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INTERNATIONAL NEWS

Global trade growth likely to be subdued in 2022 after hitting record high of $28.5 trillion in 2021

Trade growth in 2022 is likely to be lower than expected, given the macroeconomic trends like persistent inflation in the United States and concerns related to China's real estate sector.

A new report by the United Nations Conference on Trade and Development says, "Overall, the value of global trade reached a record level of $28.5 trillion in 2021," which is an increase of 25% on 2020 and 13% higher compared to 2019, before the COVID-19 pandemic struck. Trade in services rose by $50 billion to reach $1.6 trillion, just above pre-pandemic levels.

The UNCTAD report indicates that trade growth will slow during the first quarter of 2022. It says the world will see positive growth rates in both trade in goods and services, but only marginally, and trade values will be at levels similar to the last three months of 2021.

"The positive trend for international trade in 2021 was largely the result of increases in commodity prices, subsiding pandemic restrictions and a strong recovery in demand due to economic stimulus packages," the report says.

"As these trends are likely to abate, international trade trends are expected to normalize during 2022."

Greater trade growth in developing countries

The report shows that in the fourth quarter 2021, all major trading economies saw imports and exports rise well above pre-pandemic levels in 2019.

Quarterly growth is the quarter over quarter growth rate of seasonally adjusted values. Annual growth refers to the last four quarters. Figures for Q4 2021 are preliminary.

But trade in goods increased more strongly in the developing world than in developed countries.

Exports of developing countries were about 30% higher than during the same period in 2020, compared with 15% for wealthier nations.

The growth was higher in commodity-exporting regions, as commodity prices increased.

Factors at play in 2022

The report talks about the impact of supply chain disruptions and the high energy prices and its impact on global trading patterns in 2022. On trade flows, the report projects the trend of regionalization to increase because of various trade agreements and regional initiatives, as well as "increasing reliance of geographically closer suppliers."

Moreover, trade patterns in 2022 are expected to reflect the increasing global demand for products that are environmentally sustainable.

The report also flags the record levels of global debt, warning that concerns over debt sustainability are likely to intensify due to mounting inflationary pressures.

"A significant tightening of financial conditions would heighten pressure on the most highly indebted governments, amplifying vulnerabilities and negatively affecting investments and international trade flows," the report cautions.

Source: economictimes.indiatimes.com– Feb 21, 2022

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China Germany's key trading partner in 2021 for 6th consecutive year

China was Germany's most important trading partner in 2021 for the sixth year in a row, according to the Federal Statistical Office (Destatis), which recently said total foreign trade revenues between Germany and China increased by 15.1 percent year on year as goods worth €245.4 billion ($279.1 billion) were traded between the countries in 2021.

The Netherlands and the United States followed second and third, with trade revenues of €206.1 billion and €194.1 billion, growing by 20.1 per cent and 13.4 per cent respectively.

"China's importance for German imports is growing steadily," Destatis noted. In 1980, China was still ranked 35th among the most important importing countries, and by 1990 it already jumped to 14th position.

Since 2015, China has been Germany's most important country for imports, according to Destatis. Goods worth €141.7 billion were imported from China in 2021, an increase of 20.8 per cent year on year.

The United States was the biggest customer country for German exports in 2021, unchanged since 2015. China and France followed second and third.

Source: fibre2fashion.com– Feb 21, 2022

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Record $940-billion budget set for Japan's parliamentary approval

A key Japanese parliamentary committee on Monday approved the government's record $940 billion initial spending plan for the next fiscal year, setting the stage for the budget's full passage through the legislature in March.

Prime Minister Fumio Kishida is counting on the budget to pull the world's third-largest economy out of the Covid-19-induced doldrums with the economy set to slow to a crawl this quarter.

The budget for the new fiscal year beginning in April, worth 107.6 trillion yen ($936.14 billion), is Japan's biggest initial spending plan.

The expansive fiscal package will also add to strains for the industrial world's heaviest debt burden, which is more than twice the size of Japan's $5 trillion economy.

The budget was approved on Monday by ruling party lawmakers at the lower house budget committee. It would be put to a vote on Tuesday in the plenary, as agree by ruling and opposition blocs.

Given the ruling bloc's majority in the both chambers of parliament, the budget bill would be enacted 30 days after it is sent to the upper house.

It marked the quickest enactment of a budget since 1999.

Source: business-standard.com– Feb 22, 2022

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Latin American Apparel Exports Seen Growing 10 Percent

Latin America's apparel exports are expected to increase sharply this year as U.S. brands boost orders south of the border to help ease supply chain woes. However, a dearth of raw materials threatens to scupper those gains, experts said.

"We estimate a 10 percent increase in apparel sales as U.S. buyers continue to engage in near sourcing and seek competitive places such as Mexico, which is only 24 hours away by truck," said industry expert Raúl García, adding that this phenomenon is also lifting demand for Central American and Colombian garments.

For Mexico specifically, Garcia predicted shipments could hit $7 billion this year after rising 6 to 8 percent in 2021. Brisk sales of knitwear, T-shirts, polo shirts, lingerie, underwear and socks are seen fueling those gains, he added.

Denim exports are also forecast to rise sharply, benefiting makers in La Laguna industrial hub, where factories make denim for the likes of Levi's and Wrangler, according to Garcia, who leads Fashion Outlet Mexico WTC.

He noted, however, that a lack of fabric, notably synthetic yarn and thread, is making it hard for suppliers to meet orders. As a result, the industry is moving to negotiate more flexible rules of origin under the United States-Mexico-Canada Agreement, or USMCA, free-trade deal with the U.S. and Canada.

"We have a 15 percent fabric deficit currently, though that's better than the 30 percent we had last June," added Garcia. "Suppliers are looking for an adjustment to the yarn-forward rule to bring more fabric from China or countries like India and Pakistan."

At press time, top industry lobby Canaive and other industry bodies were engaged in negotiations with Mexican President Andres Manuel Lopez Obrador to pressure the government to make their case with Washington.

Meanwhile, clothing factories are rushing to boost production and increase spending to market their goods at international exhibitions such as MAGIC.

Doing so is crucial after Obrador shuttered export-promotion body Promexico, leaving maquilas alone in their effort to draw new customers.

"We [the industry] are basically blind to Obrador," said a Mexico City-based apparel consultant, who requested anonymity. "On top of shutting Promexico, he hasn't helped provide any growth funding or credit lines. This means manufacturers have been forced to seek credit elsewhere. Luckily enough, raw-material and other suppliers have been providing credit for up to 30 days, something they never did before."

In Central America, exports to the U.S. are also set to surge around 10 percent, according to Juan Sánchez, owner of apparel firm Texsun. However, like Mexico, the isthmus is facing raw materials shortages that are undermining shipments. "Demand is growing and in Guatemala, we could have a 10 percent increase [to around $2 billion] but yarn thread is very limited and if this continues, we may not grow that much."

The U.S.'s yarn-purchasing ban from China's Xianjiang Uyghur Autonomous Region due to alleged human rights abuses is largely to blame for the shortages, according to Sanchez. "The Chinese have been forced to buy yarn and thread elsewhere and that has created a scarcity in this part of the world. Many spinning mills have been limiting production as a result," Sanchez noted.

Simultaneously, cotton and thread prices, especially for polyester, have surged 40 percent, squeezing margins for manufacturers, which have not been able to pass the hike onto U.S. customers. Still, investment has risen, especially in Honduras, as American brands look to boost output. "There is huge investment in textiles, yarn spinning and apparel," Sanchez said. "No one says how much but we know of several independent projects."

There is also a lot of spending to boost sportswear manufacturing, notably custom or logowear, Sanchez said, adding that Under Armour and Columbia Sportswear have made such investments recently. VF Corp. and Dickies have also made significant capital commitments, added Sanchez, whose firm makes sweaters and pullovers and supplies companies such as The North Face.

All of this as "the region has become more sophisticated and added much more capacity than a decade ago," Sanchez said. "It's easier to replenish with a quicker response. We have eight- to 10-week lead times now compared to 12 to 15 weeks five years ago."

Buyers' interest in South America also remains firm. In Colombia, for example, garment shipments grew 50 percent to $900 million in 2021, export lobby ProColombia President Lavia Santoro said during the latest Colombiatex de las Américas textiles fair in Medellín. The two-day event last month drew 270 companies to source a range of textiles, including technical fabrics with antibacterial, solar shielding and impermeable properties, among others.

The event generated $6.4 million in potential sourcing contracts. There were 1,100 international buyers, mainly from the U.S., Ecuador, Mexico and Peru. One highlight came from Textiles Lafayette, which launched a biodegradable fabric collection to make sustainable fashion. The firm, which marked its 80th birthday, also rolled out four athleticwear fabrics. One included a light, peach-colored fabric with solar and antibacterial protection.

Not to stay behind, Brazil recently saw a spurt of orders with textile and garment exports surging 17 percent last year as a weak real boosted orders from key buyers in Argentina, the U.S. and Paraguay. That compares to a 27 percent decline to $151 million in 2020 during the height of the pandemic.

"We are growing in apparel as brands move into the international market and retailers like Renner expand in Uruguay and Argentina," said Fernando Pimentel, president of industry lobby Abit.

This year, however, shipments could be much more subdued, rising around 2 percent as Omicron and other COVID-19 variants add uncertainty to the order book, according to Pimentel.

However, demand for Brazilian staples such as beachwear and denim could rise more than expected during the European summer. That, and the further stabilization of COVID-19 in the U.S., could prop up exports, he added.

"We like to be conservative when it comes to predicting our international business, at least early in the year, but we should have a better idea of where demand is in two to three months," he concluded.

Source: wwd.com– Feb 21, 2022

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UK road freight prices up 15% since 2021 start amid record inflation

The average price-per-mile for haulage and courier vehicles in the United Kingdom increased from 101.5 points to 116.8 points between January 2021 and January 2022, according to the UK-based Transport Exchange Group's (TEG) road transport price index—a 15 per cent year-on-year increase. Surging inflation is closely linked to supply chain bottlenecks and rocketing energy costs.

TEG offers business-to-business software as a service and marketplace platforms for transport and logistics.

As in previous years, the price-per-mile dropped following the traditional surge for Christmas, having decreased by 13.5 points from December to January. But 2022 still kicked off with the highest January prices for haulage and courier vehicles since the TEG index began in 2019.

This comes as prices soar across the economy, with interest rates increasing for the second time in three months and widespread worry about the continually rising cost of living.

With inflation foremost in the minds of both logistics professionals and businesses alike, Lyall Cresswell, CEO of Transport Exchange Group notes other trends set to impact road freight prices this year.

Lyall Cresswell highlights the role that outgoing cabotage rules and other, new rules will play. "Cabotage rules were changed to ease a shortage of drivers and supply chain disruption, allowing international companies to send lorries with foreign drivers to the UK to make unlimited deliveries in a 14-day period," he said.

"Previously, cabotage rules only allowed international drivers to make two cabotage journeys within seven days of entry into the UK. This will again be the case when cabotage rules revert back in May, reducing the number of loads international drivers can carry. This will not, of course, help the driver shortage. In addition, cabotage loads are priced lower, so less of them means higher costs all round.

“Significantly, new regulations in May will mean smaller vehicles (between 2.5t and 3.5t) will require an operators’ licence. This requirement for international goods vehicle operator licences for carriage of goods previously only applied to larger vehicles, therefore this rule extension is another big industry change that we’ll soon see reflected in the TEG road transport price index. Businesses transporting goods between the UK and the European Economic Area will need a licence from May, adding to costs for a great many firms,” he further said.

Lyall Cresswell cites the growth of the on-demand economy as another driver of supply chain costs. “Platforms like Uber started the real upscaling of the on-demand economy, but now we’re seeing the rise of ultra-fast, hyper-local grocery delivery. There is fierce competition in this space, particularly since lockdowns made us dependent upon these services,” he said.

“This growth has put immense pressure on the transport and logistics sector to meet demand, recruit quickly and adapt to new technological requirements. Needless to say, this has contributed to rising costs in the sector for some time now,” he added.

Source: fibre2fashion.com– Feb 21, 2022

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Vietnam ranks highest in surveys of apparel sourcing locations

Vietnam is the most attractive apparel sourcing location, according to a survey published by the World Trade Organization (WTO) and the United Nations (UN). Also, Vietnam is seen as being as good as China in terms of production quality.

But China continues to lead in terms of efficiency, innovation, lead time and vertical integration. Bangladesh, meanwhile, ranks lower than Vietnam on the basis of ten out of 12 criteria. Bangladesh received a score of only 2 for sustainability compared with a score of 3.5 in the case of Vietnam and yet Bangladeshi manufacturers argue that Bangladesh has the highest number of "green factories" in the world.

Vietnam also emerges as the leader in a survey of apparel sourcing locations by the data analytics and consulting company GlobalData. But Bangladesh was ranked as low as 12th place and therefore did not even feature among the top ten. China was ranked only fourth but no other country can match China's supply base, range of skills, quality levels, product variety and the completeness of its supply chain--and no other single country has the capacity to absorb the amounts which are produced in China.

However, Chinese exports could suffer from claims that forced labour is being used within Xinjiang province. This has led many countries to ban imports of Xinjiang-made cotton and, under the Uyghur Forced Labor Prevention Act (UFLPA), companies which want to continue importing goods made in Xinjiang into the USA must provide "clear and convincing evidence" that the goods in question have not been manufactured with forced labour.

To ensure that they comply with the UFLPA, apparel brands may prefer to play safe and source from locations which they can be confident do not use materials made in Xinjiang province. Such a strategy could cause a noticeable drop in US apparel imports from China in 2022 and beyond. Click here for more details

Source: innovationintextiles.com– Feb 21, 2022

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Bangladesh e-com firms urge govt to reduce tax burden

E-commerce companies in Bangladesh recently urged the government to withdraw the minimum tax on turnover, revise the rate of tax deducted at source (TDS) and review the bar on their promotional expenses as the sector is still at a nascent stage. The e-Commerce Association of Bangladesh (e-CAB) made these requests at a discussion ahead of the 2022-23 budget organised by the National Board of Revenue (NBR).

The association also called for introducing digital value-added tax (VAT) challan and withdrawing the obligatory VAT-registration system for the companies having an annual turnover up to Tk 30 million.

NBR chairman Abu Hena Mohammad Rahmatul Muneem presided over the meeting.

The e-CAB representatives said there is ambiguity in the definition of online retail and market place, which needs to be upgraded, and taxes and other duties should be imposed accordingly.

"Only three to four per cent of the total population make online purchase here, which is over 25 per cent for many countries," e-CAB member Fahim Mashroor was quoted as saying by Bangladeshi media reports.

Source: fibre2fashion.com– Feb 22, 2022

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NATIONAL NEWS

At 9.2%, India among fastest-growing large economies: Niti Aayog CEO

The Indian economy is growing at 9.2 per cent and is expected to grow at similar rates in the coming years, Niti Aayog CEO Amitabh Kant said on Monday.

While referring to the government's production linked incentive (PLI) scheme for sunrise sectors, Kant said it will add USD 520 billion to India's output in the next five years and make India a part of the global supply chain.

"Today India is witnessing unprecedented levels of economic development and technological disruptions. The economy is growing at 9.2 per cent and is expected to grow at similar rates in the coming years, making us one of the fastest-growing large economies in the world," Kant said at an AIMA event.

The country has taken several measures to maximise efficiency and several reforms have been taken by the government in that direction such as GST, Insolvency & Bankruptcy Code, lowering of corporate taxes, etc, he noted.

This will help make India a global manufacturing champion and manufacturing hub, Kant added.

The government has rolled out robust infrastructure schemes such as the National infra asset monetisation pipeline and PM Gati Shakti.

"The combined affect would ensure the development of a world-class infrastructure with the participation of both - the government and the private sector," Kant said.

Kant stressed that embracing technology would be the key to future success and relevance.

India has already succeeded in creating an ecosystem of technology with 814 million internet users and 85 unicorns.

While calling the Covid-19 pandemic as a "black swan" event, Kant said it threw new problems and challenges, which required new strategies to address.

"This also helped to identify new opportunities which contribute to the strengthening of the position," he said.

He counted various government policy actions and the use of technology as the drivers of India's aspiration to become a global hub of technology and economic growth.

Source: business-standard.com – Feb 21, 2022

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Piyush Goyal asks exporters to cash in on FTA benefits

He added that India is going to seal an FTA with Australia very soon.

Days after signing a free trade agreement (FTA) with the UAE, commerce and industry minister Piyush Goyal on Monday exhorted exporters to take advantage of the immense opportunities that are going to come their way due to the pact.

Addressing representatives of various export promotion councils, Goyal said in certain areas, especially in services, exporters haven't been able to cash in on benefits of India's trade arrangements with other countries as they should have. Despite the best of the efforts by the government, if exporters are not able to grab the benefits of trade pacts, "we can't blame anybody for that", he said.

The FTA with the UAE will open up window of opportunities for Indian exporters to not just Abu Dhabi but also markets in Africa and select economies in the EU as well, Goyal said. He added that India is going to seal an FTA with Australia very soon, which will be followed up with such pacts with some others as well, as he highlighted the opportunities that exporters have to grab.

Source: financialexpress.com – Feb 22, 2022

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Correcting inverted duty structure: GST Council likely to revisit plan to hike rate for textiles

Even though the Goods and Services Tax (GST) Council had to drop a plan to hike the GST rates for most textile products in the man-made fibre (MMF) value chain from 5% to 12% in late December 2021 amid protests from the industry, the government may revisit it soon. The rate hike was to take effect from January 1, 2022, but the decision was rolled back a day before amid protests from the industry.

Finance minister Nirmala Sitharaman on Monday said that correcting the inverted duty structure in the textiles value chain is essential to attract investment in the sector. "The correction is required for the production-linked incentive scheme for the sector. Or else, investments are not going to come into certain areas," she said, addressing a post-Budget meeting with industry and trade representatives in Mumbai.

The GST Council's decision to alter the rate structure for textile products was aimed at resolving the long-unresolved issue of inverted duty structure in the synthetic textile segment. Manufacturers of man-made fibres have long suffered from the duty disparity with the natural fibre (manly cotton) segment, and, in the GST system, these units suffered from accumulated input tax credit.

At present, the tax rate on manmade fibre, yarn and fabrics is 18%, 12% and 5%, respectively. To illustrate, the GST rate is 18% on mono-ethylene glycol (MEG) and purified terephthalic acid (PTA), the building blocks; 12% on polyester partially oriented yarn (POY) and 5% on grey fabrics, finished fabrics and garments. Natural yarns like cotton, silk, wool are in the 5% slab.

Inverted duty structure arises when the tax on inputs and intermediates are higher than that on finished products. Sections of the apparel industry had welcomed the GST Council's decision to hike rate – they believed the high value addition in apparels, the rate increase could be offset. A group of ministers had earlier proposed the rate increases, keeping this in view, but several states and the fabrics-to-garments industry, which include thousands of MSMEs and tiny units, opposed this move as they saw it leading to a demand compression.

Three-fourths of the domestically produced textile items are sold in the domestic market. “If GST is increased, price increases will be 6-7%, demand would fall by at least 3%. Also, there will be inflationary pressure. (All this for) expected Rs 7,000 crore additional GST revenue, which, in my view, is questionable,” former West Bengal finance minsiter Amit Mitra wrote to Sitharaman ahead of the December 31 GST Council meeting.

A group of ministers (GoM), which is currently reviewing the entire GST rates structure would review the issues with regard to the textiles value chain too and submit its report in February-March.

India’s competitiveness in the global textiles market, where synthetic textile products have a much larger share than cotton-based products, is seen to be blunted, owing to the inverted tax system.

Source: financialexpress.com – Feb 22, 2022

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Performance enhancer: PLI alone can't change the game

The production-linked incentive scheme (PLI) is seen as a 'game-changer' for India's ambition to emerge as a global manufacturing center. Prime minister Narendra Modi recently said PLI would boost India's industrial production by a further $520 billion in the next five years. Boosting manufacturing in India has been a two-decade-long aspiration, and all governments have brought in policy measures supporting this objective.

Since coming to power in 2014, the NDA governments have brought greater urgency and rolled out several national initiatives and policy interventions to boost manufacturing. Unfortunately, the share of manufacturing in India's GDP has remained stubbornly stuck at the 13-15 percent range level, a situation which the PLI scheme, with its substantial financial incentives, has sought to change. Will it be the game-changer the government expects, or will it fail to deliver on its promise, like the many major policy initiatives of the past?

Let's look at both sides of this debate. The timing of the PLI scheme could not have been any better—MNCs are looking to protect supply chains from growing geopolitical risks from the escalating tensions between China, the world's largest manufacturer, and the US, the largest consumer. Ex-China or China+1 supply chains have become part of the strategic vocabulary. And India, with its large market, young demographics, low costs, and plentiful labour, is seen to have a competitive advantage over other countries. And the early signs are encouraging with a lot of investor interest, and in at least one sector—mobile phones, India seems poised to emerge as a major global assembler.

The other side debate has sceptics pointing to the historically poor performance of many past schemes after the initial exuberance reflected in the manufacturing 'needle' stuck at the 13-15% of GDP. They also point out that in the last two decades, no globally competitive sector has emerged to add to automotive, generic pharma, and ITES which developed in the 1990s. Their core contention is that short-term fiscal PLI incentives cannot overcome the lack of competitiveness to attract a long-term player.

Let us make this debate real by taking the example of one of the most extensively traded goods globally—furniture, a sector where China had the dominant 39% share of global trade of $120 billion. India has a minuscule

<1% share. Most of this goes to the US, followed by Europe, and thus, in theory, should be 'in play' for India in the emerging supply chain scenario.

But will the PLI trigger a large flow of FDI (or even domestic investment) to make India a global hub for furniture manufacturing? To answer this question, let's understand why India lost out to China and, in recent years, is losing to Vietnam, which has established itself as the preferred China+1 option for US importers.

Talk to any US retailer, and their answer is simple. They base their choice of a global sourcing or manufacturing location on multiple factors. These include not just factor and regulatory costs, but also social costs (e.g. law and order) and increasingly country-risks (e.g. its geopolitical alliances and disputes). They also look closely at a country's ability to meet their standards, e.g., for furniture, it is increasingly about the carbon footprint and certification, including traceability of the wood. And this is where the shoe pinches for Indian manufacturing.

In a recent study, my colleagues at BCG estimated that India's cost disadvantage for a like-to-like furniture product (e.g., wooden bed) against China was 25-50% and against Vietnam was 15-25%. Not just higher factor, regulatory and logistics costs, but also, in the case of furniture (and it will hold for many other labour-intensive sectors), 40-50% higher raw materials costs due to imported certified wood drive this disadvantage. A 5-6% cost penalty from the lack of scale and the high level of industry fragmentation adds to this. India is not the natural China+1 choice for furniture manufacturing for the US retailer.

And bridging this huge cost gap through a sustained high level of PLI incentive till the furniture industry builds scale seems to be a fiscally tough ask. The only way to achieve this is to plan and build 3-4 world-class manufacturing hubs of scale, cost, and capability (for a ~5% share of global trade) that make them cost-competitive. Having a PLI scheme during the early years of the hub is important but not sufficient.

It is not to say the present and preceding governments have not attempted to address this challenge. The NDA governments have launched initiatives around integrated logistics, spent large amounts on infra, pushed EoDB, lowered corporate taxes, consolidated labour codes, etc. All this has been backed by the high-decibel, overarching Make-in-India and Atmanirbharta campaigns. Some of these initiatives and policies are at early stages of implementation (e.g. integrated logistics), some failed to take off (e.g. power

reforms), and others (e.g. EoDB) seem to have gone back to 'business as usual' as the urgency waned with priorities changing for the ministries responsible. In a sense, the messenger—individual policies (and the campaigns)—seem to have overwhelmed the message of cost competitiveness.

Building a transparent, composite metric of Cost of Doing Business (CoDB) that squarely measures the competitiveness of India versus rival nations across dimensions considered by investors is the 'missing' link that can connect Make-in-India with Atmanirbharta. This will not just bring greater alignment of policies but also set a transparent and measurable objective for the policymakers. PLI will surely bring many new investors to the door, and some will enter. Improving CoDB will make sure they remain invested for the long term.

Source: financialexpress.com – Feb 21, 2022

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Finance Minister Smt. Nirmala Sitharaman interacts with leaders of financial & capital markets

Union Minister for Finance & Corporate Affairs Smt. Nirmala Sitharaman interacted with the leaders of the financial & capital markets in Mumbai today. She asked the industry leaders to explore ways to further strengthen the sector.

In her opening remarks, the Finance Minister expressed satisfaction about the resilience displayed by the financial markets even during the pandemic times.

Smt. Sitharaman urged the market participants to strive for efficiency and transparency to help to channelise the resource for productive investment in the most effective manner.

The Finance Minister emphasised that trust and confidence in the financial market are critical to gain traction amongst investors. Smt. Sitharaman also highlighted the important role of market participants in institution-building and for making financial market stronger and investor-friendly.

Various ideas and suggestions related to investor awareness, KYC norms, mutual fund penetration, deepening of corporate bonds, commodity derivatives and effectiveness of the market system were also discussed in detail.

Among the participants were the functioning heads of the stock exchanges, clearing corporations, depositories, mutual fund industry, stock brokerage firms, merchant bankers and credit rating agencies.

Source: pib.gov.in – Feb 21, 2022

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Free Trade Agreement: India's exports worth $26 billion to UAE to get 5% duty relief

To start with, while Abu Dhabi has offered duty-free access to 90% of Indian exports to it, New Delhi will allow 80% of the UAE's supplies at zero tax.

Indian goods worth as much as $26 billion, which are currently taxed at 5% by the UAE, will be allowed at zero duty once the free trade agreement (FTA) with Abu Dhabi comes into force by May, according to a commerce ministry analysis. It will particularly help labour-intensive sectors, including textiles and garments, agriculture, leather and footwear, where domestic exporters typically operate at thin margins and compete with low-cost economies like Bangladesh and Vietnam.

Some of the remaining traded items, which will also have duty-free access to the UAE market under the FTA signed on February 18, currently attract higher duties and some others are already granted tax-free entry. So, the extent of duty relief in these products varies accordingly.

To start with, while Abu Dhabi has offered duty-free access to 90% of Indian exports to it, New Delhi will allow 80% of the UAE's supplies at zero tax. Both the countries are aiming to raise bilateral trade to $100 billion in five years from about $60 billion now.

India remained shy of an FTA for a decade due to complaints that deals struck in the UPA era had short-changed interests of domestic industry and only widened New Delhi's trade deficit with the partner nations. By signing the latest pact, the government hopes to prove sceptics wrong.

According to the ministry's analysis, the Indian textile and garment sector will see additional exports of $2 billion to the UAE over the next 5 years due

to the FTA. Of this, incremental exports in man-made fibre textiles alone will be to the tune of $650 million.

In engineering goods, exports are projected to grow at 10% in the first two years and 15% in the next three years. Such outbound shipments will rise to $ 9.2 billion by FY27 from $5 billion estimated for this fiscal. Similarly, exports of plain gold jewellery and gold-studded jewellery to the UAE are expected to surge to $10 billion by FY24 from just $1.2 billion in FY21. Of course, such exports had contracted sharply in the last fiscal due to the pandemic.

In the pharmaceutical sector, exports to the UAE are projected to witness a compounded annual growth rate of about 26-28% over the next 5 years to reach $1 billion.

The commerce ministry also expects additional plastic exports of $1.3 billion to the UAE in five years. These stood at just $418 million in FY21.

In agriculture, additional exports to the UAE are projected to be about $850 million in five years, while in automobiles and leather & footwear, extra exports are estimated to be worth $160 million and $130 million, respectively. In services, the UAE has offered easier access in 111 sub-sectors to India, while New Delhi has offered 100.

Areas of substantial interest to India include computer related services, audio visual services, education, health, tourism, professional services (nursing, engineering, accountancy, etc) and certain other business services.

Source: financialexpress.com– Feb 21, 2022

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India, Australia to sign interim trade deal on March 11, say sources

India and Australia will be finalizing a limited Free Trade Agreement (FTA) on March 11, sources privy to the development told Business Today TV. This early harvest agreement is set to reduce tariffs in key sectors like textiles, pharma, health, footwear etc.

"We are set to sign an interim agreement with Australia on March 11, post that will concentrate on the final agreement in 2023. We will also sign a trade agreement with UK in April," said a source in the know.

Commerce and Industry Minister Piyush Goyal early this month shared with media that 75 per cent of Australia's trade is covered under FTAs, but with this new agreement the percentage could shoot up to 90 per cent. An interim or early harvest trade agreement is used to liberalise tariffs on the trade of certain goods between two countries or trading blocs before a comprehensive trade pact is concluded. Both the countries will look at a comprehensive economic co-operation agreement (CECA) in 12-18 months.

Goyal had early this month also shared that the interim agreement set to be announced in about 30 days and will cover "most areas of interest for both countries" including goods, services, rules of origin, sanitary and phytosanitary measures and customs procedures.

Last week, India and United Arab Emirates inked a trade pact, Comprehensive Economic Partnership Agreement (CEPA) during a virtual summit led by Prime Minister Narendra Modi and Crown Prince of Abu Dhabi Sheikh Mohamed bin Zayed Al Nahyan.

Source: businesstoday.in– Feb 21, 2022

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Anti-dumping rejections due to public interest: CBIC chairman Vivek Johri

The finance ministry has cited public interest and differences over data interpretation for rejecting anti-dumping duty and safeguard duty recommendations by the commerce ministry. The issue had become a bone of contention between the two ministries.

ANTI-DUMPING DUTIES AS ON 2019-END

Products	Share (%)
Chemical products	40.6
Plastics, rubber	12.6
Basic metals	12.6
Textiles	9.1
Stone, ceramic, glassware	5.9
Machinery & electrical equipment	5.9
Wood products	3.9
Transport equipment	2.0
Precision instruments	2.0
Others	5.4

Source: WTO

Central Board of Indirect Taxes and Customs (CBIC) chairman Vivek Johri told Business Standard that the Centre — while taking a call on whether or not to impose anti-dumping duty — has to balance the interests of the manufacturing industry and the user industry. "That is a tightrope walk we do," he added.

While anti-dumping duty is imposed against a specific country if there is a sudden drop in the price of an imported item, safeguard duty is not country-specific. A sudden surge in imports, irrespective of a price drop, is considered a fit case to safeguard interests of the domestic industry.

According to the present system, the Directorate General of Trade Remedies (DGTR), under the commerce ministry, after a detailed investigation, recommends to the department of revenue in the finance ministry whether or not to impose anti-dumping or safeguard duty on a product. However, the finance ministry has the final authority to either accept or reject the recommendations of the DGTR.

An application to initiate an anti-dumping investigation can be made by the concerned domestic industry to the DGTR. Applications are deemed valid if made by domestic producers, who account for at least 25 per cent of total domestic production of the article in question. An application is also considered to be made if it is supported by domestic producers whose collective output accounts for more than 50 per cent of the total production of the similar article.

Johri said the role of the commerce min-istry is to carry out factual investigation, which it is doing very diligently. “We have no problem with that. It is looking at the data and coming out with very detailed findings. But whether or not it meets the public interest question, it is for the ministry of finance to take a decision whether to impose the duty or not. There could be differences on how you interpret the data,” he added.

A commerce ministry official said in the last three years, about 50-60 recommendations by DGTR have been rejected by the finance ministry. “Though the finance ministry may be looking at the bigger picture while taking a final call, this is a new trend,” he added.

Johri said when CBIC analysed anti-dumping duties and their trends over a period of time, it found that there are some cases where anti-dumping duties had been in operation for 15-20 years. “The domestic manufacturers were of fewer in number. They had benefited from the anti-dumping duty for a long time.

The users are many and they are often in the MSME (micro, small and medium enterprises) sector. If you were to try and balance the interests of the two, you would find that there are instances that it may not be advisable to impose anti-dumping duty or continue its operation. So, that is what has guided us,” he said.

According to India’s latest trade policy review by the World Trade Organisation (WTO), India continues to be the main user of anti-dumping measures in the WTO.

Most of the investigations initiated by India relate to products from China, followed by those originating from South Korea and the EU-28.

Source: business-standard.com – Feb 21, 2022

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India-UAE CEPA: Bridging the Gulf after 10 years

They could be a precursor for full-fledged FTAs, but only much later.

The ruling NDA regime has, of late, revamped its strategy for free trade agreements, overcoming a deep-seated ambivalence regarding the benefits of agreements signed in the past. This re-think is to be welcomed as it stems from the compulsions of boosting exports as an engine of growth. From not signing any major FTA in the last 10 years, India inked a comprehensive economic cooperation and partnership agreement (CEPA) with Mauritius in early 2021.

The CEPA with the United Arab Emirates, signed last week, is the heart of the deepening strategic partnership between the two nations, which is reinforced by the presence of a 3.5 million-strong Indian diaspora in the UAE. Pacts with Australia, the UK, Canada, Israel and the EU are being fast-tracked. However, the level of ambition with Mauritius and deals with the UK and Australia is for early harvest agreements for trade in a limited set of goods and services. They could be a precursor for full-fledged FTAs, but only much later.

The CEPA with the UAE, however, is deeper as India can export 90% of its products once it comes into effect. A permanent safeguard mechanism is also in place to check misuse. The UAE is India's third-largest trading partner with two-way-trade of $52.8 billion in the current fiscal (April to December).

The UAE is also India's second-largest export destination, with outbound shipments worth $20 billion or 6.6% of total exports. With India's imports of $32.7 billion driven largely by oil, the balance favours UAE at $12.7 billion. The FTA aims to step up bilateral trade to $115 billion within five years, of which $15 billion is in services exports. India hopes to step up textile exports as the UAE is the third-largest re-export market. Plain and studded gems and jewellery exports could also rise substantially.

India has identified 1,000 products like leather, spices, engineering goods, chemicals and poultry for duty concessions from the UAE. In a first of its kind, there is a digital trade element to enhance cooperation in paperless trading, digital payments and online consumer protection. Another first is that Indian drugs approved by regulators in advanced countries can be sold within 90 days of application.

Bilateral trade volumes would increase manifold when two-way investment flows pick up. Cumulative bilateral investments are pegged at $57 billion between 2003 and 2021, of which 54% is India's FDI according to a KPMG-IBPC report. UAE's investments in India are also set to rise on the energy front. The CEPA proposes an investment zone in India for UAE firms and a dedicated India Mart in the Jebel Ali Free Zone. Both sides have pledged to create opportunities for Indian investors in advanced industrial technology zones in Abu Dhabi.

To boost cooperation on climate change actions, both agreed to set up a joint hydrogen task force to scale up technologies. Trade is a win-win situation for both parties as gains include substantial employment generation of as much as 1 million jobs in India and 100,000 in the UAE.

The CEPA's significance is that it serves as a template for an FTA with the Gulf Cooperation Council whose members include Saudi Arabia, Kuwait, Oman, Qatar and Bahrain. India thus will have larger access to West Asia and Africa as UAE has no customs barriers with GCC members.

While this is the good news, the fact is that it represents only a first step forward. While India should be mindful of past experience, there is a warrant for a higher level of ambition to ensure that early harvest agreements with prospective trading partners like Australia and UK graduate into full-fledged FTAs.

Source: financialexpress.com– Feb 21, 2022

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Steady rise in generation of e-way bills so far in February

The daily e-way bills averaged 23.83 lakh in the first 20 days of February, with the number coming in at 4.77 crore.

Generation of e-way bills for inter-state trade under the goods and services tax (GST) system stood at 24.27 lakh in the week ended February 20, 3.2% higher than in the week ended January 23, reflecting an improvement in commerce.

The daily e-way bills averaged 23.83 lakh in the first 20 days of February, with the number coming in at 4.77 crore. Generation of daily e-way bills had declined 4% on month to 22.2 lakh in January, compared with 23.1 lakh in December.

E-way bills generation is a proxy of GST revenues. Gross GST collections came in at Rs 1.41 lakh crore in January (December sales), the highest mop-up in the history of the comprehensive indirect tax that was launched in July 2017.
Even though e-way bills generation has declined by 4% in January over December, the GST collections could still be around Rs 1.3 lakh crore for February (January sales) going by the recent trend.

Bills generation at 7.35 crore in October was the highest monthly data, thanks to a spurt in goods dispatches for stocking ahead of the festival season by shopkeepers and traders.

Source: financialexpress.com– Feb 21, 2022

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What explains India's high import traiffs

Low import duties need not boost exports and a selective trade-pact approach could help us replicate other success stories

Decoding India's tariff and trade policy has become increasingly difficult for trade experts. Conventional trade theories say that trade liberalization through tariff reduction would lead to greater market integration with the world economy. Yet, over the years, India seems to have increased import tariffs for selective products. According to the World Trade Organization's (WTO) Tariff Profile for 2021, India has one of the highest average tariffs of 15% in the Asia-Pacific region.

What India wants to be and how: The Union budget for 2022-23 talks about an "Amrit Kaal", or a Vision for India at 2047, when the country is expected to become the third largest economy in the world. The government wants to boost "Make in India", reduce import dependence, and promote exports. To achieve these, the previous budget focused on Production Linked Incentive (PLI) schemes to scale up domestic manufacturing. Efforts have been made to reduce inverted duties in sectors like medical devices, which were hampering Make in India.

More than 75% of India's demand for medical devices is met through imports and many studies confirmed that higher import duties on raw materials/intermediate products than on finished medical devices were hampering domestic production. Stakeholder consultations organized by the Indian Council for Research on International Economic Relations (Icrier) on autonomous tariffs versus trade agreements, covering over 30 industries, confirmed that most of the issues related to inverted duties have been resolved. There remain issues in certain sectors like alcoholic beverages where both the final and intermediate products face duties and cesses of around 150% in total, which has been a concern for India's trading partners and the domestic industry alike.

While the industry was expecting this to be addressed in the recent budget, the government may use it as a bargaining tool in its ongoing trade negotiations. Addressing the problem of inverted duties over the last couple of years has led to the rationalization of customs exemptions, imposition of new tariffs and reduction in tariffs for certain products. In some sectors like electronics, this has delivered positive results. India, for example, has started manufacturing smartphones.

What other countries are doing: High tariffs are not uncommon in South Asia. The average MFN tariffs of Bhutan (22.1%), Bangladesh (14%), Nepal (12.2%) and Pakistan (12.1%) are all high, but these countries are yet to integrate well with global value chains. Unlike them, India's free-trade agreement (FTA) partners like the Republic of Korea (ROK, 13.6%) and Thailand (10.2%) also have fairly high average autonomous tariffs, compared to countries like Australia (2.4%) and New Zealand (1.9%). Interestingly, both ROK and Thailand have been able to develop domestic manufacturing capabilities and integrate well with global supply chains through their trade agreements. India may be looking at the models of Thailand and ROK as it designs its policies.

Learnings from previous agreements: India's comprehensive economic partnership agreement (CEPA) with ROK has been a key learning experience in the context of domestic value addition. Let us take the example of zinc. According to the United States Geological Survey (2020), India was the fifth largest zinc miner, with a share of 5.67% of global zinc mining in 2019, after China, Peru, Australia and the US, while ROK was not among the top 10 (0.35% share).

Yet, after its trade agreements with India, Australia, China and the US, ROK became the world's leading exporter of zinc, with 10.5% of global exports in 2020. That year, India was the world's sixth largest zinc exporter, with a share of 5%, and there has been no change in its global rank in the decade till 2020. After the India-Korea CEPA, India's imports from ROK increased from 9.1% in 2010-11 to more than 50% in 2020-21. In 2010-11, India had a trade surplus with ROK of $124.64 million, but in 2020-21, it had a deficit of $181.23 million. Smart negotiations on rules-of-origin and enhancement of domestic value addition by ROK, which more than doubled its smelting facilities, took Indian industry and policymakers by surprise. At the same time, India is trying to learn from the ROK experience in using high tariffs and trade agreements as a tool to boost exports.

Recent trade agreements and the way forward : India's previous trade agreements were mostly geo-strategic, but New Delhi is now focusing on greater market access in key export destinations. After withdrawing from the mega-regional agreement, the Regional Comprehensive Economic Partnership (RCEP), and implementing several measures to restrict imports from China, India quickly sealed a deal with its transhipment hub, the UAE. Sectors like gems and jewellery and engineering already see this as a key export-promotion agreement.

An early-harvest pact is on the cards with Australia, which is a key partner in supply-chain initiatives along with Japan, which shares similar concerns about over-dependence on China. The first round of negotiations with the UK, with which India has a positive trade balance in both goods and services, was complete by January 2022. And India has relaunched trade talks with the EU. In terms of the selection of export destinations as trade-agreement partners, India seems to have followed the right strategy. It would have been perfect if trade talks could be launched with the US, but Washington is the world's toughest trade negotiator and it is better to have domestic policy regimes in place for areas like data sharing before such negotiations.

India is also trying to make its domestic subsides/incentive regime WTO-complaint. A huge thrust has been given to quality improvement, product standardization and infrastructure and logistics development, so as to reduce costs and enhance our export competitiveness. In this entire process of restructuring, some industries will gain and others will lose. But overall, there seems to be alignment of trade and domestic policies and an effort to use high tariffs as a tool to: (a) facilitate investment in domestic manufacturing; and (b) bargain for greater market access in trade deals through reciprocal tariff reductions and also in areas like regulatory compliances and mutual recognition of technical standards. The next couple of years will be crucial to understand whether India can replicate the success story of countries like ROK and Vietnam.

Source: livemint.com– Feb 22, 2022

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