture. Moreover, the Swedish retailer should improve the quality of its ready-to-wear line and take its sustainability and social responsibility pledge more seriously.

Source: jingdaily.com– June 30, 2021

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WTO members agree to extend TRIPS transition period for LDCs until 1 July 2034

Since the inception of the TRIPS Agreement, LDCs have benefitted from an extended transition period to apply provisions of the TRIPS Agreement, in recognition of their special requirements, their economic, financial and administrative constraints, and their need for flexibility in order to create a viable technological base. The transition period for LDC members under Article 66.1 of the TRIPS Agreement had been extended twice before (in 2005 and 2013).

The decision adopted was the result of intensive consultations over several months. Members were broadly in agreement on the principle of the extension but were unable to reach a decision due to their differences on the additional request that members graduating from LDC status should be accorded additional flexibilities under the TRIPS Agreement after their graduation.

LDCs favoured extending the transition period for as long as the member remains categorized as an LDC, and for an additional period of 12 years from the date of graduation of a member from the LDC category. A group of delegations expressed a preference for extending the period for a limited time, while others argued that a transition period for members that have graduated from LDC status went beyond the TRIPS Council's mandate under Article 66.1.

Given the lack of consensus on this latter issue, and the urgency to agree on the transition period extension, members agreed that the post-graduation element of the request would best be pursued under an LDC proposal already on the agenda of the General Council.

Under the agreed decision, LDC country members shall not be required to apply the provisions of the TRIPS Agreement, other than Articles 3, 4 and 5, until 1 July 2034, or until the date when they cease to be a least developed country, whichever date is earlier.

"This important decision proves that finding consensus is still within reach for members of this organization," said the chair of the TRIPS Council, Ambassador Dagfinn Sørli of Norway. The chair commended all delegations involved in this effort "for their sense of responsibility in finding a timely solution, for their commitment in pursuing their respective objectives, and

for the flexibility and pragmatism they showed when this was necessary to close the deal."

"It is thanks to the hard work and diplomatic acumen of these delegations that we have a draft decision before us, agreed by those most directly affected by this matter, that can once again extend the transition period for LDCs before the current period expires in just over 24 hours' time," he added. Delegations thanked the chair for his engagement and efforts to bring members together.

On behalf of the LDC Group, Chad noted this is a compromise solution they accept with the understanding that members have also expressed their readiness to continue discussions in good faith at the General Council on the post-graduation transition period for LDCs.

In expressing their support for the extension, developed members acknowledged the unique challenges facing LDCs, which in many cases have been exacerbated by the COVID-19 pandemic. They encouraged LDCs to use the transition period to build reasonable and balanced IP systems for themselves, including by availing themselves of technical assistance available from the WTO and other international organizations.

Several members expressed their satisfaction at the fact that members have demonstrated they can work together constructively to reach consensus and deliver important results. The work done by the delegations of Chad and Bangladesh, who led the LDC effort in bringing the discussion to a successful and multilateral outcome, was also commended by a large number of delegations.

Source: wto.org– June 29, 2021

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Brexit's broken promises heap more pain on fashion retail

More than six months have passed since the UK and European Union wrapped up a Christmas Eve deal on post-Brexit trade, amid fanfares of provisions for zero tariffs and zero quotas on goods. Yet retailers are only just starting to bear the brunt of its impact, and the worst is apparently yet to come.

Fashion businesses are grappling with a raft of Brexit-related challenges, suggests data from industry body UK Fashion and Textile Association (UKFT), seen exclusively by Drapers. The UKFT's Brexit Survey, due to be published in July, found that 74% of 128 fashion businesses surveyed in May 2021 have experienced increased costs associated with Brexit since the start of the year.

Meanwhile, 83% have faced increased costs and bureaucracy around customs clearance, 44% have been affected by unexpected duties when re-exporting goods, and 41% have been hit by double duties).

UKFT's Brexit Survey

The UK Fashion and Textile Association's (UKFT) Brexit Survey, which surveyed 138 businesses, including leading UK fashion brands, UK textile manufacturers, wholesalers, fashion agencies, garment manufacturers and retailers in May 2021, and due to be published in July, found:

- 98% are experiencing increased bureaucracy as a result of Brexit
- 92% are experiencing increased freight costs as a result of Brexit (Covid may also be a contributory factor here)
- 83% are experiencing increased costs and bureaucracy around customs clearance
- 74% are experiencing increased costs generally associated with Brexit. The vast majority of them are looking to pass these costs on to consumers in the next six to 12 months
- 71% currently import from the EU
- 53% are experiencing cancelled orders as a result of Brexit
- 44% have experienced rejected or returned goods where the costs of duty, clearance and VAT are the main reason
- 44% had been affected by unexpected duties when re-exporting goods (this is the free circulation issue)
- 41% had been hit by double duties

• 7.5% said they plan to relocate production from the EU to the UK in the next 12 months
• 6% said they have relocated production from the EU to the UK as a result of Brexit

"Many fashion businesses have been suffering in silence and beating themselves up because they believe they have 'failed' to prepare for Brexit," Paul Alger, UKFT director of international business, tells Drapers. "But as we're now finding out, the agreement is not what most people were expecting. Changes are required and businesses are having to make those changes."

The administrative burden [prompted by] moving goods into mainland Europe or Ireland via the Northern Irish Protocol is horrific.

Steve Rowe, CEO, Marks & Spencer

Marks & Spencer CEO Steve Rowe agrees: "This has not been a free trade deal [as businesses were led to believe]. The terrible costs that were expected through tariffs have not been as bad as we thought, but the administrative burden [prompted by] moving goods into mainland Europe or Ireland via the Northern Irish Protocol is horrific [read more below]. We have worked very hard to mitigate them. But they are complex, and not necessarily clearly defined. We are continuing to look at reshaping our European business, and we have already [closed our stores in] the Czech Republic [in January]."

David Gallimore, managing director of Bradford-based textiles mill John Foster, explains: "All our fabric going into Europe is duty free, but our [EU retailer] customers have to pay an administration charge of €15-€25 (£13-£21) per shipment. In addition, they have to pay local VAT to their authorities. As a result, EU businesses have decided that they don't wish to order from the UK, and have found alternatives in the EU. Business has dropped off a cliff."

Lucy Reece-Raybould, CEO of the British Footwear Association, says: "Although issues with supply chains appear to be easing in the six months since the changes came into effect, there's still a sense of frustration among our members about the lack of support and guidance from government, and, indeed, EU countries themselves. Today, general and ad hoc issues remain, such as incorrect or excessive charges, increased administration and

bureaucracy, and carriers with inconsistent terms and conditions that vary wildly, even within the same country."

The biggest Brexit-related problem we have is navigating is Northern Ireland with all the paperwork

Northern Ireland Protocol

Another unexpected administrative burden from Brexit has been the Northern Ireland Protocol. Northern Ireland has remained part of the EU's single market for goods, so deliveries from the UK to Northern Ireland and Republic of Ireland have required EU export documentation since 1 January. An initial grace period of three months waiving the requirement for documentation for goods entering Northern Ireland from the UK was extended in March until October.

"It's not working well for Northern Irish businesses or British businesses that want to export to Northern Ireland and has become a political issue in the province," the director of one fashion organisation says. "In many cases, it is now easier to import goods from Southern Ireland into Northern Ireland rather than from Great Britain."

The CEO of one clothing etailer tells Drapers that, despite being shielded from much of the impact of Brexit so far – apart from new EU VAT changes that will come into force from July – it has had to cope with mounting paperwork caused by the protocol: "The biggest Brexit-related problem we have is navigating is Northern Ireland with all the paperwork. We've got the system changes done, but now commodity codes will need to be picked up and put through. In essence we've got to export to Northern Ireland."

In January there was a suggestion that it was a soft exit, but the devil was in the detail

The managing director of a footwear retailer said it has decided to open an Irish distribution centre to manage the impact the protocol is having on sales in the country: "In January there was a suggestion that it was a soft exit, but the devil was in the detail. When we ship products to our Irish stores, they usually pass through the UK, which incurs tariffs that we cannot pass on to the customer. We are in the process of setting up an Irish distribution centre [the opening date has not been decided]."

Some British fashion companies told the UKFT they were planning to or had already moved production from the EU to the UK because of Brexit

He also explained that aside from the logistical difficulties, the protocol has prompted a nose-dive in consumer confidence in Ireland: “There is unease over there – people are worried about getting a pint of milk, so buying clothing and footwear will be much lower down on their list of priorities. Our Republic of Ireland sales haven’t been too bad, but we have had to battle with consumer confidence and uncertainty.”

To soften the Brexit blow, and to allow the economy more time to recover from impact of the coronavirus pandemic, the government granted a six-month delay of the second and third stages of the border operating model in March this year. The border-operating model, which focused on a phased introduction of full customs and regulatory checks on imports from the EU to the UK, was set to be introduced across three stages concluding in July 2021. The delay has meant that several administrative changes, including the completion of customs declarations, have been postponed until January 2022.

The fashion industry has welcomed the delay while it recovers from the fallout from Covid. However, UKFT’s Alger says it means fashion businesses must brace themselves, as the worst is yet to come: “During this grace period, a lot of customs declarations are being made and companies have not been asked to back up their [rules of] origin statements. In some cases, large shipments handled by a customs broker may find that duties have been deferred but will still need to be paid.

UKFT's Paul Alger warns that greater scrutiny of documentation is likely “Conversely, most SMEs are bringing in goods through fast parcel services or the Royal Mail, and they are more likely to have paid their VAT and any duties already. So, I would expect to see in the second half of the year and next year customs officials paying more attention to some of the documents to back up their statements on origin.”

Alger warns that the deadline to pay duty and VAT on large shipments will decrease from January: “Larger consignments through a broker will attract any duty and VAT more quickly after the grace period, and there could be more attention to paperwork.”

The fashion industry has called for further guidance and support from government on how it can mitigate the impact of these changes and decrease the administrative burden it has had to – and will continue to – deal with. M&S's Rowe says: "There is a whole list of things that could be made easier, such as digital [import] tracking."

One footwear director notes that "transitional [financial] relief" would be beneficial, while many have called for the government to sit down with Irish government and the EU to agree on how to ensure that UK companies can resume selling into Northern Ireland without being hit by additional administration costs.

M&S's Rowe says: "There is a whole list of things that could be made easier" A government spokeswoman said: "The government is aware of the challenges the fashion and textiles industry has raised around specific aspects of our new trading relationship with the EU, and we are working closely with the sector to ensure businesses get the support they need.

"To support businesses facing challenges with specific aspects of trading with the EU, we are operating export helplines, running webinars with policy experts and offering businesses support via our network of 300 international trade advisers. We have also invested millions to expand the customs intermediaries sector."

Six months into the UK's trade deal with the EU, the industry has continued to struggle with administrative and cost challenges. Despite delays to the implementation of the border-operating model, which will bring further administrative work in January, the impact of Brexit on the UK fashion industry is far from over.

Source: drapersonline.com– June 30, 2021

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SA's clothing industry trying to stitch itself together following worst decline to date

South Africa's clothing industry has not escaped the impact of the Covid-19 pandemic on heavily burdened consumers, with retail sales in the SA clothing and textile industry reaching the worst decline ever recorded in 2020.

But, say local manufacturers, they are pulling out all the stops to snatch back market share from imports, as they continue to face supply chain disruptions brought on by the pandemic.

Graham Choice, managing director of merchandise supply chain at clothing retailer TFG (formerly The Foschini Group), says some of the country's leading apparel retailers have tried to tackle the problem by localising and shortening lead times.

But, he says, there has been little on offer from the local manufacturing sector, which he describes as "decimated".

"Overall, the local CTFL [clothing, textile, footwear and leather] value chain in SA has come under extreme pressure as the Covid-19 pandemic significantly constrained demand for retail goods," says Choice.

"Retail sales in the SA clothing and textile industry fell 6.9% overall during 2020. This is the worst decline ever recorded and the only year of contraction apart from 2009 at the height of the global financial crisis when sales declined 3.2%, according to StatsSA."

There have long been calls to revitalise garment manufacturing in South Africa, which has battled to compete with China and other cheap importers. The Retail Clothing, Textile, Footwear and Leather Master Plan, which was signed by government and local retailers in 2019, is also expected to give local manufacturers a leg up.

But the CTFL sector has seen several plant closures and associated job losses in the past year, reducing local capacity to produce.

And, in the meantime, retailers continue to face logistical hurdles.

"Retailers continue to face a range of operational challenges, most notably supply chain disruptions causing huge delays and further losses due to shipping challenges, port congestion and rising logistical costs.

"This pressure on local retail demand has had a trickle-down effect on local suppliers where contracting order books placed significant strain on cash flow and financial sustainability of many businesses in the local supply chain," says Choice.

According to Choice, TFG responded with a "quick response" retail model that would allow for popular clothing items to be made or adjusted quickly, in-season.

But that doesn't solve the problem of local manufacturing capacity.

This is where the Retail CTFL masterplan comes in. Its implementation kicked off in 2020, and it aims to increase the proportion of locally manufactured products sold in-store from 44% (in 2018) to 65% by 2030.

The plan also aims to create jobs.

Thandi Phele, acting deputy director-general of the division for industrial competitiveness and growth of the Department of Trade, Industry and Competition (dtic) says the masterplan was based on extensive consultation with stakeholders including including government, representative associations, large retailers, manufacturers and the organised labour.

According to Phele, manufacturers have committed to ramp up productivity and invest in production, while organised labour has agreed to adaptable working hours.

"Even though the industry was under pressure, clothing imports took bigger hit than locally manufactured clothing as retailers are buying goods more locally and local manufacturers are benefiting from this.

"[I]t is important to keep working on this to make sure factories are ready and tooled when demand increases again," explains Etienne Vlok, national industrial policy officer of the Southern African Clothing and Textile Workers' Union (SACTWU).

"Government has also committed to creating an enabling environment for investment in the South African clothing, textile, footwear and leather

industry, through strategic tariff support, appropriate manufacturing incentives, and clamping down on illegal imports," Phele adds.

Meanwhile, the SA Revenue Service – which has vowed to crack down on illicit trade – has its hands full levelling the playing field as part of the masterplan.

Phele explains: "Often CTFL goods imported to South Africa are declared at a much lower value than their production value at source. This has the impact of reducing tax receipts for the fiscus and unfairly pricing imported goods below the local production cost, thereby driving out the local industry."

It is estimated that in 2019, clothing with an export value of R35.9 billion was imported into South Africa at a declared cost of R27.8 billion - an under-declaration of 23%.

Source: news24.com– June 30, 2021

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Tehran, Yerevan call for removal of trade barriers

As reported, the officials underlined the significant growth in the level of trade between the two countries and stressed the need for planning to further develop cooperation within the framework of the preferential trade agreement with the Eurasian Economic Union (EAEU) and achieve the desired level of bilateral trade.

Speaking in the meeting, Zadboum referred to the two countries' deep cultural, historical, and political relations and stated: "The Trade Development Organization of Iran is ready to hold a meeting of the [two countries] joint industrial, mining and commercial working group in order to identify obstacles and problems facing bilateral trade and to take appropriate and effective decisions to address them."

He further expressed satisfaction with the holding of Iran's exclusive exhibition in Armenia earlier this month and noted that holding such events in the two countries and the exchange of trade delegations is necessary to better introduce export capabilities and to exchange information related to the needs of the two markets.

Zadboum also pointed to the removal of non-tariff barriers and reduction of logistics and transportation costs, along with the expansion of the scope of the preferential trade agreement between Iran and the EAEU, as important factors in increasing the level of trade relations between the two countries and called for addressing such subjects in the joint working groups.

Simonyan for his part welcomed the holding of a joint working group on industry, mining, and trade as soon as possible, and announced his readiness to hold expert talks during the meetings of the joint working group between the two countries.

Stressing joint investment

The Armenian deputy minister also met with the Head of Iran Chamber of Commerce, Industries, Mines and Agriculture (ICCIMA) Gholam-Hossein Shafeie, in which the two sides stressed the need for boosting joint investment in various sectors.

In this meeting, Shafeie noted that Iran and Armenia could become good trade partners among the EAEU members.

Mining, livestock, and agriculture, textiles, clothing, construction, technical and engineering services, as well as transportation and transit, were among the areas mentioned by the officials for mutual cooperation.

Back in January, Iran, and Armenia signed a memorandum of understanding (MOU) for the expansion of trade ties between the two countries.

The MOU was signed by Iranian Industry, Mining, and Trade Minister Alireza Razm Hosseini and the Armenian Economy Minister Vahan Kerobyan in Tehran.

Source: tehrantimes.com– June 30, 2021

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Pakistan: FY22 budget: textile sector's perspective

The Federal Budget for FY22 was announced on June 11th, 2021. The new economic team has accordingly set goals for the next two years, with an agenda characterized by two points: (i) inflation and (ii) revenue generations to fund social programmes for the masses. Out of the current expenditures, the major portion of 72.34% will be spent upon general public services that include debt repayments, pensions, salaries and perks among other things.

Textile exports have served as the mainstay of the economy, comprising the majority of Pakistan's total exports and generating a substantial amount of revenue in the form of taxes, and foreign exchange support for the Balance of Payments. The TERF scheme has led to a substantial increase in investment levels at a time where capacity was already full, presenting a golden opportunity for expansion. In the sector's recent leap towards capacity development, policy support from the government should play a critical role, as it is imperative to support textiles in order to achieve sustainable export-led economic growth.

The government has, despite challenges, successfully progressed from "recovery to stabilization to sustainable growth" (PIDE). While there remains a need to continue these efforts for sustained growth in the long-term, the debt indicators are improving overall as the current Public Debt-GDP ratio is being sustained at the present level and Debt Service-Revenue ratio is showing a downward trajectory. The government aims to sustain these trends particularly through revenue mobilization, and supporting the export-oriented sectors is one highly effective method of doing so.

There are several positives in this budget, particularly with respect to continuation of duty-free import of cotton, concessional financing under Long Term Financing Facility (LTFF) & Export Finance Scheme (EFS), and bringing retailers into the tax bracket. However, like every year, the budget leaves several pressing issues unaddressed, particularly those aspects which have potential to adversely affect the export-oriented sectors of Pakistan. Exporting sectors have the ability to lift Pakistan out of its debt cycle, and supporting them to remain profitable and productive should be one of the government's primary concerns. Yet issues of custom duties, sales tax, energy and logistics continue to create hurdles for these sectors, thereby contributing to an anti-export bias which has kept Pakistan behind its regional competitors in exports.

First off, the adverse change in customs duties on Polyester / MMF value chain is a matter of concern. The items of direct immediate concern are those that involve polyester yarns and acrylic yarns. In the case of polyester yarn 5509.2200/2100 where the applicable duty was 11% + 2% ADD + 2% a total of 15% R.D. this has now been reduced to 10+2 for a total of 12%, while the duty on PSF remains at 7% despite the textile industry's repeated submissions and reports on the negative fallout of continued protection.

There are also antidumping duties of up to 12% which make matters much worse. With these duties in place the textile sector of Pakistan which is already uncompetitive will face some additional stress. Meanwhile, in the case of acrylic spun yarns 5509.3100/3200 produced with acrylic staple fibers, the duty is proposed at 0% which is against the basic principle of cascading whereby the duty differential should be a minimum of 5%.

Sales tax rate has been increased to 17% from 10% on both cotton and import of machinery and plant. This increase will unnecessarily hike the quantum of Working Capital required for operations and increase the capital cost on new projects. The point to note on cotton sales tax is that refund can only be cleared on consumption while cotton has to be bought in bulk tying up the Working Capital for a long period of time.

Regional Energy Tariffs

Region	Electricity Tariff (Cents / kwh		Gas/RLNG Tariff ($
Pakistan	9		Sindh General
Bangladesh	9		4.05
India	Maharashtra	7.8	4.06
	Punjab	7.1	
Vietnam	7.3		The PM has the autho decide which project charged what tariff

Source: Calculation based on World Integrated Trade Solution (WITS) database.

The increase in Sales Tax on plant and machinery increases the cost of putting up new plants as the refund cycle of the Sale Tax will have to await commercial operations which in some cases for many years. Sales Tax Refund on import of plant and machinery by operating units is despite the passage of 2 years is still not streamlined as the Faster System rejects any claims above arbitrary percentage which does not take into account the extraordinary high claims in a particular month on account of machinery

imports. These changes in Sales Tax regime will have a negative impact on new investment in the sector as funds that could have been spent on plants and machinery will unnecessarily be blocked. The feasibility of newprojects in particular will be severely impacted.

Moving forward, a fundamental concern is the need for regionally competitive energy pricing/tariffs. Our country's energy tariffs have not been commensurate with regionally prevailing tariffs, as shown in the table below:

Despite unreliable energy supply and higher tariffs, the textile sector has been operating at full capacity and receiving increased orders, leading to the revival of non-operational units, and the creation of new jobs. Textiles have been heavily supporting the economy, yet the industry's profitability is being hampered by illogical energy tariff hikes and policies. The export-oriented sector has given detailed reasons time and time again for the provision of a fixed electricity tariff at 7.5cents/KWh and $ 6.5 per MMbtu for RLNG/gas across the value chain to ensure competitive export pricing.

Competing countries are already poised to combat highly competitive market conditions through cheaper electricity and gas rates. Energy accounts for 35% of conversion costs in the textile value chain and therefore competitive pricing of exports is highly sensitive to energy pricing. Therefore, the provision of regionally competitive energy tariffs is critical, and any deviation from these rates will derail export targets.

The allocation on account of regionally competitive energy tariffs and the differential for domestic tariffs falls short of the amount needed – Rs. 64 billion is necessary as estimated by the Ministry of Energy. The allocation for differential on account of electricity is Rs. 21 billion whereas the estimated differential at 9$ per KWh will be Rs. 40 billion.

Furthermore, the allocation for differential on account of gas is Rs. 10 billion while the estimate at current LNG rates is Rs. 29 billion. It may be clarified that both these allocations are indicative and any shortfall, it is assumed, will be met through supplementary grants. Therefore, continued supply of gas to the textile industry may be ensured for the sector to sustain production to achieve the target of over $20 billion exports next financial year.

International Monetary Fund (IMF) has kept Pakistan's economy in a straitjacket and our exports remain limited to intermediate goods, while we remain an importer of oil, edible oil, tea, pulses, machines, raw materials, and even knowledge. At present, remittances are our saving grace when it comes to foreign debt. It is essential to support exporting industries in order to sustainably combat foreign debt, and to enable growth by diversification of our export bundle, expansion into higher value addition, and investment in human capital in order for Pakistan to compete in today's knowledge-based economy.

Considering the rapid expansion being undertaken by the textile sector, whereby the industry is on track to meet next year's target of $20 billion, it is crucial to acknowledge that this is a substantial increase of $5-6 billion. Such an increase will be accompanied by a pressing rise in requirement for working capital.

The manufacturing chain takes around 6 months to export, and without simultaneously increasing working capital to remain at par with the requirements of an expanding sector, progress in the industry will come to a halt. The most efficient way to ensure that working capital needs are met could be by reducing the GST rate down to half, or even better, restoring zero-rating. This will be an instrumental step in Pakistan's journey to meet and exceed to export target set for 2021-22 and 2022-23 fiscal years.

Source: brecorder.com– June 30, 2021

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Bangladesh: Confronting the challenges of unskilled workforce in RMG

Over the last few years, the participation of female workers in our ready-made garments (RMG) industry has been on the decline. A survey by the Asian Centre for Development reported that 65 percent of workers in the sector were women. Also, as indicated by Farole and Cho in their study, men now make up around 54 percent of the labour force in this industry, in contrast to the oft-repeated statistic that women comprised 80 percent of the labour force. There is no concrete evidence as to why the participation of female labour is decreasing. One reason may be that a positive change has been taking place in the industry as new capital investments have been made—a shift from manual labour to automation.

Introduction of more advanced technologies is the current demand of the global supply chain, and as such, large garment companies in Bangladesh have adapted to this change for the sake of quality garments and mass production. Technology is in the process of replacing labour, and dependency on automation has resulted in the reduction of the size of the workforce. This could explain why many workers, perhaps disproportionately women, are removed from the workforce. Such a development raises concerns about our efforts to improve the skills of RMG workforce, particularly women workers who have limited job availability. In this context, I would like to focus on (1) what resources are available to address the deficiency of skills, and (2) what kind of challenges the stakeholders usually face.

While the sector's growth remains healthy, there has been a serious concern over the low labour productivity compared to competing countries. Whereas each garment worker accounts for USD 7,000 in export in Vietnam, the figure is closer to USD 5,300 in Bangladesh, some 30 percent lower. The second largest exporter of garments in the world is also the second-lowest in labour productivity.

Bangladesh's per-hour labour productivity was valued at USD 3.4 in 2018. On the other hand, Bangladesh's competitors in the world of RMG—such as Vietnam, India, Pakistan, Myanmar, Sri Lanka, and China—were valued at USD 4.7, USD 7.5, USD 7.7, USD 4.1, USD 15.9, and USD 11.1 respectively. Addressing this shortage of skilled labour, a number of initiatives have been taken by public and private stakeholders, independently and collaboratively, at different times.

Large garment companies are dealing with skills deficiency by setting up training centres on their factory premises or outside. A number of projects have been introduced by different stakeholders in order to mitigate the situation of unavailability of skilled workforce. Some of the initiatives can be mentioned here.

The Center of Excellence for Bangladesh Apparel Industry (CEBAI) was established in 2014 by BGMEA with the support of SIDA, H&M, and ILO. The centre provides training based on curricula developed by the National Technical and Vocational Qualification Framework.

With the support of the government of Bangladesh, development partners and owners' associations, different skills development programmes have been launched for garment workers and management across the country. Another programme, "Sudokho", implemented by Swisscontact, British Council, and executed by the Directorate of Technical Education (DTE) and government of Bangladesh, provides industry-based training to the RMG sector. BRAC and H&M have undertaken a project known as STITCH (Safeguarding Through Technology and Innovation Challenge). Many other development organisations are also engaged in projects focused on upgradation of skills.

Obviously, these projects have reduced the burden but challenges remain, which is very normal. These initiatives focus more on the immediate need of providing training and business outcomes, ignoring the long-term need of capacity building (educated workforce) to absorb training and adapt with advanced technology as well as institutional development.

A certain level of basic education is required for the garment workers to attain the skills needed in today's factories. Without basic education, sometimes they are not in a position to digest the knowledge they receive from different trainings.

The mean year of schooling of Bangladeshi garment workers is 5.9 and only 16.9 percent of workers completed grade 10 and above, as explored in a research project by Kabeer and her team. Due to the lack of minimum education, workers are unable to get the most out of trainings to develop their skills. The frustration of a factory owner was thus expressed in one of my studies: "Workers are almost ignorant; it is often difficult for them to have the benefits of training.

We offer different services for them but they are not yet ready to use them because they don't have the minimum education. We are moving to automation and also to produce high-end, complicated garments. For that you need skilled workers but we have a limited supply of educated skilled workers."

Another challenge is the sustainability of projects regardless of the skills development programmes. More than a hundred supply chain initiatives have been brought into the Bangladesh RMG industry by different stakeholders particularly after the Rana Plaza tragedy to improve the social, economic and environmental conditions of factories. But how many of them ensure sustainability? To understand the scalability of projects, I, along with my team members, as part of a global research project, studied the challenges factory management faced in dealing with initiatives offered by different agents.

These challenges include project development without understanding local contexts, absence of space for supplier, less follow-up, project duplication, no or less incentive from buyers, resistance to change from workers and mid-level management, miscalculation of ROI (Return on Investment), factory selection error, etc.

Now, what can be done to respond to these challenges? We understand that a structural problem like enhancing the education level of workers cannot be eradicated overnight. Despite a number of measures taken to enrich the quality of education as prescribed in SDG, a leadership role needs to be executed by the state to link our education system with the industry. Supportive public policy is not enough.

Rather, systematic implementation of policy to improve the relationship between TVET institutions and industry can make an impact. We have to create a space for the industry to participate in designing curriculum and training, aligning them with market needs and changing technology. Experts from the relevant fields can share their knowledge to build up a concrete long-term strategy.

Our research recommends that for the sake of sustainability of a project, the buyers should systematically reward more sustainable suppliers and the initiators need to target beyond "cream" factories and cater to factories that are more likely to benefit from interventions.

Despite the business case rhetoric, the main motivation to join a project is to please buyers. As one manager put it, "To say no to a brand is difficult. You know the customer is the master."

The buyer-driven logic is apparent for ostensibly voluntary capacity-building initiatives, very much like auditing. The suppliers should be given open space to consider an initiative and seek help in measuring impact,and should ask brands to publicly recognise engagement in sustainability efforts.

For the donors of projects, the effort should be to reduce overlapping and duplication of projects, and prioritise initiatives that are coordinating or consolidating with other initiatives.

There is no way to deny the impact of some projects but what is missing in the process is the institutionalisation of good practices which is critical for a sustainable export-oriented industry.

Source: thedailystar.net– July 01, 2021

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Pakistan: Small business on cotton market

The local cotton market on Wednesday remained stable and volume remained low.

Cotton Analyst Naseem Usman told that the rate of cotton in Sindh is in between Rs 12800 to Rs 12900 per maund. The rate of cotton in Punjab is in between Rs 13500 to Rs 13600 per maund.

The rate of new crop of Phutti in Sindh was in between Rs 5700 to Rs 5900 per 40 kg. The rate of Phutti in Punjab is in between Rs 5800 to Rs 6400 per 40 kg. The rate of Banola in Sindh is in between Rs 1800 to Rs 1900 per maund. The rate of Banola in Punjab is in between Rs 2000 to Rs 2100 per maund.

The Economic Coordination Committee of the federal cabinet in its meeting on Monday reportedly considered fixing an intervention price for cotton to improve falling area under its cultivation. This decision follows other recent developments, beginning with a statement by the new finance minister that 'price control regime on agricultural commodities needs to be reinstated to improve agricultural output'.

That Pakistan's cotton output has fallen precipitously off a cliff needs no demonstration. According to official statistics, between FY16 and FY21, output fell by exactly half, barely retaining country's slot among top five global producers. Although area under cultivation also fell by a quarter during this six-year period, it is a common mistake to blame the falling output on acreage.

Across the globe, leading cotton producing regions have increased cotton output not on the back of cultivated area, but by improving crop productivity, measured in yields per hectare. Over the last three decades, global cotton output has increased by over 50 percent as yields have made dramatic gains–increasing by over 5 times for Brazil, and by twice in China. In fact, productivity improvements have freed up land for plantation of other important competing crops, leading to hard won surpluses in global grain production.

Cotton Analyst Naseem Usman told Business Recorder that the country's booming textile exports have given Pakistan government a reason to celebrate amid the COVID-19 gloom. As per a Daily Times report, Pakistan's

garment and apparel exports grew 9.06 per cent to $11.35 billion in Q1FY21 from 10.41 billion in the corresponding period last year. The country's low export base helped boost yearly exports even though exports on a month-on-month basis declined by 1.3 per cent, reveal the Pakistan Bureau of Statistics.

During the financial year up to April'12, Pakistan's textile exports grew to $1.337 billion. Exports by both value added textiles and basic textiles group grew in triple digits during the month. During the first 10 months, Pakistan's textile exports grew 17 per cent to reach $12.7 billion. Exports of basic textiles such as cotton yarn and fabric also grew along with value added textiles. Growth in value-added category was dominated by knitwear, bed wear and home textiles.

The third COVID-19 wave has destroyed many major economies of the world. China and India are seeing a major drop in textile exports. In such times, Pakistan's booming exports are proving to be a major boost to global textile market. However, Pakistan is currently facing an acute shortage of cotton supply, compelling ECC to allow duty-free cotton imports till June 30, 2021. Cotton scarcity of is likely to hike interest rates in the country besides restricting supplies. To overcome these, Pakistan needs to announce a new textile strategy soon.

ICE cotton futures stabilised on Tuesday near the highest in more than two weeks hit during the previous session, as market participants awaited quarterly crop data from the US Department of Agriculture that was expected to show a drop in plantings of the natural fibre. Cotton contracts for December rose 0.02 cent, or 0.02 %, at 87.45 cents per lb, at 11:56 a.m. EDT (1556 GMT), after hitting their highest since June 11 in the previous session.

"There's the perception that acres are going to be lower in the report tomorrow," and an uptick in the Chicago grains market is also supporting prices, said Rogers Varner, president of Varner Brokerage in Cleveland. Analysts and traders in a Reuters poll estimate cotton plantings for 2021 at 11.856 million acres in US Department of Agriculture's (USDA) June 30 acreage report, down from March's 12 million acres.

A drop in acres used for cotton would indicate a tightening of supply for the natural fibre, and likely add momentum to prices.

"In the planting season, the grain prices were better, and cotton prices did not rally as much, so the US lost some acres as the spring wore on," Varner added.

Chicago Board of Trade grain and soybean futures rose as traders adjusted positions ahead of the report on crop plantings and continued to worry about the risks for unfavourable weather. The dollar gained on Tuesday, making cotton expensive for buyers holding other currencies.

The US Department of Agriculture's (USDA) weekly crop progress report on Monday showed 52% of the crop was in good to excellent condition, identical to a week ago. Total futures market volume fell by 4,444 to 10,510 lots. Data showed total open interest gained 2,444 to 213,527 contracts in the previous session.

The Spot Rate remained unchanged at Rs 12600 per maund. The rate of Polyester Fibre was increased by Rs 3 per kg and was available at Rs 210 per kg.

Source: brecorder.com– July 01, 2021

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Pakistan: Rs8bln DLTL claims to be cleared from tomorrow

Government will release Rs8 billion under drawback of local taxes and levies (DLTL) claims of industries from Friday (tomorrow) to help them overcome liquidity crunch, commerce adviser said on Wednesday.

Adviser to Prime Minister for Commerce and Investment Razak Dawood said the fund will be transferred starting from 2nd July. "I hope that this will facilitate the cash flow issues of our business exporters and strengthens their production," Dawood wrote on Twitter.

The government has allocated Rs20 billion for DLTL scheme in the budget 2021/22 despite demand of textile exporters, who are the main claimants, to increase the allocation to at least Rs75 billion to clear backlog and new duty drawback of taxes (DDT) / DLTL claims.

They said the central bank is yet to clear Rs32 billion DLTL payments of exporters. Textile exports are expected to increase by 17 percent to cross $15.5 billion this fiscal year as the government started DLTL payments, they said.

Textile exports increased 7.3 percent in 2010 and 35 percent in 2011 when then government started DLTL disbursal in 2009, but they decreased around 11 percent in 2012 due to withheld payments of DLTL, according to an estimate of Pakistan Hosiery Manufacturers and Exporters Association (PHMA).

Textile exporters said duty drawback of taxes on garment, home textile and fabric exports should be provided at 7, 6 and 5 percent, respectively on shipment basis for next five years to compete in the international marketas competing countries are extending up to 16 percent. Incremental DDT on an increase of 10 percent exports over previous year should also be provided at two percent. "This will bring huge investments in textile sector and shall encourage new-comer exporters to invest in textile sector," PHMA said.

The government needs to streamline and automate the system for disbursement of DLTL / DDT, which should be electronically transferred to exporters with export proceeds.

Value-added textile exporters have been demanding duty-free import of cotton yarn, withdrawal of five percent customs duty on import of 32 single

yarn and below count and permission of cotton imports from any country till cotton yarn shortfall is controlled. Value-added textile export industry contributes around 62 percent in total exports, provides highest urban employment particularly to female workforce and supports approximately 40 allied industries.

Textile exporters termed the budget relatively better, but they said it couldn't consider no-payment-no-refund system, withholding tax reduction, and suspension of export development fund surcharge.

Source: brecorder.com– July 01, 2021

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Consultations on FTAs planned with UK, EU to start in July

A careful balance needs to be struck between offensive, defensive interests to ensure the talks don't get stalled, say officials

The Commerce Ministry is ready to kick-off its consultation process for the free trade agreements (FTAs), which it proposes to enter into with the EU and the UK, with all stakeholders including the industry and other Ministries.

"The consultation process for the FTAs with the UK and the EU will begin shortly in July. The government needs to strategise well for both the FTA negotiations as there will be ambitious demands for opening up various sectors," an official tracking the matter told BusinessLine.

A careful balance of the country's offensive and defensive interests is called for to ensure that the talks do not get stalled, the official added.

The Commerce Ministry is expected to ask various export promotion councils to identify items that are sensitive and need to be protected and also the ones for which greater market access in the EU or the UK is needed. Apart from the export promotion council, various industry bodies such as CII, FICCI and FIEO, will also be asked to give their inputs, the official added.

Restarting the talks

India's free trade talks with the EU had started way back in 2007 but got suspended in 2013 over key market access issues in sectors such as automobiles, wines and spirits and financial services and also over visa for professionals.

It was at the India-EU Leaders' meet earlier this year, attended by Prime Minister Narendra Modi and leaders from EU countries, where it was decided to re-start the talks.

As the UK is no more a part of the EU following Brexit, it has been discussing the need to get into an FTA with India for some time and also formally agreed to launch negotiations this year. British Trade Secretary Liz Truss

has already started the process of consulting stakeholders in her country for the proposed FTA with India.

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), as per figures shared by the European Commission. Among European countries, the UK was in the top five list accounting for bilateral trade worth $12.29 billion with India in 2020-21.

The Commerce Ministry will also consult with other Ministries and Departments, especially those such as textiles and automobiles which have a considerable stake in the talks. "The Textile Ministry, for instance, has a huge interest in both the FTAs as it sees a lot of scope for expansion in both the UK and other EU countries. Since competing countries such as Bangladesh and Vietnam get preferential access in these markets, it feels that lowering of duties will give a major push to export to the region," the official said.

While in the case of UK, the Commerce Ministry is likely to start the consultations from scratch, a lot of ground has already been covered in the case of the EU. "We already know what the areas of interest are on both sides and also what the red lines are. We have to see where all there is space to compromise and push," the official said.

Source: thehindubusinessline.com– June 30, 2021

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What Indian MSMEs need

A major problem MSMEs in India face is their very definition. More than 95% are not legally identifiable as SMEs and that prevents proper allocation of institutional support. Since MSMEs are not registered separately under statutes such as the Companies Act, there is no mechanism to distinguish them from other corporate entities. This fails to acknowledge the heterogeneity among enterprises.

With Atmanirbhar Bharat, the Centre has taken several steps—redefining MSMEs, credit access, subordinate debt, preference in government tenders—towards 'energising the MSME sector'. It has also launched the MSME Udyam portal for registration, though this is not mandatory. Information asymmetry on government schemes and incentives on registration must be addressed. Some other gaps remain, needing urgent attention:

– A primary one is the regulatory framework for SMEs that prevents a growth-oriented mindset.
– The concessions awarded to SMEs in terms of tax-breaks and low interest rates must be extended beyond what is currently provided if they are to target higher growth rate.
– Credit access to SMEs as well as the mechanism to seek payment from buyers needs bettering to ensure financially viable.
– The present redressal system on recovery of payments, particularly from organisations with influence such as PSUs, may discourage SMEs from pursuing formal action against defaulters.
– SMEs may find it difficult to choose grievance redressal over building business relationships with large buyers who may falter on timely payments.
– Priority ought to be given to scaling up economies with state support as the gains from such support in generating employment and overall economic prosperity outweigh the economic costs.

With SMEs' operational challenges exacerbated by Covid-19, it is all the more important to focus on this sector. A recently conducted survey finds that production in SMEs has fallen from an average of 75% to 13%. With 110 million employed by Indian SMEs, it is crucial to ensure adequate institutional support, failing which we might see an even larger impact on livelihoods. SMEs also account for a third of India's GDP, 45% of manufacturing output and 48% of exports and hence are crucial to manufacturing and export competitiveness.

SMEs will be vital in absorbing a significant proportion of the 600 million entrants to the labour market in EMEs by 2030. With a large proportion of these entrants bound to be from India, it is imperative that the Union and state governments ensure financial and institutional support for SMEs.

In terms of location, SMEs are relatively evenly distributed in comparison to larger organisations. Rural areas account for 45%, while the remaining are in urban areas. Hence, SMEs are well-poised to address poverty in both the cities and villages.

Although the proportion of urban poverty has declined over the years, it has increased in absolute terms. In 2018, Kolkata, Delhi, and Mumbai had anywhere between 42-55% of their population living in slums. This number is certain to have increased in the pandemic. By providing employment and income, SMEs can raise income, living standards and consumer spending.

SMEs can aiding the atmanirbharta vision, especially in the manufacturing sector. This pattern is observed in countries with strong manufacturing sectors such as Germany and China. China's pattern is more relevant to India due to a similarity in size and population as well as its recency. SMEs make up over 99% of all enterprises in China today, with an output value of at least 60% of its GDP; they generate more than 82% of employment opportunities.

As per China's national economic census, manufacturing SMEs accounted for nearly 53% of its total incorporated SMEs and 65% of the total employment in SMEs. With global manufacturing moving out of China, our SMEs can play a key role in sustaining the manufacturing that is shifted to India.

Source: financialexpress.com– July 01, 2021

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CBDT: TDS applicable on buyer-seller transactions above Rs 50 lakh after July 1, 2021

The Central Board of Direct Taxes (CBDT) Wednesday clarified that buyers would need to deduct tax at source at 0.1% of amount exceeding Rs 50 lakh when paid or credited to a resident seller on transactions after July 1, 2021, under section 194Q of the income tax Act which comes into effect from July 1.

The Board has clarified that threshold of Rs 50 lakh for triggering TDS shall be computed from April 1, 2021 and GST component will have to be segregated at the time of credit.

The Board has further clarified that if a transaction attracts TDS under both 194O, applicable on e-commerce operators, and 194Q of the Act, the deduction shall have to be made under 194O.

Further, where there is a clash between TDS and provisions of tax collected at source on sale of goods under 206C(1H), TDS provisions shall prevail.

"Addressing the open issues, the circular is just in time and accords much needed clarity on the subject matter, as the compliance framework becomes effective tomorrow," said Neha Malhotra, director at Nangia Andersen LLP.

Section 194Q provides that every buyer who is responsible for paying any sum to a resident seller, for purchase of any goods of the value or aggregate of value exceeding Rs 50 lakh rupees in any previous year, shall at the time of credit of such sum to the account of the seller or at the time of payment, whichever is earlier, deduct an amount equal to 0.1 % of such sum exceeding Rs 50 lakh as income tax.

According to a circular issued by the Board Wednesday, buyer has been defined as a person whose total sales or gross receipts or turnover from the business carried on by him exceed Rs 10 crore during the financial year immediately preceding the financial year in which the purchase of good is carried out.

The circular highlighted that when tax is deducted at the time of 'credit', TDS under 194Q shall be deducted on amount credited without including the GST component, but if tax is deducted on payment basis then TDS would

have to be deducted on the whole amount since it would not be possible to identify the GST component.

Additionally, it has been clarified that while the new provisions shall apply on advance payment, the same shall not be applicable to a non-resident whose purchase of goods is not connected with permanent establishment (PE) of such non-resident in India.

Source: economictimes.com– June 30, 2021

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Draft e-commerce rules could test Amazon, Walmart operations in India

E-tailers may seek extension of deadline to propose suggestions

Grappling with uncertainty over several aspects of the draft e-commerce rules, industry bodies representing multinational giants, will be writing to the government seeking an extension on the July 6 deadline to propose suggestions, according to sources.

The proposed rules have been in direct contrast to the foreign direct investment (FDI) policy changes for e-commerce business, which came into effect in February 2019, experts said.

The FDI rules, allow foreign e-commerce marketplaces like Amazon and Flipkart (owned by Walmart) to sell through affiliated sellers but limiting their stake to up to 25 per cent in the joint venture company. It also classifies these platforms as intermediaries which facilitating the business but are not directly responsible for transactions between sellers and customers on the platform.

In contrast, the draft rules ask e-commerce marketplaces to not sell the goods of related parties on its own platform. Amazon has been a stakeholder in sellers like Cloudtail and Appario. Through the fall-back liability policy, e-tailers further would be responsible for any problems with goods or services sold through its platform by third-party sellers.

Conflict with FDI rules

"Placing a 'fall-back' liability on a marketplace platform for delays, negligence, omissions and commissions at the sellers' end, impose disproportionate and impractical responsibilities on marketplace platforms (which are not permitted to hold inventory or sell its own products on the platform and are effectively acting as intermediaries). This not only dilutes their intermediary status under the Information Technology Act, 2000, but also puts them at risk of conflict with existing FDI norms," Shreya Suri, partner, IndusLaw, told BusinessLine.

"There is a legal challenge on whether Amazon and Flipkart should make those changes or continue to being governed under the FDI rules. One of the first objectives of most industry bodies will be to ask for an extension on

proposing changes to understand what the intent is and analyse the rules. Secondly, the industry bodies are also assessing the collateral damage brought by these rules, especially for the consumer as they might have to step out to buy things during the third wave. Also, there are lot start-ups which are feeling the pinch on whether they could be rightly fully termedas an e-commerce company," a source privy to the developments told BusinessLine.

Impact on start-ups

"Most of the goods sold under private labels or through related sellers are made in India. If the related party seller ecosystem falls, this will cause job losses, MSMEs which are manufacturing these products will face a big challenge too," the source said, adding "Though the target is Amazon and Flipkart, the eventual impact will be on the start-ups. Amazon and Flipkart are deep-pocketed, they will comply anyway."

"Any policy talking about consumer protection should reflect that. This is more about compliance changes than anything to do with consumers to help in their journey. This is a very new industry which is looking at creating more opportunities, more technology specific roles, you can't take it back by three decades, pandemic itself has been a great example of that need," said the second source.

The rules also require foreign brands selling their products in India through e-commerce channels register themselves with The Department for Promotion of Industry and Internal Trade (DPIIT). "If smaller brands from Europe or China come to sell in India and don't have a presence or offices in India, why would they want to get registered with DPIIT," said the first source.

Level playing field

On the other hand, the Confederation of All India Traders (CAIT) applauded the proposed changes, calling it the much-awaited rules.

"Though these proposed rules are very basic things the government has asked from these businesses, such as the issue of mandatory registration, which all the offline shopkeepers and companies adhere to. The new thing is they have to appoint a grievance officer, nodal officer and chief compliance officer. These posts are needed, because time and again we have

seen e-commerce companies flouting rules," Praveen Khandelwal, Secretary General, CAIT, told this newspaper.

Khandelwal said these rules bring a level playing field for all the e-commerce players including Reliance and Tata too. "The unbelievable discounts given by the online players are not in parity with fair business practices. We also give discounts, but the range is around 2-5 per cent. But offering 60-70 per cent discounts is indulging in loss hunting exercise. Banning flash sales bring e-commerce to a level playing field. With these rules, e-commerce business will be more transparent and credible for both traders and consumers," he said.

Addressing genuine concerns

Suri agrees. "Apart from some benefits to consumers, other proposed changes also appear to be aimed at addressing genuine concerns of sellers including in relation to the recognition of the concepts of 'associated entities' and 'brand association', which were working to the advantage of sellers associated in some manner with the platform," she added.

The second source said, "Discounting has been a key marketing practice for hundreds of years. It gives brands an opportunity to reach and consumer dynamics, even smaller offline stores do that. These are marketing constructs. In the end, the consumer benefits. Think beyond metros, where even internet is patchy. You have money but hardly any places to buy that aspirational brand from. E-commerce brings that to your fingertips in the comfort of your homes. These rules will slow down the entire e-commerce ecosystem."

Source: financialexpress.com– June 29, 2021

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Apparel retailers to see demand improve from fiscal second quarter

Hit by temporary store closures, limited mobility, and a general slump in discretionary spending in the June quarter, apparel retailers are expected to report a 15-20% growth in revenue this fiscal, down from the earlier projection of 35%, rating agency Crisil said in a note.

The growth comes on a significantly lower base of 2020, when apparel retailers witnessed a 35% decline in revenue growth.

The ratings agency has pegged demand recovery for the organised apparel segment to pick up from the second quarter of the current fiscal but will be dependent on moderation of the second wave as well as the vaccination drive.

“Reopening from June is likely to ignite a gradual recovery," it said in a note released Wednesday.

Meanwhile, it expects the share of online sales to touch 8-9% of total sales of apparel retailers this fiscal compared to 4-5% reported by companies pre-pandemic.

Revenues this financial year, ending March 2022, will touch 70-75% of pre-pandemic levels, the ratings firm said.
The June quarter hit apparel sales as several states moved into lockdowns in April and May to control the second, more severe wave of covid-19.

“Revenue this fiscal will only be 70-75% of the pre-pandemic level (60% in fiscal 2021). Moreover, unlike the first wave that had higher impact in tier-1 cities, the second wave has spread in tier-2 and 3 cities and rural areas as well, resulting in a similar impact on departmental and value fashion retailers," Anuj Sethi, senior director, Crisil Ratings, said.

The ratings firm analysed 60 Crisil-rated apparel retailers, which account for a third of the sector's revenues.

A sluggish recovery in the topline will translate into moderate growth of 4-5% in operating margins at apparel retailers this year. This is lower than Crisil’s earlier forecast of a 7-8% growth in operating margin.

“However, renegotiation of rental arrangements and trimming of employee cost, which together account for 20% of revenue, will help keep operating margin at 4-5% this fiscal, a slight improvement over 3-4% last fiscal, but much below the pre-pandemic level of 9%," it said.

Meanwhile, apparel retailers rated by Crisil will be better placed helped by equity raise to the tune of Rs2,000 crore last fiscal. Others could “take recourse to additional debt to plug near-term cash-flow mismatches, which could impact their credit quality," it added.

Source: livemint.com– July 01, 2021

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Textile industry awaits policy initiatives to boost growth

Seeks attention on technical textiles, mega textile parks, textile processing, and energy

The textile and clothing industry here is looking at policy initiatives from the State government to boost growth of the sector in Tamil Nadu. Textile and Handloom Minister R. Gandhi held meetings with the industry in Coimbatore and Tiruppur districts on Tuesday.

According to Chairman of Southern India Mills' Association (SIMA) Ashwin Chandran and Chairman of Confederation of Indian Textile Industry T. Rajkumar, there is scope for improvement in the Textile Policy announced by the State government in 2019. Some of the areas that need more focus in the Policy are technical textiles, mega textile parks, textile processing, and energy.

States such as Gujarat offer a lot of support for technical textiles. Tamil Nadu has a couple of centres of excellence for technical textiles. However, some segments of technical textiles can be strengthened further in the State. The State government should also support these measures. Another major area that requires government support is industry-friendly renewable energy policies that will attract investments, they said. The SIMA will submit its proposals to the Government soon on the Textile Policy.

In Tiruppur, the industry association heads highlighted the areas with growth potential and the challenges faced by the garment industry. "The State can create more clusters like Tiruppur with the right policy initiatives," said Tiruppur Exporters' Association president Raja Shanmugham.

The industry has also urged the government to look at housing for workers as a major initiative. The job working powerloom weavers in Tiruppur district demanded revision of wages. "It is 10 years since the job working units got a revision. This is our main demand. We will present our demand to the District Collector within a week," said Palladam job working powerloom unit owners association president Velusamy.

Source: thehindu.com– June 30, 2021

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Cargo export brisk at airport

The Tiruchi Airport has been witnessing brisk freight exports to select overseas destinations notwithstanding the pandemic.

The export cargo was shipped through non-scheduled flights operated by the Air India Express under the Vande Bharat Mission and other flights under the Air Bubble agreement as well as by a couple of other carriers in the last one year. Around 3,300 tonnes of freight had been exported from the the airport from May 2020 to May 2021 to different destinations in South East Asia and West Asia.

Bulk of the cargo was being lifted by the Air India Express, say Airports Authority of India officials. Perishables such as vegetables, fruits, flowers and even fish besides food stuff were the commodities which were exported from here to Singapore, Dubai, Sharjah, Abu Dhabi, Kuwait, Doha, Kuala Lumpur and Male, say airport officials and those in the export trade circles.

With outgoing international passenger movement from Tiruchi airport during the pandemic period being less, export cargo was being easily accommodated in the overseas flights that departed from Tiruchi. On an average, about 10 tonnes of export cargo was being handled at the airport a day.

“Export of freight has remained brisk,” says Airport Director, Tiruchi S. Dharmaraj. After Chennai, Tiruchi airport’s performance in respect of movement of export cargo was good.

Vegetables, fruits and flowers grown in places such as Theni, Cumbum, Andipatti, Salem, Dharmapuri and Hosur and fish from Mandapam area were exported to select foreign destinations in the last one year, says R. Muralidharan, president, Tiruchi Customs House Agents Association adding that the demand for perishable commodities grown here was good in countries such as Singapore, Kuwait and Dubai. ‘We are fully utilising the capacity to load export cargo,’ says Mr. Dharmaraj.

Mr. Muralidharan says prior intimation of the airline’s movement schedule to different foreign destinations from Tiruchi airport during the pandemic period was being received which enabled those in the trade circles to plan in advance for export activities. The international freight movement from here during the pandemic cannot be compared with that of the pre-COVID

era. Exports have remained steady notwithstanding restricted movement of overseas flights, which is a positive sign, says officials.

During the pre-COVID period, the Tiruchi airport used to handle around 750 tonnes of export cargo every month. The pandemic period also saw the operation of a dedicated cargo freighter for the first time at Tiruchi airport by the SpiceJet from Tiruchi to Singapore lifting vegetables and fruits.

Source: thehindu.com– June 30, 2021

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Minister invites textile industry to invest in Bihar

State industries minister Syed Shahnawaz Hussain on Wednesday invited entrepreneurs from textile industry to come and invest in Bihar and together take the country ahead of Bangladesh in garmenting.

Hussain held a discussion on draft textile policy for Bihar with the Synthetic Rayon Textile Export Promotion Council (SRTEPC) at its head office in Mumbai. He emphasised the strategic location of Bihar for both domestic and export markets and explained that most of its districts were connected via nearby airports in Bihar and adjoining states.

He said the state has implemented the online filing of Common Application Form (CAF) to make the single-window system really effective. The minister spoke about recent investment intentions that the state has received from JSW, Essar and Micromax.

The meeting was attended by the executive council of SRTEPC, including its chairman Dhiraj Raichand Shah. Additional chief secretary (industries) Brijesh Mehrotra and investment commissioner R S Srivastav also attended the meeting.

Source: timesofindia.com– July 01, 2021

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