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NEWS CLIPPINGS

INTERNATIONAL NEWS

China bears brunt of Ukraine-Russia war as textile and apparel exports decline

China seems to be bearing the brunt of the ongoing Ukraine –Russia war as its share of textile and apparel exports to both countries dwindled to 2.5 per cent to total $8.2 billion in 2021.

A few downstream weavers in China received suspension notices from Eastern European customers before the conflict broke out. Orders to these weavers are not expected to improve soon, as per a CCF Group report.

Exports to Russia surge six times in 20 years

An important export market for China's textiles and apparel, Russia also enables China to diversify to other countries. Bilateral trade between the two countries has always focused on the textiles and apparel sector. From 2000-2020, China's textile and apparel exports to Russia increased from $1.11 billion to $7.65 billion. Its exports to Russia increased by almost six times over the past 20 years,

In 2021, China exported 2.2 of its total textiles and apparels to Russia. Apparels dominated China's exports to Russia from 2017 to 2021. Its' apparel exports to Russia doubled as compared to textiles in 2021. One of China's top five export markets till 2019, Russia's position has declined in the past two years.

Ukraine's share in China's exports declines

From 2019-2021, China's textile and apparel exports to Ukraine increased from $680 million to $760 million. They accounted for about 35-40 per cent of Ukraine's imports. Ukraine accounted for 0.23 per cent of China's total textile and apparel exports in 2021 despite China being the largest source of textile and apparel imports for Ukraine.

With a total annual export value of $400 million, Ukraine mainly exports textiles and apparels to Germany, Denmark and Italy. The country is the fabric distribution center of Central and Eastern Europe with the Odessa market being the largest and most concentrated fabric market. Around 55 per cent-70 per cent of Ukraine textile and apparel products are sold in the domestic market and the remaining 30 per cent-45 per cent are exported

Shipments to Russia suspended indefinitely

The war has made textile and apparel shipments to both Russia and Ukraine difficult. Shipping companies Maersk, Mediterranean Shipping, Dafei, Hebrot, etc have suspended shipments to Ukrainian ports from February 24. They also plan to stop accepting new bookings in and out of Ukraine until further notice. Exports to Russia have also been affected with shipments to the Sea of Azov suspended until further notice.

Source: fashionatingworld.com– Mar 10, 2022

HOME

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US Pakistan agree to revitalize trade, economic ties

The United States and Pakistan agreed to reinvigorate and revitalize trade and business relationships to enhance bilateral trade and investment.

It was decided during a meeting under the Pakistan-United States Trade and Investment Framework Agreement (TIFA) held in Islamabad, said a press release issued by the Ministry of Commerce.

Federal Secretary Commerce, Muhammad Sualeh Ahmad Faruqui, co-chaired the meeting along with Christopher Wilson, Assistant United States Trade Representative (AUSTR) for south and central Asia.

Secretary Commerce appreciated the visit of AUSTR which coincided with the 75th anniversary of establishment of diplomatic ties between Pakistan and the USA.

Mr. Wilson acknowledged the longstanding and robust relationship between the two countries and hoped that this visit further strengthens the trade ties between the two countries.
Pakistan and the USA discussed a wide array of issues aiming to foster bilateral trade and investment, cooperation in agriculture, textile, healthcare sectors, promoting digital trade and e-commerce, protecting intellectual property, promoting labor rights and economic empowerment of women.

It was agreed to further strengthen bilateral relations and to take steps to enhance trade and economic cooperation.

Pakistan and USA would work to support more business-to-business contacts and interaction between the governmental organizations.

Source: pakistantoday.com.pk– Mar 10, 2022

HOME

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Uzbek Cotton Boycott Ends After Decade-Plus Freeze-Out

A broad coalition of retail trade associations, human-rights organizations and investor groups has called off a decade-plus-long global boycott of cotton from Uzbekistan, citing a breakthrough in the elimination of systematic child and forced labor from the Central Asian nation's cotton fields.

The move coincides with the release of a report by the Uzbek Forum for Human Rights, a frontline partner of the Cotton Campaign, which found for the first time in 11 years of consecutive monitoring no state-sanctioned modern slavery during the most recent cotton harvest, marking a "landmark achievement" that it said could help open Uzbekistan's textile industry to international markets.

"For the first time, independent monitors did not document systemic, government-imposed forced labor organized by the central government in any of the areas monitored," the report said. "Although there were some incidents of forced mobilization of state employees imposed by government officials, it was not on a scale that suggests it was coordinated by the central government."

Uzbekistan, it added, has demonstrated that it is able to harvest cotton "almost entirely" without coercion, a result of growing mechanization, increasing wages for cotton pickers, the abolishment of state regulation of cotton production and sales, and effective communication by the central government of its policies prohibiting modern slavery in cotton fields.

The Uzbek Forum's findings dovetail with those of the International Labor Organization, which revealed a week ago that roughly 2 million children and half a million adults have been removed from coerced labor since government reforms began. It, too, concluded that the "world's largest recruitment effort" was free of child and forced labor.

"My colleagues and I have been looking forward to this day for years," Bennett Freeman, co-founder of the Cotton Campaign, said at a press briefing organized by Uzbekistan's ministry of employment and labor on Thursday. "This achievement is the most significant single-country victory in the global battle against forced labor so far in the 21st century."

More than 330 brands and retailers, including Adidas, Gap, H&M and Zara owner Inditex, have signed the Campaign's Uzbek Cotton Pledge Against Forced Labor since the dragooning of teachers, students, doctors, engineers and others to harvest cotton made headlines in 2009.

"The pledge started as a way to pull together onto one website 20 individual commitments of international brands and retailers, and it grew to be a major catalyst for reform," said Patricia Jurewicz, co-founder of the Cotton Campaign and CEO of Responsible Sourcing Network.

"Due to the improvements [that] the independent monitors have observed, the Cotton Campaign announces [that] we are lifting the pledge and ending our call for a global boycott of Uzbek cotton," Jurewicz added. "Now it will be up to individual companies to do their own assessments of risks and make their own policy and sourcing decisions. We look forward to working with international brands, Uzbek workers, farmers, government and independent monitors to implement due-diligence approaches aligned with international norms."

A 'fresh look' at Uzbek cotton

Now is the time for brands and retailers to take a "fresh look" at sourcing in Uzbekistan, said Julia Hughes, president of the United States Fashion Industry Association. "We will be sharing with the industry today's opening for sourcing with the reliance on the concrete independent mechanisms for labor-rights assurances and look forward to working together hand in hand."

The American apparel and footwear industry does not tolerate forced labor, said Nate Herman, senior vice president of policy at the American Apparel & Footwear Association, pointing to the U.S. forced labor statute, which prevents the importation of any products made wholly or in part with modern slavery.

"Our longstanding partnership with the diverse members of the Cotton Campaign and the signatories of the cotton pledge, and the holistic approach [that] we implemented together with the U.S. and foreign governments, the Uzbek government and international institutions to address the scourge of forced labor in Uzbekistan's cotton fields, has led us to the success we are celebrating today."

There are a “lot of international factors” that will help drive interest in Uzbek cotton, Sherman added, alluding to reports of forced labor by persecuted Muslim minorities in China’s cotton-rich Xinjiang Uyghur Autonomous Region. “Now that the cotton pledge is gone, it’s an opportunity for the Uzbek industry to start participating in U.S. trade events and U.S. trade shows [and] start advertising and getting the word out about what it can do.” The Uzbek Forum’s report warned, however, that several factors still threaten the “long-term durability” of the hard-won progress, including the lack of freedom of association for independent monitoring and reporting of labor-rights violations. Issues in population density can result in a shortage of voluntary pickers in certain areas or stages of the harvest, while the “persistent” involvement or interference of government officials in the organization of the harvest can lead to the strong-arming of farmers and cotton pickers. Other risks can stem from a dearth of “fair and effective” enlistment systems for seasonal labor or the reliance on local officials to recruit labor in some places, which can give rise to the use of or perception of coercion.

“However, overall, the 2021 findings represent a meaningful break from Uzbekistan’s long history of state-imposed forced labor and provide a strong measure of confidence that improvements to reduce existing labor rights risks can be made,” said Allison Gill, forced labor program director at Global Labor Justice-International Labor Rights. “We recognize this as a landmark achievement, and one that represents a real turning point for labor rights in Uzbekistan and for the emerging textile industry”

While Uzbekistan still harbors ongoing risks, Gill said, it also presents a “tremendous opportunity.” The country is building a vertically integrated cotton and textile industry where fiber can be traced from “fields to finish,” providing brands and retailers with an “unprecedented opportunity for visibility and traceability down to the raw material level. unlike almost any other sourcing country in the world,” she said. To do this, however, the central government must allow civil society and labor organizations to develop and establish “concrete mechanisms” for worker voice and protection. Brands and suppliers must also “invest in workers’ rights” and maintain “high standards for the industry.”

What about Xinjiang cotton?

Raluca Dumitrescu, a coordinator at the Cotton Campaign, encourages brands and retailers to look at Uzbekistan as a "potential new partner" for sourcing yarn and cotton textiles but only if it's done in a responsible way that benefits Uzbek workers. More than 1.5 million pick cotton during harvest time every year, she said, and another 40,000 people work in other stages of cotton production. These numbers will increase as the sector ramps up.

"We must ensure these are decent jobs with fair and safe working conditions and respect for workers' rights to freedom of association and collective bargaining," she said. "Brands and retailers, Uzbek cotton producers and the government of Uzbekistan now have the chance to create a new model for producing and sourcing cotton goods: a model that ensures full transparency about labor practices at all stages of production, including the cotton farms, spinners, fabric mills and manufacturing units."

Dumitrescu said she believed that Uzbekistan has the potential to become a key sourcing country for sustainable textiles. But this is only possible if all stakeholders play their part to foster the conditions for responsible sourcing. "We must work together to create robust mechanisms for monitoring, capacity building and grievance which are essential to ensure decent work," she added.

With a growing crackdown on Xinjiang cotton, which makes up a significant amount of the world's supply, there's a "real opportunity" for Uzbekistan, said Gill, who, together with Freeman, helped found the End Uyghur Forced Labor coalition. "As Uzbekistan has engaged in this reform process, globally, the laws around forced labor have really tightened, in part, as a reaction to the Xinjiang crisis, but also to the global problem of forced labor. So now brands and retailers are working to try to map their supply chains to understand their sourcing, and to take more responsibility for the labor conditions in their supply chain. And as they begin to leave Xinjiang…they'll be looking elsewhere."

The corporate response to the Uzbek and Uyghur campaigns couldn't be more different. To date, the latter call to action only has nine signatories, including Asos, Eileen Fisher, Marks & Spencer and Reformation, amounting to less than 3 percent of the cotton pledge's endorsers. This is due in no small measure to China's economic muscle, Freeman told Sourcing Journal after the press conference. Brands and retailers have ample cause for concern that a Beijing-boosted backlash will tank their bottom lines, as the likes of Adidas, H&M and Nike have already experienced.

Still, both the Ethical Trading Initiative and the Fair Labor Association, which include many of the apparel industry's boldface names as members, feature similar language that is "one degree of separation" from the Uyghur pledge, Freeman said. The Uyghur Forced Labor Prevention Act, which President Biden signed into law in December and will roll out in June, will also force brands and retailers to divest from Xinjiang cotton without having to explicitly endorse the campaign.

The bill "essentially puts into U.S. law most if not all of the elements of the call to action, and the coalition played a critical, instrumental role—though not the only one—in getting that passed and signed," he added. "We've finally recognized that Xinjiang is far and away the largest forced-labor problem in the world."

Source: sourcingjournal.com – Mar 10, 2022

HOME

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AAFA, BGMEA Shake Hands on New Partnership

The American Apparel & Footwear Association (AAFA) and the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) have reached an accord.

The two trade groups signed a Memorandum of Understanding at the AAFA Executive Summit in Washington, D.C., on Thursday to explore opportunities to increase trade access for Bangladesh to the U.S. market, refine purchasing practices, build on Bangladesh's progress on sustainability and expand the "strong partnership" between the new countries.

"Together, we aim to develop joint programs that train workers and mid- and top- management, explore new CSR initiatives to support the wellbeing of the workers and communities and more," BGMEA president Faruque Hassan said in a statement.

Steve Lamar, AAFA's president and CEO, said that agreements with strategic partners such as the BGMEA help reduce trade barriers, encourage the sharing of best practices and promote innovation on behalf of its organization's members, which include Adidas, Gap and J.Crew.

"AAFA's comprehensive work ensures the continued success and growth of the global apparel and footwear industry, its suppliers, and its customers," he said. "Today's collaboration marks increased capacity building to support joint practices and trainings to advance supply chain sustainability, expand trade opportunities [and] improve the buyer-supplier partnership."

In September, Hassan urged U.S. buyers to be more "rational" in their pricing demands to promote better jobs and safer and more sustainable workplaces.

"Our factories are increasingly investing money for safety and sustainability. Besides, production cost has gone up by more than 30 percent in last five years," he said at a roundtable of senior U.S. and Bangladesh government officials and representatives from the U.S-Bangladesh Business Council, the AAFA, Target and Walmart, also in Washington, D.C. "On the contrary, the price of our apparel is declining every year. While it's a fact that in a free market economy price cannot be dictated...nobody can justify a lower price to produce socially fair goods."

BGMEA has been on a deal-making spree as it tries to shore up not only its sector's competitiveness but also its reputation as a safe and reliable sourcing destination following its post-Rana Plaza overhaul. Bangladesh is the world's second-largest exporter of clothing after China, although Vietnam has recently been giving it a run for its money. The nation's garment exports to the United States jumped more than 45 percent year over year in January to surpass $755.71 million, according to trade data.

Last month, the BGMEA signed a Memorandum of Understanding with the German Agency for International Cooperation, better known as GIZ, and consultancy firm Particip to increase engagement between factory management and workers through stronger factory committees. In January, the organization linked arms with the International Labour Organization to train 700 safety-committee representatives from 75 factories to identify, assess and manage potential fire, infrastructure and Covid-19 dangers.

The BGMEA noted Thursday that it will be working with the United States Agency for International Development (USAID), Care Bangladesh and Calvin Klein owner PVH Corp. on a five-year, $5 million project to expand professional development opportunities for more than 100,000 female garment workers.

The USAID Thrive project, which will roll out in factories and communities in the Dhaka, Chattogram and Narayanganj districts, will "will strengthen women's advocacy and negotiation skills within the workplace and in their communities to advance their rights and help them overcome gender-related barriers and the impacts of the Covid-19 pandemic," it said.

Source: sourcingjournal.com – Mar 10, 2022

HOME

****

Provide incentives to leverage Bangladesh textiles' competitive advantage, urges Indel

Ahmad Heri Firdaus, Researcher, Indef's Center for Industry, Trade and Investment says, to maintain competitiveness, the Indonesian government needs to provide incentives to pursue the competitive advantage of Bangladeshi textiles.

The government needs hold limited meetings and introduce policies to enable the industry compete on a level playing field, adds Heri.

A number of factors in the production cost structure such as industrial gas, electricity, worker wages, and ease of logistics must be taken into account both in negotiating agreements and in formulating incentives.

Heri believes the textile industry will remain one of the prima donnas among other manufacturing sectors. Instead of experiencing a sunset, the textile industry can continue to grow if it is supported by policies that support performance and recovery.

Meanwhile, Indonesia is considered to be unable to compete with Bangladesh. From industrial gas prices, for example, Bangladesh applies a price of $3.22 per MMBTU for textile players. In addition, the electricity tariff is also flat at $ 0.105/kWh. Bangladesh is also the second largest exporter of apparel in the world with a value as of 2020 of $36.13 billion.

Source: fashionatingworld.com– Mar 10, 2022

HOME

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Performance Days 2022 will be held in hybrd format Comments

The upcoming event will be held from April 27-28, 2022 at the Messe München exhibition centre in Munich, Germany.

The winter edition of Performance Days will be held at the MOC Center from 3-4 November 2022, as a once-only venue. With the latest scheduling, the hybrid event facilitates the industry's wish to exchange information concerning innovations, highlights and trends for the Winter 2024/2025 season at an earlier stage. The MOC is well established in the textile sector and, in addition to having good infrastructure, it also provides good accessibility to the centre of Munich.

The usual concept of the fair will be maintained on site, guaranteeing that all participants can look. In order to respond effectively to the needs of the new sourcing schedule, the Performance Days winter edition will be put forward to October, and the summer edition to April.

Source: fashionatingworld.com – Mar 10, 2022

HOME

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MAS Holdings to expand global footprint

South Asia's largest apparel and textile manufacturer, MAS Holdings, has announced plans to significantly expand its global footprint to capitalize on opportunities stemming from the pandemic while aligning further with the needs of its customers.

Indonesia is now one of MAS' largest manufacturing destinations outside Sri Lanka. The company expects to double its current footprint and production capacity in Indonesia by 2024. Currently, the company employs over 10,000 associates in Indonesia. MAS' lace manufacturing arm, Noyon Lanka, recently established a joint venture with PT Sinar Para Taruna (SIPATATEX) Indonesia, adding to its raw material capabilities in the country, which already include bra cups, elastics and trims.

In the Middle East, MAS recently opened its third manufacturing facility in Jordan. The company also has manufacturing capabilities in Amman, Madaba, and Dulayl and hopes to ramp up its ability to supply duty-free sports and performance apparel to customers in the US and EU.

As part of its expansion in Africa, MAS is targeting to double the capacity of MAS Intimates in Kenya within the next two years, capitalising on opportunities stemming from the suspension of Ethiopia from the AGOA trade program, losing duty-free access for its exports to the US.

Similarly, MAS' Joint Venture company, Linea Aqua, is geared to expand operations in Vietnam in 2022. The country has duty free access to many large economies via the RCEP, including Europe, Australia and many Asian countries. Given accelerated growth and strong prospects, MAS is poised to double its production capacity in India by 2024. For the world's second-most populated nation, the company can support brands that have adopted an 'India-for-India strategy,' focusing on sourcing entirely for the Indian retail market from within the country itself. MAS' planned expansions also cover many of its operations in Sri Lanka, with the company signing an agreement with the Sri Lankan Board of Investment to expand a number of its Sri Lanka based businesses, namely MAS Legato, Bodyline, Unichela and Trischel.

Source: fashionatingworld.com– Mar 10 2022

HOME

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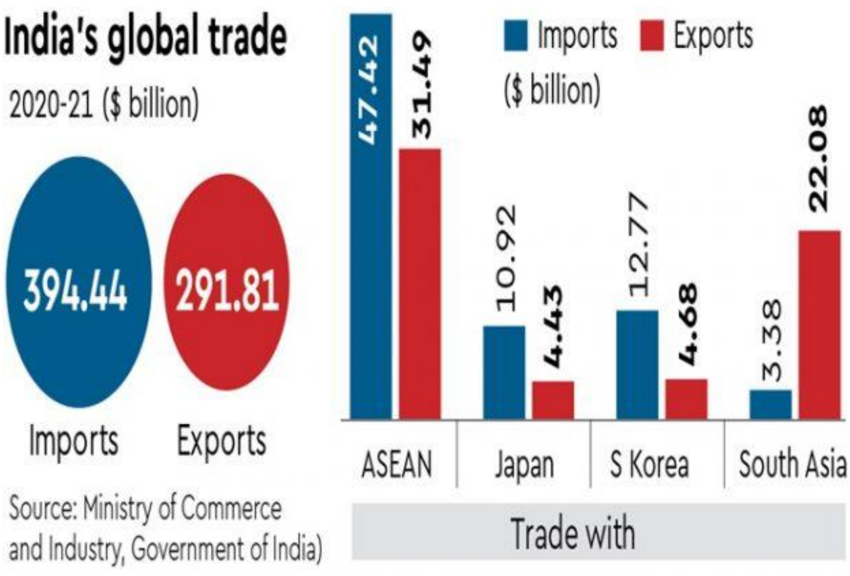
NATIONAL NEWS

Make trade deals for Make in India

India very recently signed a Comprehensive Economic Partnership Agreement (CEPA) with UAE, some two and a half years after it opted to sit out of the Regional Comprehensive Economic Partnership (RCEP). While the concession details under the CEPA are awaited, India is actively engaged in other discussions on trade deals, prominent amongst them being the ones with UK, USA, and EU. It will be a good idea to look at the intent, reality, and other ramifications of India's trade agreements, especially in regard to goods. Amongst the existing Preferential Trade Agreements (PTAs), the most commonly used by exporters and importers, are the agreements with the ASEAN region, South Korea, Japan, and South Asian countries.

If we exclude nearly $84 billion from the total import bill on account of fossil fuel imports, we see that while these regions constitute a significant portion of India's non-oil trade, the majority of trade is still outside of these regions. It is noteworthy that India has significant trade deficits with three of the aforementioned regions. Another factor to note is that three of these regions have significant manufacturing capacity and investment in their own territories. Thus, India's ongoing initiatives in trade agreements must consider whether such deals strengthen imports into India or incentivize investment. This is all the more important as the Centre has laid out schemes like Phased Manufacturing Programs (PMPs) and Production Linked Incentives (PLIs) to encourage investment in Make in India.



Trade agreements and PMPs: The Indian government has been focusing its efforts at promoting manufacturing in India as a solution to unemployment. To this end, fiscal policies and incentive schemes have been tailored towards attracting FDI in Make in India. Under the PMP, calibrated reductions in customs duty rates on inputs and intermediate goods have been provided along with higher duty rates on finished products. However, considering that many of the finished products are covered by zero duty rates under existing trade agreements with some regions or countries, manufacturers with existing facilities in such countries may not have a compelling reason to move manufacturing to India. An illustration of this is in the recently announced PMPs for hearable devices, wearables (smartwatches) and smart meters. The rates of duty for components of these products are to increase gradually from nil to 10 or 15% over four years. The final products are chargeable to higher duty rates of 20-25%. However, two of these three products can be imported at nil rates of duty and one of them at 5% duty under the India-ASEAN trade agreement. Similar benefits exist under other agreements and may inhibit the uptake of the PMPs by multinational manufacturing entities.

Trade agreements and PLIs: In the past two years, the government has launched incentive schemes wherein based on a threshold level of capital investment and incremental production, subsidies are to be given to approved applicants. Such schemes cover 15 product categories as of now. In some cases, the attraction of incentives could score over the benefits of importing goods under low or nil rates of duty under PTAs. The proposition could become even more attractive if it is combined with certain pre-existing special governmental schemes that reduce costs and conserve cash flow. While the application window for most of the PLI schemes has closed, a few may be extended and depending on the success of current schemes, more could follow.

Trade governance: PTAs are governed by written agreements between nation states or groups of nation states and domestic laws of the signatories. However, the enforcement of the commitments thereunder, depends on the extent to which the parties honour them. Contrary to a violation of a multilateral or plurilateral agreement entered into under the aegis of the WTO, enforcement mechanisms external to the parties, do not exist for PTAs. In an ideal world, the parties would adhere to and honour everything they have signed. However, in the real world, the committed benefits could be allowed or disallowed by customs rules (for example the CAROTAR in India) and customs officials, conditional upon certifications and validations. Mechanisms exist in the FTAs themselves to solve such matters, but in a situation where entities of different sizes and economic power attempt to resolve such issues, the resolutions may not be acceptable to all parties. Better governance mechanisms are needed.

It is expected that a holistic view, keeping in mind the government's schemes on investment and trade governance, would inform future negotiations as well as review of existing trade agreements of India.

Source: financialexpress.com – Mar 11, 2022

HOME

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Minister urges textile industry to invest in man-made fibre sector

Indian players can capitalise on increasing labour costs in other countries, says Darshana Vikram Jardosh

The Centre is giving a push to the textile and clothing industry to leverage the traditional strengths in the man-made fibre (MMF) sector, Minister of State for Textiles and Railways Darshana Vikram Jardosh said on Wednesday. The focus would be on manufacturing, infrastructure, technology, innovation, and skills, she added.

Inaugurating a virtual conference on '$450 billion Global MMF Textiles Trade: Growth Beacon for the Indian Textile Industry', organised by the Confederation of Indian Textile Industry (CITI), the Minister said India had a long way to go to emerge as a leading manufacturer of MMF textile products globally. While the industry would face stiff competition from established players in the sector - China, Taiwan, South Korea, etc., increasing labour and manufacturing costs in these countries would give ample opportunities for Indian players. The Indian industry could attract global investments to produce high value-added MMF products.

Industry captains should give thrust to the MMF sector by investing in it and taking maximum advantage of schemes such as Production Linked Incentive, PM MITRA, etc. "It will not only increase India's share in the global trade but also provide huge employment opportunities for the Indian youth," she said.

The Textiles Secretary Upendra Prasad Singh said the world was adopting China+1 policy and it was the right time for the Indian textile manufacturers to boost the trade of MMF products. The Centre was aware of the issues of the MMF Sector. However, it would only adopt the right policy measures keeping in view the interests of the larger segment.

T. Rajkumar, chairman of the Confederation, urged the Centre to bring the entire MMF value chain under 5% GST to address the issue of inverted duty structure and also sought schemes for the production and development of MMF raw-materials similar to that of natural fibres.

Source: thehindu.com – Mar 10, 2022

HOME

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India's GDP growth expected at 7.8% in fiscal 2023, says Crisil

India's gross domestic product (GDP) growth is expected to come in at 7.8 per cent in fiscal 2023, said ratings agency Crisil.

According to the ratings agency, any potential upside due to the early end of a mild third wave of Covid-19 infections will be offset by the ongoing geopolitical strife stemming from Russia's invasion of Ukraine.

Currently, the geo-political crisis is creating a dampening effect on global growth and pushing up oil and commodity prices.

The agency said that risks to growth are tilted to the downside.

"Spiking commodity prices, especially of crude oil, will have a bearing on India's macros, including the current account deficit and inflation. These would create headwinds to growth. The good part is, the health of the financial sector is on the mend, with better capitalisation, profitability and asset quality," said Amish Mehta, Managing Director & CEO, Crisil at 'India Outlook, Fiscal 2023' event.

"That, and enhanced public spending on infrastructure, private investments driven by the Production-Linked Incentive scheme, and a chunk of green capex should deliver some good-quality tailwinds."

Besides, the ratings agency said that average Consumer Price Index (CPI)-based inflation, will stay firm at 5.4 per cent next fiscal-- if the price of crude oil averages $85-90 per barrel -- and takes into account the excise duty cuts announced last year. However, it cited that upside risks will build if the geopolitical strife prolongs, keeping oil and commodity prices higher for longer.

When the price of crude oil averaged $110 per barrel between fiscals 2012 and 2014, inflation was in double digits. Furthermore, the agency pointed out that private consumption, which is the largest component of demand and has been the slowest to recover from the pandemic, will also face headwinds from high inflation.

"We believe the fiscal policy will need to be deployed more aggressively than envisaged in the Union Budget for next fiscal. This can be done by increasing allocation for employment-generating schemes and food subsidy, and cutting duty on petroleum products," said Dharmakirti Joshi, Chief Economist, Crisil.

"This can be a relief bridge for those most affected by the pandemic till such time the virtuous cycle of investment-led growth plays out in the labour market, and private consumption demand becomes self-sustaining."
Additionally, Crisil said that ripple effects of higher commodity prices have reflected strongly in the operating profitability of India Inc during past cycles.

This time around, it said that passthroughs have been "good" and earnings before interest, tax, depreciation and amortisation (Ebitda) margin is expected to sustain above 20 per cent for the second year in a row for the top 700 corporates this fiscal.

In addition, it said revenue growth in most sectors has been driven by prices this fiscal.

The pace is significantly above fiscal 2019 (pre-pandemic period), especially in the exports and commodity-linked sectors. "While both volume and value growth are above pre-pandemic levels in the exports sectors, prices have driven a higher proportion of recovery in the metals sector," the agency added.

Source: business-standard.com– Mar 10, 2022

HOME

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GST's fake invoice headache

The BharatPe episode has brought this issue to the fore

"You can never run out of things that can go wrong" — Murphy's law. The management of BharatPe would agree with this maxim having been in the news over the last few months for all the wrong reasons. The company has been at the centre of a governance fiasco that came to light after one of its founders got into a legal tussle with a wealth management firm over not being able to secure financing to bid for the initial public offering (IPO) of Nykaa Ltd. He has taken a leave of absence which could mean anything in HR-parlance.

After a few days, the spouse of the co-founder was sacked over charges for fraud and embezzlement. The working environment in start-ups is supposed to be energetic and purpose-driven with the end-goal being obtaining the unicorn tab (a valuation of $1 billion).

The Directorate General of Goods and Services Tax Intelligence (DGGI) has widened its probe on BharatPe after its earlier investigation had found that the company had issued invoices to non-existent vendors.

Last year, the company had accepted that it had issued invoices to non-existent vendors and paid about ₹11 crore in GST and penalty to the Tax Department. This was based on DGGI's finding that procurements were done by the company from non-existent vendors or those who did not operate at the principal place of business — a fact that the company management admitted. The fake invoices were generated for recruitment and other services that were neither sought nor provided.

The SOP

The Central Board of Indirect Taxes and Customs has made e-invoicing mandatory for all taxpayers with a turnover in excess of ₹20 crore with effect from April 1, 2022 (the limit till this amendment was ₹50 crore). It is clear that CBIC wants to plug the menace of fake invoices which doesn't seem to go away.

In 2019, the Investigation Wing of CBIC issued Standard Operating Procedures (SOP) for utilising the fake invoice issuers dataset by State GST Authorities. The most popular mode of fake invoicing is routing of invoices through a series of shell companies/dummy companies, transfer of input tax credit from one company to another in a circular fashion to increase the turnover. In such cases, there is no supply of goods or services and thereby availing of credit based on such invoices gets hit by the provisions of Rule 16 of the CGST Act, 2017. These Rules stipulate that one of the conditions to avail credit is that the buyer should have an invoice on which tax has been paid and he should have received the goods.

Availing of credit without receipt of goods is inadmissible and utilisation of such credit for actual regular supplies results in loss of revenue and financial accommodation. CBIC found unscrupulous traders utilising the GSTN System to create invoices, fake e-way bills showing movement of goods etc., to defraud the Revenue and the banking system. The perpetrators are not always easy to detect since the entities are registered across different States. Agents involved in fake invoicing are hard to catch since they are constantly on the move.

The primary reason why entities get into fake invoicing is because the system (prior to e-invoicing) permitted it. Though there are now a number of restrictions on claiming input tax credit, it is still possible to claim ITC without receipt of goods/services. Fake invoices tend to be more for services as no supporting documents such as e-way bill are needed.
It is a fact that the majority of taxpayers are being penalised for the shenanigans of a minority — a reality that GST taxpayers are slowly beginning to accept.

Source: thehindubusinessline.com – Mar 10, 2022

HOME

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Sustainability is now counted as major pillar of export business: AEPC

Apparel industry is aware that without sustainable supply chains, the fashion sector will become less viable and sustainability is now counted as one of the major pillars of export business, industry body AEPC said on Thursday.

Apparel Export Promotion Council (AEPC) Chairman Narendra Goenka said India offers to the world a complete value chain solution from farm to fashion giving it a competitive edge towards efficient implementation and monitoring of sustainability.

"The Indian apparel industry is very well aware of the alarming fact that without sustainable supply chains, the fashion industry will become less and less viable. Sustainability is now counted as one of the major pillars of apparel export business and a growth tool," he said in a webinar held on Wednesday.

Speaking at the event, Shubhra, Trade Advisor, Ministry of Textiles said that initiatives like PM-MITRA, under which seven mega textile parks will be set up across the country, would help in promoting sustainable growth of the sector and make the industry future ready.

India has recently launched Project SURE - Sustainable Resolution - a firm commitment from the industry to move towards fashion that contributes to a clean environment.

Indian brands have pledged to source/ utilize a substantial portion of their total consumption using sustainable raw materials and processes by 2025.

Source: business-standard.com– Mar 10, 2022

HOME

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Addressing uncertainty

Necessary changes in GST must be made in time

The completion of five years of goods and services tax (GST) in a few months will trigger a big structural change in the system. States were promised compensation against the shortfall in revenue with a growth assumption of 14 per cent for the first five years. With the completion of five years, the states will no longer be compensated. As noted by Union Finance Minister Nirmala Sitharaman this week, the compensation cess on GST will continue, but the proceeds will be used to repay the loans taken to compensate states for the revenue shortfall during the pandemic period. The compensation cess was not sufficient to adequately recompense the states for the shortfall in revenue collection due to the pandemic-induced disruption. The removal of compensation from the GST framework, which is expected to happen by design, will create significant uncertainty for the states, particularly at this point when economic activity is weak and states are expected to reduce their budget deficits.

GST was introduced with multiple objectives. Among other things, it was expected to reduce complications in the indirect tax system, contain tax evasion, and boost revenue and economic growth over time. However, it is clear that the GST system has underperformed and needs to be fixed to attain wider objectives. To be fair, both the Union and state governments have worked through the GST Council to improve the GST system over the years. Compliance seems to have improved, which has resulted in higher revenue over the past several months. However, overall revenue collection has underperformed, which has affected government finances, particularly at the Union level as states were being compensated. Now that the provision of compensation will end in a few months, state government finances would also come under pressure.

It has been argued by some states that the provision of compensation be extended. However, this would be difficult to implement because the cess will remain beyond June 2022, and will be used to repay the loan. Thus, to compensate the states for their revenue shortfall, additional cess might need to be imposed, which will further complicate the GST structure. The Council will, therefore, need to find more permanent ways to address the revenue issue. One of the reasons why revenue collection has underperformed is the premature reduction in rates. In this context, the group of state finance ministers is reportedly expected to recommend increasing the 5 per cent slab to 8 per cent, which is projected to increase revenue collection by Rs 1.5 trillion annually. The group of ministers in its report is also expected to recommend the removal of items from the exemption list, along with a reduction in the number of slabs. These are sensible things to do and will help take GST to the revenue-neutral level.

This GST Council would be well advised to make all the necessary changes in time to avoid uncertainty. A broader consensus, to be fair, will be needed to change the tax structure. The Council should also take this opportunity to review operational issues in the GST system to improve ease of filing, which will help boost compliance and revenues. The need for boosting tax revenue cannot be overstated at this stage. India's debt-to-gross domestic product ratio has increased substantially and the government needs to spend more to support the ongoing economic recovery.

Source: business-standard.com– Mar 10, 2022

HOME

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Goyal, Riester review India-France trade relations, discuss WTO matters

French Minister to meet representatives from tech companies in Bengaluru Commerce & Industry Minister Piyush Goyal and his French counterpart Franck Riester reviewed bilateral trade and investment relations and discussed ways to foster greater ease of doing business in a meeting in New Delhi on Thursday.

The two Ministers also discussed the on-going talks on a India-EU FTA and the negotiations at the WTO on curbing harmful fisheries subsidies and improving access to Covid-19 vaccines and therapeutics.
"With my Indian counterpart Shri Piyush Goyal in Delhi to take our bilateral relationship further, continue EU-India trade negotiations, and exchange views on the ongoing WTO negotiations on fisheries and vaccines," Riester tweeted after his meeting with Goyal.

Attracting investors

The French Minister, who is in India on a two-day visit, also met representatives of Indian industry and discussed ways in which France can become a more attractive destination for investors.

"Minister Franck Riester met Indian industry leaders & heard their views on how France can welcome more Indian companies. The Minister highlighted France's pro-business reforms, top European FDI destination status & its advantages as a gateway to EU market," French Ambassador to India Emmanuel Lenain tweeted.

The two Ministers stressed on the need for successfully negotiating the proposed India-EU FTA to give a further boost to bilateral trade and investments, a source following the matter told BusinessLine.

India-EU negotiations on the FTA has not yet been able to pick up pace because of lingering issues from the first phase of talks. Officials are, however, hopeful that talks would begin in full earnest soon.

"Riester and Goyal discussed WTO issues also, especially the on-going negotiations on curbing fisheries subsidies and ways in which access to Covid-19 vaccines and therapeutics could be improved," the source said.

The French Minister is also scheduled to go to Bengaluru, where he will visit Dassault Systemes, a company that provides businesses and people with collaborative 3D virtual environments to imagine sustainable innovations, according to a statement issued by the French Embassy in India on Wednesday.

He will visit the Indian company CENTUM Electronics, which has offices in France, providing precision micro electronics that are critical for applications in many sectors, including aerospace and defence.

Riester will meet representatives from French and Indian tech ecosystems, brought together by French Tech in Bangalore, which creates global connections for innovation, the release noted.

France is a significant trading partner with India in Europe, with total trade at $11 billion in 2019-20 which slipped to $9 billion in 2020-21 due to pandemic-related disruptions.

Source: thehindubusinessline.com– Mar 10, 2022

HOME

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Canada's trade minister to visit Delhi today to revive FTA talks

Canadian trade minister Mary Ng will be on a visit to India from March 10 to 13 to hold talks with commerce and industry minister Piyush Goyal, which will set the stage for the resumption of the negotiations for a free trade agreement (FTA). Both the ministers will hold the 5th India–Canada Ministerial Dialogue on Trade & Investment.

Various bilateral trade and investment issues will be discussed to bolster bilateral ties and economic partnership, including the FTA, formally called India-Canada Comprehensive Economic Partnership Agreement (CEPA).

Close on the heels of its free trade agreement (FTA) with the UAE, India has expedited the pace of talks with several partners — including members of the Gulf Cooperation Council (GCC), Australia, the UK and Canada — to firm up a raft of "fair and balanced" trade deals and enable domestic exporters to take advantage of a rebound in global growth. The second round of negotiations with the UK for an FTA is currently going on.

The negotiations are a part of India's broader strategy to sign "balanced" trade agreements with key economies and revamp existing pacts to boost trade. The move gained traction after New Delhi pulled out of the Beijing-dominated RCEP talks in November 2019.

FTAs are also central to India's efforts to raise its merchandise exports to as much as $1 trillion by FY27, against just $292 billion in FY21 when the pandemic hit global supply chains. However, the country is on course to beat a record export target of $400 billion this fiscal, as global demand for merchandise improved dramatically.

India's merchandise exports to Canada rose 25% until January this fiscal from a year before to $3 billion, while Canada's rose 10% to $2.6 billion. Major Indian exports to Canada include drugs and pharmaceuticals, iron & steel, marine products, cotton fabrics & readymade garments (RMG) and chemicals etc, while key Canadian exports to India comprise pulses, fertilizers, coal and crude petroleum, etc.

Source: financialexpress.com – Mar 10, 2022

HOME

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India likely to grow at 7.8% in FY23 with risk tilted towards downside, says Crisil report

Indian economy is expected to grow by 7.8 per cent in 2022-23, mainly driven by the government's drive to push infrastructure spending and likely increase in private capital expenditure, rating agency Crisil said on Thursday. The rating agency, however, cautioned that the ongoing Russia Ukraine war and rising commodity prices do pose a downside risk to the growth. The country is expected to register a growth rate of 8.9 per cent in the current fiscal ending March 31.

"Any potential upside due to the early end of a mild third wave of COVID-19 infections will be offset by the ongoing geopolitical strife stemming from Russia's invasion of Ukraine, which is creating a dampening effect on global growth and pushing up oil and commodity prices. The risks to growth are also tilted to the downside," it said.

Private consumption remains the weak link, owing to reduced direct fiscal policy support, Crisil Chief Economist Dharmakirti Joshi said while unveiling 'India Outlook, Fiscal 2023′. As for the average Consumer Price Index (CPI)-based inflation, he said, it will stay firm at 5.4 per cent next fiscal – if the price of crude oil averages USD 85-90/barrel – and takes into account the excise duty cuts announced last year. However, upside risks will build if the geopolitical strife prolongs, keeping oil and commodity prices higher for longer.

Interestingly, when the price of crude oil averaged USD 110/barrel between fiscals 2012 and 2014, inflation was in double digits. That situation is unlikely to repeat this time due to the relatively benign domestic prices of foodgrains following sumptuous agricultural output, and comparatively lower core inflation. During that period, he said, food and core inflation, which together have 86 per cent weight in CPI, had averaged 9.8 per cent and 8.6 per cent, respectively.

"We believe the fiscal policy will need to be deployed more aggressively than envisaged in the Union Budget for next fiscal. This can be done by increasing allocation for employment-generating schemes and food subsidy, and cutting duty on petroleum products," Joshi said. This can be a relief bridge for those most affected by the pandemic till such time the virtuous cycle of investment-led growth plays out in the labour market, and private consumption demand becomes self-sustaining, he noted.

The higher price of crude oil will widen India's current account deficit to 2.2 per cent in fiscal 2023, the report said, adding typically, a USD 10 increase in the price of crude oil raises the current account deficit to GDP ratio by about 40 basis points. The near-term impact of high oil prices on inflation, assuming a significant passthrough, will be more pronounced than on growth, it said, adding all bets are off if oil stays around or above USD 100/barrel for a prolonged period.

The ripple effects of higher commodity prices have been reflected strongly in the operating profitability of India Inc during past cycles. This time around, pass-throughs have been good and hence we expect the earnings before interest, tax, depreciation and amortisation (Ebitda) margin to sustain above 20 per cent for the second year in a row for the top 700 corporates (excluding oil and banking, financial services and insurance, or BFSI) this fiscal, as per the report.

The recovery next fiscal will be broad-based, supported by normalisation of volumes if geopolitical and other unforeseen events don't pose significant challenges, it said.

"Across consumption segments, recovery curves have been staggered and income sentiment will be the key driver. As things stand, we expect India Inc to see revenue growth of 10-14 per cent next fiscal," the report added.

While utilisation levels in legacy sectors do not support a rounded capex recovery, spending under schemes such as Production Linked Incentive (PLI) may result in industrial capex rising to above Rs 4-4.5 lakh crore on average in the medium term (through fiscal 2026) compared to Rs 3-3.5 lakh crore in the three years through fiscal 2020.

India's investment focus is now shifting towards green capital expenditure, with an expected spend of over Rs 2.85 lakh crore per annum over fiscals 2023 to 2030, accounting for nearly 15-20 per cent of total investments – into the infrastructure and industrial sectors – per annum, it said.

This will further help push a supply-driven recovery for the economy as a whole, it added.

Source: financialexpress.com – Mar 10, 2022

HOME

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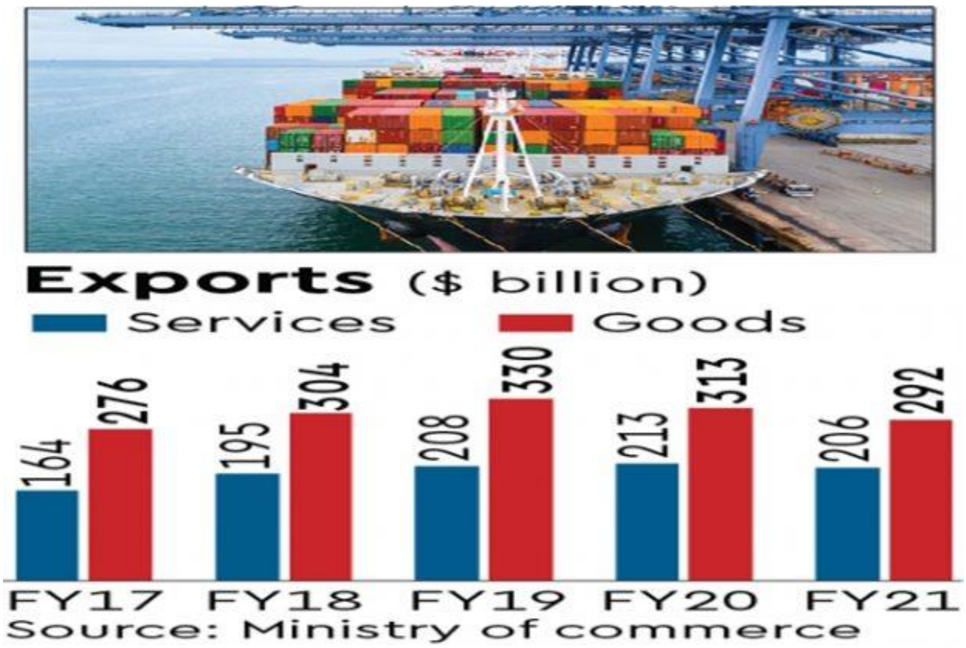
Manufacturing needs greater hand-holding now than services: Economists

As India negotiates with other countries to hammer out a raft of free trade agreements (FTAs), analysts say New Delhi's policies shouldn't be driven by dogmas of any particular sector, but its focus must be on a judicious mix of interventions for both manufacturing and services.
Of course, some others feel that services exports need to be prompted more vigorously.

The debate on whether services should get precedence over manufacturing in the formulation of export strategy was reignited as, in a recent interview to a media outlet, former RBI governor Raghuram Rajan felt exports of information technology-enabled services, along with professional services such as legal, medicine, accounting, should be the focal point of India's trade strategy and not manufacturing.

Nevertheless, the economists that FE spoke to said manufacturing needs "greater hand-holding" at the moment, as the country has some inherent strength in services. They were also unanimous in their clamour for removing structural bottlenecks — including a sharp cut in logistics costs — and negotiating for greater access to advanced markets to spur manufacturing. At the same time, they conceded that policymakers must come out with facilitative frameworks to widen the services export portfolio, the bulk of which is still driven by just IT and ITeS.



The share of the manufacturing sector in the country's gross domestic product (WTO) has remained stagnant at about 15% for three decades now despite successive government's declared policy intent to raise it to about 25%. Meanwhile, the services sector has continued to grow and captured the share ceded mainly by agriculture and now accounts for about 60% of the economy. India last month clinched an FTA with the UAE and is in talks for such pacts with Australia, the UK, the EU, Canada, the GCC nations and Israel.

Pronab Sen, eminent economist and former chairman of the National Statistical Commission, said India's services sector has grown despite limited support from the government. So, it just needs to "keep that window open" and facilitate further growth without resorting to obstructive policy interventions. "At the same time, greater focus must be on manufacturing, as it has very strong backward linkages with immense employment potential. For one direct job in manufacturing, 3-4 employment opportunities are created indirectly due to backward linkages. Moreover, the issue with services is that while India wants greater access in Mode 4 (free movement of skilled professionals across the borders) in its trade negotiations, other countries are not willing to give it, saying it will clash with their immigration laws. Also, if the government has announced so many production-linked incentive schemes, it must create opportunities for companies to export the products as well."

Biswajit Dhar, professor at the Centre for Economic Studies and Planning of JNU, said: "India's trade negotiations must include a mix of both goods and services and must vary, depending on the partners. Services exports have been driven by IT and ITeS services over the years. While India has to further consolidate its position in these services, it has to scale up exports in other areas, including in education and health."

Noted trade economist Nagesh Kumar said India already has certain strength in services, given the availability of skilled workforce at affordable cost. But in manufacturing, it lags potential in a big way and needs more policy interventions. "If India can get barriers in access to critical markets in manufacturing exports removed through trade agreements, it will certainly help. For instance, in textiles and garments, Bangladesh is doing pretty well because of its duty-free access to large markets like the EU and the US, given its status as a least developed country."

Prahalathan Iyer, chief general manager (research & analysis) at Exim Bank, said services exports are growing faster than those of manufactured products and have great potential. "Thus, it would be appropriate to put both services and merchandise exports together on the negotiating table. With regard to the forthcoming negotiations, particularly with the developed countries like the EU, the US, Australia etc, we need to have a comprehensive approach that should also include investments, so that India could become a manufacturing hub for the world," Iyer said.

Source: financialexpress.com – Mar 11, 2022

HOME

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