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INTERNATIONAL NEWS

China factory activity sees shock contraction on Covid-19 outbreaks

China's factory activity unexpectedly contracted in July, reversing earlier economic momentum as sporadic Covid outbreaks weigh on the recovery.

The official manufacturing purchasing managers index fell to 49 from 50.2 in June, the National Bureau of Statistics said Sunday. Economists had expected a reading of 50.3, according to the median estimate in a Bloomberg survey of economists.

A reading above 50 indicates expansion from the previous month, while anything below indicates contraction.

The non-manufacturing gauge, which measures activity in the construction and services sectors, decreased to 53.8 from 54.7 the previous month. That was below the consensus forecast of 53.9.

China's economic recovery has been fragile as the government relaxes curbs with easing outbreaks, but then tightens them again wherever the virus pops back up. A flareup in the southern manufacturing hub of Shenzhen impacted factory operations there, raising concerns about disruptions to global supply chains.

What Bloomberg Economics Says...

China's recovery is sputtering after only a short spurt in the wake of Shanghai's reopening. A surprise drop in July's official manufacturing PMI into contraction more than reversed June's rise -- underlining an abrupt loss of momentum. Scattered Covid-19 outbreaks and fresh strains in the property sector are clearly taking a toll on the economy.

The data were grim across the board. The pullback in manufacturing was driven by weakening supply and demand (external and domestic) as well as deteriorating sentiment. The service sector -- which has more ground to recoup in the recovery -- saw its rebound lose steam, despite a policy boost that bolstered construction activity.

China's economy in the second quarter grew at the slowest pace since the initial Wuhan outbreak, and economists expect full-year growth could reach just 4% or below as Covid outbreaks and restrictions, and an ongoing slump in the property market, continue to weigh on activity.

"The manufacturing purchasing managers index being under 50 shows China's economic recovery is unstable yet," Bruce Pang, chief economist at Jones Lang LaSalle Inc., said Sunday. "The challenges to China's GDP growth in the third quarter could be bigger than expected earlier."

New orders and new export orders for both manufacturing and non-manufacturing all contracted in July. New export orders for manufacturing had been below 50 for more than a year, but the index for new orders was above 50 in June.

Source: business-standard.com– Jul 31, 2022

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Germany's GDP stagnant in Q2 2022

Germany’s gross domestic product (GDP) in the second quarter (Q2) this year was unchanged compared with the first quarter after adjustment for price, seasonal and calendar variations.

The economy was supported mainly by household and government final consumption expenditure, whereas the balance of exports and imports had a downward effect on economic growth.

The difficult framework conditions in the global economy, including the COVID-19 pandemic, interruptions in supply chains and the war in Ukraine, are clearly reflected in the short-term economic development.

In the first quarter, the German economy had grown by a revised 0.8 per cent.

GDP in Q2 2022 was up a price adjusted 1.5 per cent compared with Q2 2021, when the German economy had been markedly affected by the consequences of the third wave of the pandemic, according to the country’s statistical office.

GDP growth in Q2 2022 was 1.4 per cent year on year after adjustment for price and calendar effects. The GDP in Q2 this year was still 0.2 per cent lower than in Q4 2019, the quarter before the COVID-19 crisis.

Source: fibre2fashion.com– Jul 31, 2022

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USA: Inflation Pinched Consumer Clothing and Footwear Spend in June

A key metric that the Federal Reserve closely monitors indicates that inflation continues to rise at a searing rate, according government data published Friday.

With demand squeezed by inflationary, U.S. consumer spending on clothing and footwear fell for the second straight month in June, declining a seasonally adjusted 0.67 percent to $491.96 billion, the Bureau of Economic Analysis (BEA) reported Friday in its Personal Income and Outlays survey.

Spending on furnishings and durable household equipment, generally considered more of a priority of consumers' disposable income, fared better, increasing 0.52 percent in June–the fourth straight monthly gain–to $487.29 billion.

The BEA data was generally consistent with the June retail sales report from the U.S. Census Bureau, which showed clothing and clothing accessory store sales were down 0.4 percent month over month seasonally adjusted, but up 0.2 percent unadjusted from the same month last year.

Similarly, furniture and home furnishings store sales were up 1.4 percent for the month and rose 4.8 percent from June 2021.

"Inflation has consumers modifying their spending behavior and prioritizing essentials like food, energy and back-to-school items," Matthew Shay, president and CEO of the National Retail Federation, said when June retail sales were released earlier this month.

"Unfortunately, modified consumer behavior won't be sufficient to offset persistent price increases. Other policy measures like removing China tariffs, enacting smart immigration reforms and investing in supply chain resiliency are needed to lower costs for American families and put much-needed dollars back into their pockets."

The BEA report revealed that overall personal consumption expenditures (PCE) rose 1.1 percent, or $181.1 billion, reflecting increases of $94.9 billion in spending for goods and $86.2 billion in spending for services.

Within goods, gasoline and other energy goods was the leading contributor to the increase, while in services, the largest contributors were spending for health care and for housing and utilities.

The PCE price index rose 1 percent for the month. The core PCE price index, excluding food and energy, increased 0.6 percent, while real PCE, adjusted for inflation, was up 0.1 percent overall and in goods and services.

BEA said within goods, an increase in durable goods, led by motor vehicles and parts, was partly offset by a decrease in nondurable goods, led by food and beverages. Within services, increases in health care, food services and accommodations were the leading contributors.

From the same month a year ago, the PCE price index for June increased 6.8 percent, according to BEA. Prices for goods were up 10.4 percent and prices for services increased 4.9 percent. Food prices rose 11.2 percent and energy prices jumped 43.5 percent. The PCE core price index was up 4.8 percent year over year.

Disposable personal income (DPI), an important gauge for retail spending, increased 0.7 percent, or $120.4 billion, in June, while real DPI decreased 0.3 percent.

Personal income increased 0.6 percent, or $133.5 billion, in June. BEA attributed this to increases in compensation, led by private wages and salaries, and proprietors' income.

Personal outlays rose $186.5 billion for the month. Personal saving was $944.5 billion in June and the personal saving rate–personal saving as a percentage of disposable personal income–was 5.1 percent.

Source: sourcingjournal.com– Jul 29, 2022

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Turkiye's apparel exports rise 16.43% in Jan-June 2022

Apparel exports from Turkiye increased by 16.43 per cent year-on-year in January-June 2022, according to the data from the Turkish Statistical Institute and the country's ministry of trade. During the first six months of the current year, Turkiye exported apparel worth $9.818 billion, compared to exports of $8.432 billion during the same period of 2021.

Category-wise, exports of knitted and crocheted clothing and accessories (HS chapter 61) earned $5.443 billion in January-June 2022, registering a growth of 12.76 per cent over $4.827 billion earned during the same months of the previous year.

Exports of non-knitted apparel and accessories (HS chapter 62) were valued at $4.374 billion, showing an increase of 21.4 per cent compared to $3.604 billion exports made in January-June 2021.

Meanwhile, Turkiye's imports of cotton, cotton yarn and cotton textiles (HS chapter 52) increased by a sharp 65.4 per cent to $2.790 billion over $1.686 billion in the first six months of 2021.

Turkiye's total export of knitted and crocheted clothing and accessories (HS chapter 61) and non-knitted apparel and accessories (HS chapter 62) were valued at $18.294 billion during year 2021.

Source: fibre2fashion.com– Aug 01, 2022

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China, various African countries sign cooperation pacts worth $170 mn

China and various African countries recently signed 14 agreements worth around $170 million at the Promotion Conference for China (Hunan)-Africa Economic and Trade Cooperation held in Changsha in central China's Hunan province. The deals covered areas like regional cooperation, strategic agreement, project financing, investment cooperation and trade procurement.

Six Chinese provinces also jointly signed an agreement to advance economic cooperation and trade exchange with African countries at the conference, which also promoted the Pilot Zone for In-depth China-Africa Economic and Trade Cooperation, official Chinese media reported.

Twenty nine diplomatic envoys from 15 African countries, including Algeria, Ethiopia, Angola, Ghana, and Kenya, attended the event.

Source: fibre2fashion.com– Jul 31, 2022

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Vietnam's CPI goes up by 2.54% YoY in 1st 7 months of 2022

Vietnam's July consumer price index (CPI) grew by 0.4 per cent over June, contributing to a growth of 2.54 per cent year on year (YoY) in the first seven months this year, according to the General Statistics Office (GSO), which recently said the July CPI increased by 3.59 per cent from last December and by 3.14 per cent from a year earlier.

Ten out of the 11 categories of main consumer goods and services witnessed price hikes, but prices in the transport category fell by 2.85 per cent due to declines in domestic fuel prices.

In the first seven months, the core inflation was up by 1.44 per cent YoY.

The core inflation in July inched up by 0.58 per cent month on month and 2.63 per cent YoY. During the first seven months this year, it rose by 1.44 per cent from the same period of 2021.

Source: fibre2fashion.com– Jul 31, 2022

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Cotton dominates US apparel imports with 49.22% share: OTEXA

Imports of cotton apparels continue to dominate the US' apparel imports with 49.22 per cent share in overall US apparel import values.

As per an OTEXA report, the US imported apparels worth $40.94 billion during the January to May 2022 period, of which $20.15 billion is shared by cotton apparels.

The share of MMF apparels was $18.89 billion – 46.14 per cent of the total import values.

The data further indicates that $1.09 billion was spent to source apparels made from silk and vegetable fibres, while wool apparels' import was worth US $ 801.25 million.

Vietnam remains the top destination for the US apparel buyers for cotton apparels as the country shipped US $ 3.17 billion worth of apparels made from cotton to USA in the said period.

Bangladesh and China followed Vietnam with $2.91 billion and $2.63 billion worth of cotton apparel shipment to the US. India's cotton apparel export to the US valued $2.02 billion in the same period.

Source: fashionatingworld.com– Jul 30, 2022

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Sri Lanka exports rise 20-pct in June 2022 amid forex shortages

Sri Lanka's merchandise exports in June 2022 grew 20 percent from a year earlier to 1,208 million US dollars, driven by apparel and rubber products the island's export promotion office said.

Sri Lanka is currently in the worst currency crisis in the history of the island's soft-pegged central bank with the rupee collapsing from 200 to 360 in a failed attempt to float the currency (suspend convertibility) with a surrender rule in place.

At 360 the surrender rule and dollars sales continue.

In the six months to June exports were up 12.4 percent to 6.4 billion US dollars.

Exports of Apparel & Textiles grew 36.85 percent to 566.78 million dollars in June 2022.

Export earnings from Rubber and Rubber Finished products have increased by 7.18 percent to 102.36 dollars with tyres up 15.2 percent.

Coconut products rose 30.15 percent, fiber products 1.63 percent and shell products 21 percent.

Export of Seafood increased by 130 percent to 36.39 million dollars.
Tea exports in June fell which was 12 percent of the total was down 5.8 percent to 116.49 million US dollars.

The top buyer of Sri Lanka goods was the United States accounting for 323 million US dollars, followed by the UK 95 million US dollars and India 80 million US dollars.

Source: economynext.com– Jul 29, 2022

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Bangladesh: Apparel exports see nearly 14% growth in July

Bangladesh's apparel exports have raked in around $2.78 billion with nearly 14% year-on-year growth in the first 27 days of July, while the sector is bracing for around 30% shortage of work orders in the coming months.

The sector enjoyed a whopping 1,128% growth year-on-year in a single day during the period, but the shipment also witnessed zero export on 10 July, said sources at the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

The BGMEA came up with the calculation based on the National Board of Revenue data as the Export Promotion Bureau (EPB) is yet to make the official announcement.

Earlier, BGMEA President Faruque Hassan predicted that the sector will perform a double-digit growth in July-August compared to the same period last year.

Industry leaders fear that if the global economy does not recover soon from the economic slowdown caused by the ongoing war between Russia and Ukraine, apparel exports may fail to achieve the last fiscal year's record receipts amounting to $42.2 billion. The government has set a target to earn $46 billion through RMG exports in the current fiscal year.

Bangladesh's major export destinations – the United States and European countries – are now facing a 40-year high inflation.

In FY22, readymade garment shipments amounted to $42.2 billion with about 35% year-on-year growth, according to data published by the EPB.

Sparrow Group Managing director Shovon Islam told The Business Standard that apparel exports in July came down significantly because of Eid holidays – a number of exporters completed shipments of their goods in June ahead of their fixed schedules, considering the vacation.

"Issuance of utilisation declaration certificates by the BGMEA also dropped about 15%, which will be reflected in coming months' export earnings," he also said.

USA buyers, such as Walmart and Target, officially announced that they will procure 30% less for the spring season as they have huge unsold inventory, he added.

For the first time, exports to a single country – the USA – are crossing $10 billion. Of this $10 billion, $9 billion came from the RMG sector, according to the EPB.

Bangladesh may lose a share in the US market in FY23 as its economy is facing inflationary pressure, Shovon Islam noted.

Spring season apparels are scheduled to be produced in September-December, he said, adding that other buyers, including H&M, Inditex, American Eagle, are also placing less volume of orders as their stores saw less demand for apparels.

Shovon Islam hoped the next summer season may bring good news for apparel exporters.

Last year, apparel exports got about $4 billion in additional value owing to high cotton prices, but currently, cotton prices are going down, which may be reflected in annual export value, he added.

"Overall exports might fall 20% compared to last fiscal year's value or reach $34 billion by the end of FY23," said the Sparrow Group managing director.

Fazlul Hoque, managing director of Plummy Fashion, said the apparel sector will face challenges to reach its last fiscal year's value as the industry is witnessing a slowdown in orders.

It will bring a very tough time for every exporter, he also said, adding that those are expanding capacity, riding on the higher volume of orders last year, may face a shortage of orders.

Every exporter should focus on diversifying products and exploring new markets and strengthening their marketing capacity, he noted.

"We are in talks with a Brazilian buyer, which is a new market for us," the managing director of Plummy fashion noted.

Team Group Managing Director Abdullah-Hil-Rakib said it is very tough to make any prediction due to the global energy crisis that has had effects on everything, from supply chain to freight costs to raw materials to end products demand.

"The crisis is bigger than the pandemic," he also said, adding that if the global economic situation does not improve by October this year, many factories might cut 50% of their capacity.

The government may have to provide factories with another stimulus support to prevent termination of workers," said Abdullah-Hil-Rakib, also a director of BGMEA.

Source: tbsnews.net– Jul 30, 2022

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Bangladesh: Import of apparel raw materials surges

The import of basic raw materials used to produce garment items in Bangladesh surged in the first six months of 2022 on the back of a rise in demand in the export markets, even contributing to the dollar crisis in the country.

The imports of yarn, cotton, knitted and woven fabrics rocketed in such a way that their combined value in the January-June period this year almost equalled that of the entire 2021.

It came after global retailers and brands poured orders after they received an uninterrupted supply of goods from Bangladesh even during the peak of the coronavirus pandemic, which brought the global supply chain to a standstill.

Textile millers and garment exporters also bought raw materials in additional quantities thanks to a brighter outlook of the garment trade because of the global recovery from the severe fallout of Covid-19. But the Russia-Ukraine that broke out in February has put a damper on the projection.

Textile millers purchased yarn worth $2.66 billion in January-June, accounting for 76 per cent of the total import value of $3.5 billion in 2021, data from the Bangladesh Textile Mills Association (BTMA) showed.

Knitters bought $1.29 billion worth of fabrics in the first half of 2022 from international sources, more than three-fifth of the $2 billion they spent throughout last year.

Another $2.21 billion worth of woven fabrics was imported in the first half of this year, representing nearly 70 per cent of the item procured in 2021.

Millers imported raw cotton worth $2.26 billion in January-June of 2022. It was $3.8 billion in the last calendar year.

Currently, local spinners can supply nearly 90 per cent of the raw materials needed for the export-oriented knitwear sector and 40 per cent to the woven sector.

Mohammad Hatem, executive president of the Bangladesh Knitwear Manufacturers and Exporters Association, said the import value of raw materials surged in January-June because of the spike in their prices in the international markets.

"The prices of yarn, fabrics and cotton have almost doubled."

The lower pressure of gas turned acute in January, February and March this year. As a result, textile millers were not able to run their factories in full swing to produce yarn and fabrics.

The energy situation forced many garment manufacturers to import fabrics and even knitted fabrics from China to meet the increased demand.

Mohammad Ali Khokon, president of the BTMA, said cotton imports rose sharply in January-June because of the congestion that hit international ports last year as global economies recovered from the pandemic.

The cotton that was supposed to arrive at the Chattogram port in December last year came in January or February because of the delay caused by container shortage globally, he said.

"As a result, cotton import in terms of both value and volume increased in the January-June half."

"The increased price and higher volumes drove up raw materials imports," said Mustafizur Rahman, a distinguished fellow of the Centre for Policy Dialogue.

Cotton price escalated to $3.48 per kilogramme in the April-June quarter this year, up 71.48 per cent from $2.03 in the identical period a year ago, commodities price data of the World Bank showed.

Various studies suggest an investigation can be conducted to see whether money is being siphoned off through under-invoicing and over-invoicing during exports and imports, said Prof Rahman.

Because of the blistering imports, which include industrial raw materials, capital machinery, fuel and edible oil, and wheat, Bangladesh's foreign currency reserves have slipped below $40 billion, sending the taka to a new low against the US dollar amid a shortage of the American greenback.

M A Razzaque, research director of the Policy Research Institute, accredited higher global inflation, the increase in raw materials prices and stockpiling of goods fearing supply disruption for the surge in the import value.

However, the gloomy outlook on Europe and the US means the export boom may not continue in the current fiscal year, he said.

Garment shipment clocked 35.47 per cent year-on-year growth in the last fiscal year that ended in June, netting $42.61 billion. Of the sum, $23.21 billion came from knitwear shipment, up 37 per cent and $19.39 billion from woven item exports, an increase of 34 per cent, data from the Export Promotion Bureau showed.

Although Bangladesh has attracted higher volumes of orders in recent months, it has not lived up to its expectation because of the war. Still, the country will be able to reach its garment export target of nearly $47 billion set for the current fiscal year, according to Hatem.

"The demand will not decline despite the war since Bangladesh produces basic and semi-high-end garment items. These products will always be high in demand."

Source: tbsnews.net– Jul 31, 2022

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Bangladesh:Make sure RMG makers use local man-made fibre: BTMA

The country's primary textile millers called on the government to provide cash incentive for exporters of readymade garment (RMG) items made from man-made fibre (MMF) only after ensuring that they use locally produced yarn and fabric.

They argued that such a move would help develop the backward linkage industry in the country and achieve higher realisation of export proceeds.

Bangladesh Textile Mills Association (BTMA), in a letter to the commerce minister on July 16, made the plea after the ministry backed the RMG makers' demand that they be provided five per cent cash incentive on exports of non-cotton apparel items.

In response, the commerce ministry has recently written to the finance ministry about this issue. Welcoming the move, the BTMA in the letter said a 5.0 per cent cash incentive will help increase RMG exports and ensure the growth of overall textile and clothing sectors.

"Larger share of exports of non-cotton RMG items is made using the imported fabrics and thus little value addition takes place, resulting in low foreign currency retention against exports," BTMA president Mohammad Ali Khokon said in the letter.

With the rise in global demands for MMF or non-cotton based garments, the BTMA spinning millers are producing viscose, polyester, various filament yarn and blended yarn using the imported MMF and making 'deemed exports' to local RMG exporters, he said.

Besides, a good number of MMF and its raw materials pet chips (textile grades) producing mills are being set up in the country to meet local MMF requirements, he said, expressing hope that these units will come into production by the end of next year.

The previous 25 per cent cash incentive helped develop a strong backward textile linkage industry and now the industry meets 85 per cent and 40 per cent of the demands for knitwear and woven fabrics respectively, Mr Khokon noted.

The country fetched US$23.21 billion and US$19.39 billion from exports of knitwear and woven items respectively in the just concluded fiscal year. He urged the government to provide a 5.0 per cent additional cash incentive on exports of RMG produced from MMF considering the three stages production-yarn from MMF, fabric from yarn, and then RMG.

When asked, Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) executive president Mohammad Hatem citing a central bank circular said the garment exporters are receiving 4.0 per cent cash incentive provided with raw materials like yarn and fabric sourcing from the local market.

The BTMA has slightly changed their demands, he added.

"Local millers can meet less than 1.0 per cent of domestic demands for such man-made fabric whereas the global demands for such garments replaced the same for cotton-based items in recent years," he said.

About 2.5 million spindles are being set up and it would take at least two to three years to come into production, he said, raising a question as to how the situation could be managed in the meantime. Incentives should be given on MMF garment exports to encourage local exporters to go for this segment irrespective of imported yarn and fabric, he noted, adding that additional two or three per cent could be added later for the local raw material sourcing.

According to the industry insiders, with the increase of earnings through RMG exports over the decades, the consumption of cotton has also been on the rise and still the majority of the exportable RMG items are based on cotton.

The import of MMF like polyester staple, viscose and tencel is on the rise following the rising demand amid changes in the global fashion trend, they added. According to BTMA, some 0.15 million tonnes of MMF were imported last fiscal year while about 50 local millers partially produce such items.

Source: thefinancialexpress.com.bd– Jul 31, 2022

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Pakistan: Weekly Review: Cotton spot rate increases by Rs1200

Due to increase in the exchange rate of dollar the spot rate of cotton witnessed an increase of Rs 1200 per maund. Bullish trend also prevailed in the international cotton markets. Rains may cause minor damage to cotton crop. All Pakistan Textile Mills Association and Ministry of National Food Security and Research call for evolving consensus to pull economy out of crisis.

According to the Crop Reporting Services Department there is a 16.1% increase in cotton sowing in Punjab, whereas cotton sowing area in Sindh witnessed a decrease of about 13%.

A bullish trend prevailed in the local cotton market due to the high exchange rate of US dollar. Almost all cotton-producing areas of the country are under the spell of rains, as a result of which there is mud in the fields.

The picking of cotton is decreasing and the quality of cotton is also affected, but due to the increase in the rate of dollar, the import of cotton is also becoming more expensive, so the spinning mills are forced to buy low quality cotton at high prices. Demand and prices of cotton yarn are sluggish. Some mills are exporting cotton yarn and textile products due to increase in the rate of dollar, but its quantity is low.

The price of cotton fluctuated by Rs 17,000 per maund in two months since the beginning of the new season. The rate of cotton was Rs 22,500 to Rs 23,000 per maund at the start of the season which after decreasing reached at the lowest level of Rs 13,000 to 13,500 per maund before Eidul Adha. However, afterwards it increased by Rs 7,000 per maund and reached at the highest level of Rs 20,000 per maund due to increase in the rate of dollar and rains.

In the same way, fluctuation continued in the rate of Phutti during the last two months and there was uncertainty and chaos in the market.

During the week under comment, there has been an extraordinary increase in the price of cotton, despite the quality not being suitable the price of cotton is increasing as demand of cotton is high.

The rate of cotton in Sindh is in between Rs 18,500 to Rs 19,200 per maund. The rate of Phutti as per quality is in between Rs 4500 to Rs 6500 per 40 kg.

In Punjab province, the price of cotton was Rs 19,800 to Rs 20,200 per maund, and the price of Phutti was Rs 8,500 to Rs10,000 per 40 kg.

Due to rains in Balochistan province, only three ginning factories are running there, partially. The price of cotton was in between Rs18,500 to Rs 19,000 per maund and the price of Phutti was Rs6,500 to Rs9,000 rupees per 40 kg.

The Spot Rate Committee of Karachi Cotton Association increased the spot rate by Rs1200 per maund and closed the spot rate at Rs19200 per maund.

Naseem Usman, Chairman of Karachi Cotton Brokers Forum, said that there is a tendency of increasing the price of cotton in the international cotton markets. The rate of Future Trading of New York cotton after increasing reached at 96.74 US cents per pound. According to the USDA's weekly export and sales report, sales for 2021-22 were 4,000 bales, significantly lower than last week. Vietnam took the first place by purchasing 6,400 bales. Ecuador came in second with 700 bales. Japan was third with 400 bales.

As many as 55,700 bales were sold for 2022-23. Vietnam was on number one with by 26,000 bales. Turkey bought 8800 bales and came second. Malaysia bought 6,600 bales and came third. Bangladesh bought 4,000 bales and stood at the fourth position.

Pakistan bought 3100 bales and stood at the fifth position.

Naseem Usman told that the sowing of cotton crop 2022-23 season in Punjab is at final stage whereas sowing in Sindh has been completed. According to the first estimate report released by Crop Reporting Service Department Punjab, the cultivated area of cotton recorded at 1.485 million hectares which comprises 81.5 % of target and about 16.1 % higher than previous year.

However, sowing area in Sindh was registered at 0.517 million hectares comprising 80.8 % of the target and about 13.0 % less than previous year. Total cultivated area of both provinces placed at 2.002 million hectares which shows 81.4 % against target and an increase of 6.9 % as compared to last year.

The recent monsoon rains will have no negative impact on overall agriculture production of major Kharif crops including cotton, sugarcane, rice and maize but agriculture experts warn if rains continue into next week it will harm the cotton crop in the country.

A senior official of Ministry of National Food Security and Research (MNFS&R) and an agriculture expert said that the ongoing rains would have positive impact on both high delta Kharif crops including sugarcane, rice and maize and low delta Kharif cotton. If heavy rains continue in the cotton belt it would have a negative impact on its output as rain causes various diseases in cotton crop.

They said that large amount of standing water for more than 24 to 48 hours is not beneficial for the cotton crop.

Dr Khalid Abdullah, Cotton Commissioner of MNFS&R told Business Recorder that recent rains would not affect cotton crop as currently crop is at its vegetative growth stage but in case rains persist, then it would negatively impact on the cotton crop.

Federal Committee on Agriculture (FCA) during its previous meeting held on April 1, fixed 11 million bales of cotton production target from an area of 2.5 million hectares for year 2022-23.

The meeting also fixed 8.6 million tons production target for rice over an area of 3.1 million hectares. The FCA fixed the production target of sugarcane for year 2022-23 at 78.6 million tons from an area of 1.2 million hectares.

All Pakistan Textile Mills Association (APTMA) on Friday urged all political leaders and policymakers to develop a consensus on how to navigate from the situation of extreme distress and pull the economy out of current downward spiral.

Chairman APTMA Rahim Nasir said political instability is a serious impediment to economic progress. “Not only does it shorten policymakers’ horizons leading to suboptimal short-term macroeconomic policies, but it is also the cause of frequent policy U-turns and leads to non-completion of ongoing projects,” Nasir said.

“Stability and consistent policy implementation are crucial for economic growth and for the export sector to thrive and contribute dollar earnings to stabilize the balance of payments for a sustainable economic outlook.”

Source: brecorder.com– Aug 01, 2022

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NATIONAL NEWS

Import tariffs rise again in 2021 on renewed push for local manufacturing

Reversing a slide witnessed in 2020, India's average applied import tariff rose to 18.3% in 2021 from 15% in the previous year. This reflects a return of duty hikes that had marked India's push for import substitution through self-reliance at a time when key economies, especially the US and China, have exhibited protectionist tendencies.

Similarly, after a second straight year of fall through 2019, India's trade-weighted average tariff—total customs revenue as a percentage of overall import value—also rose to 12.6% in 2020 from 7% in the previous year, according to the latest data sourced from the World Trade Organization (WTO). To be sure, India's average applied tariff is still well below the bound rate of 50.8%–the level approved for it by the WTO.

Given that the government has, in recent months, raised imports duties on a range of products, including gold, umbrellas, headphones and earphones and smart meters—this year, the applied tariff is expected to remain elevated in 2022 as well on a net basis, factoring in duty cuts on a number of other products, said analysts.

India's import tariff (simple average), which stood at 13.5% in 2014, started rising from 2017 and hit 17.6% by 2019. It dropped sharply to 15% in 2020 before rising again in 2021 in response to a series of duty hikes (in sectors like electronics, automobiles and agriculture) to contain a current account deficit and promote local manufacturing.

India's tariff increase distinguishes it from other key economies that have been resorting to trade "protectionism by stealth" by erecting huge non-tariff barriers to discourage imports that they deem undesirable or non-essential.

However, since these economies (mainly advanced nations such as the US and the EU, and some developing ones like China and South Korea) usually keep their tariffs low, they manage to mask their trade protectionism better than India.

While the applied tariff (simple average) on farm products rose to 39.2% in 2021 from 34% in the previous year, industrial tariff inched up to 14.9% from 11.9%, showed the latest data. Similarly, based on trade-weighted average, tariff on farm items jumped to 63.3% in 2020 from 32.5% in 2019, while industrial tariff rose to 9.4% from 5.8%. These tariffs are meant for imports from countries to which India has accorded the most-favoured nation (MFN) status, in accordance with the WTO norms.

Following a surge in its crude oil import bill in 2018, New Delhi had targeted "non-essential imports" to curb pressure on its current account. It again resorted to increases in customs duties on scores of products in 2019 and in 2021 to prepare the way for its Aatmanirbhar initiative amid a trade war between the US and China and also Beijing's unreliability as a supplier in the wake of the Covid outbreak.

The tariff increase is part of the broader effort to promote domestic manufacturing, which, in turn, is expected to curb imports and boost exports. It's also aimed at targetting the dumping of low-grade items through the tariff route (China has been the biggest supplier of sub-standard products to India). A sustained drop in imports will also help the country lower its trade imbalance, which, some officials reckon, will not just ease pressure on its current account but boost its GDP growth as well. Economists, however, have been critical of New Delhi's move to undermine liberalisation, achieved assiduously over the years since the 1990s.

Former vice-chairman of Niti Aayog Arvind Panagariya has already cautioned that the duty hikes can be counter-productive. No major economy has grown 8-10% without opening up its market and India needs to bring down its industrial tariff to at most 10%, he has argued.

In a paper with Shoumitro Chatterjee in 2020, former chief economic advisor Arvind Subramanian said India was turning inward. "Domestic demand is assuming primacy over export-orientation and trade restrictions are increasing, reversing a 3-decade trend," the paper said. India still enjoys large export opportunities, especially in labour-intensive sectors such as clothing and footwear. "But exploiting these opportunities requires more openness and more global integration," the paper argued. Analysts have also pointed out duty hikes have been mostly unsuccessful in containing imports, especially from China.

Domestic industry, meanwhile, clamours for more protection, arguing that in the absence of credible structural reforms to bring down its costs (including costs of logistics, wage, electricity and credit) and provide it a level-playing field, allowing increased foreign competition is patently unfair. Reforms to boost competitiveness of the economy haven't been undertaken since liberalisation as they should have, it stresses. Bolstering competitiveness not just enables a country to improve its exports but also reduce costly imports.

As pointed out in a 2016 report by HSBC, India's domestic bottlenecks explain 50% of the slowdown in overall exports (remaining the biggest threat to its outbound shipments), followed by world growth (33%) and the exchange rate (just 17%).

Source: financialexpress.com– Aug 01, 2022

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India must step up trade engagement with neighbours

South Asia has unfortunately been a diminishing priority focus for India, accounting for $40 billion or 3.8% of its global trade in FY22. In sharp contrast, China has notched up 1.6-times larger trade volumes of $62 billion in 2021 in the region according to UN trade statistics. That the dragon trades more with Bangladesh, Sri Lanka and of course Pakistan is a painful reminder to India of its failure to deepen regional integration. But there is a vast upside potential in this regard as trade within South Asia is one of the lowest in the world.

India's diminishing interest, if not influence, in the region is a consequence in large part due to its tensions with Pakistan. Islamabad has for long denied most-favoured-nation status to India's goods. India, too, withdrew MFN status to Pakistan in February 2019 after the Pulwama terror attacks. MFN status ensures non-discriminatory trade between partner countries.

Due to its long-standing problems with Pakistan, India has increasingly preferred regional groupings like BIMSTEC than SAARC. Most neighbours also resent India's dominance, which has only deepened as they have registered huge trade deficits totalling $29 billion in FY22. India must engage more strongly with South Asia as most nations are facing balance of payments problems with reduced foreign exchange buffers to purchase essential imports like food, fuel and other items.

As many as four of them have approached the IMF for assistance, the latest being Bangladesh to cope with the mounting pressure on their economies. India has so far extended $3.5 billion to crisis-ridden Sri Lanka.As Nepal has restricted non-essential imports, India's exports have declined by 13.2% during April-May this fiscal. Generous lines of credit – or soft loans provided on concessional interest rates–enable neighbours to meet their requirements.

India has so far extended 37 lines of credit (LoCs) worth $14.27 billion covering 162 development projects to five South Asian neighbours. Nepal is getting the maximum number of LoCs, followed by Myanmar, Bangladesh, Sri Lanka and Maldives. These projects are mostly for building roads, bridges, waterways etc like the Greater Male Connectivity, water and sewerage and Addu development projects in the Maldives.

The most recent trade-related LoCs are only for Sri Lanka to access fuel and fertiliser supplies. There is a warrant to step up similar assistance to others as well so that they can be supplied with essential goods, including food and fuel, from India.

In this regard, the recent uptick in trade with Pakistan is definitely a favourable augury. Despite Islamabad's ban on trade with India, it more than doubled its imports during April-May this fiscal from India of sugar and sugar confectionery, organic chemicals and pharma products. Pakistan like many other neighbours is short of foreign exchange for importing essentials. There is no reason why India cannot significantly increase its imports from that country beyond items like dates. Due to bilateral frictions, India's trade with Pakistan dwindled to $516 million in FY22 while our two-way trade with Bangladesh is 35-times larger at $18 billion.

India cannot address the unfinished agenda of South Asian integration without Pakistan. BIMSTEC might be SAARC without Pakistan. However, despite the chill in the relationship, there are interdependencies between India and Pakistan that must be seized on the trade front.

Otherwise there will be a huge loss in potential opportunities, contrary to economic theory which states that neighbouring countries often tend to trade more with each other. Economists use gravity models, potential trade approaches and other techniques to estimate trade possibilities. According to these models, two-way Indo-Pak trade has been pegged at a whopping $37 billion according to the World Bank and the Delhi-based think-tank ICRIER although the political-economy suggests a more dismal prospect!

To re-engage with the region, India must follow up with unilateral trade liberalisation that ensures greater market access for the goods of its neighbours.

Doing so will blunt the edge of some of their resentment of only registering massive trade deficits as they begin to acquire a greater stake in the opportunities provided by India's fast-growing economy. The alacrity with which India is inking free trade agreements with UAE, Australia and major developed nations in the coming months must also extend to FTAs with Bangladesh and other neighbours.

To be sure, India is belatedly defending its fast-diminishing sphere of influence in South Asia by improving connectivity through road, rail and waterways with Bangladesh and Nepal that will boost cross-border commerce manifold.

Settlement of trade transactions in the currencies of trading partners would also be a game-changer as many neighbours are desperately short of foreign exchange. Together with lines of credit and other assistance, all of this could clear the decks for India to trade more with neighbours than it is currently doing.

Source: financialexpress.com- Jul 30, 2022

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India's export orders 20% lower due to recession, Brands' sales down

Global recession is knocking at the doors of Indian textile industry. The impact of recession is clearly visible on new orders received by the Indian exporters. Industry bodies and businessmen said export orders of garments and home textiles from the US and Europe have declined by about 15-20 per cent, as western retail brands are facing slow demand.

In Panipat, an important production hub of home textiles, there are indications of decline up to 40 per cent in export orders. It is believed that inflation caused due to the Russia-Ukraine war, and hike in interest rates are responsible for the recession and fewer export orders.

Industry sources said that importers from western countries have not only reduced orders for the next season but also postponed the deliveries of previous orders. Last month, importers of several home textile exporters refused to take delivery.

Buyers said that retail sales in western countries slowed down significantly due to high inflation. The warehouses are full of unsold goods. Therefore, it is not possible for them to take delivery immediately.

Exporters from Panipat, who returned after participating in the trade fair held in Germany in June, said that they have received 40 per cent lower export orders for home textiles compared to last year.

Ramesh Verma, Panipat based exporter and member of the Handloom Export Promotion Council told Fibre2Fashion, “Large companies and retail brands from the US and Europe had procured home textile products in excessive volume last year. But retail sales remained very weak. Therefore, they have to reduce their buying. The exporters are having fewer orders for next season.”

Apparel Export Promotion Council Chairman Narendra Goenka had earlier said that apparel export orders are estimated to decrease by about 15-20 per cent.

In fact, the current situation around the world remains uncertain. Foreign buyers are cautious for placing new orders.

The exporters are currently placing orders for Christmas and next summer season. A Tiruppur exporter said that the impact of recession is clearly visible on the export orders of the textile sector. In western countries, general consumers do not have enough money to buy textile products and other discretionary items because of inflation and adverse economic conditions.

However, some experts are hopeful that the situation will improve in the months to come. Foreign buyers have mostly placed orders for upcoming Christmas this December. The buyers import winter items from other countries instead of India. Indian exporters get more orders for summer season. If the global economic situation improves, export orders may increase.

Source: fibre2fashion.com- Jul 30, 2022

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Indo-Thai bilateral trade touched $15 billion in FY'22

The bilateral trade between India and Thailand reached an all time high of around USD 15 billion in 2021-22 as the domestic market remains attractive for Thai investors, said Union Minister of State for External Affairs Rajkumar Ranjan Singh.

The economic cooperation between the two countries in trade, investment and tourism have continued to flourish during recent years, Singh said on Saturday at the ongoing second edition of the North East India Festival, being held in Bangkok.

"Thailand is the fourth largest trading destination for India in the ASEAN region. Bilateral trade between India and Thailand has reached an all time high of around USD 15 billion in 2021-22. The Indian market remains attractive for Thai investors," he added.

Commerce, Culture and Connectivity define the future focus areas of cooperation between India and Thailand, Singh stressed.

"India provides huge opportunities for investment in infrastructure, including roads, ports, power sector, food processing, renewable energy, digital technology, logistics and electric vehicles," he said.

Singh expressed happiness over the fact that businesses from both sides can enter into long-term partnerships for more diverse and resilient supply chains.

"India's Act East policy complemented by Thailand's Act West policy has provided the basis for building a multi-faceted partnership between the two countries. Northeast India is the gateway to Thailand and other South East Asian countries.

"We would welcome the business community of Thailand to explore the Indian market for greater trade and investment linkages with particular emphasis on Northeastern states," the Indian minister said.

All the Northeastern states are rich in natural resources, minerals and forest wealth, exotic fruits and vegetables, and unparalleled scenic beauty, he stressed.

Echoing similar sentiments, Thailand Deputy Prime Minister Minister Jurin Laksanawisit said: "Thailand is historically and geographically very close to India's North East."

He thanked the Indian government for organising the second edition of North East India Festival at Bangkok in the 75th year of India's diplomatic relations with Thailand.

"The North East India Festival will help in pushing trade, tourism and people to people connect with both the regions," Laksanawisit said.

The three-day festival showcasing the Northeastern region's rich diversity and opportunities began on Friday with the presence of a number of dignitaries, including central ministers of India and Thailand along with several chief ministers from the region.

Among those present include Chief Ministers of Meghalaya and Nagaland Conrad Sangma and Neiphu Rio, respectively, Arunachal Pradesh Deputy CM Chowna Mein, Assam's Textile Minister Urkhao Gwra Brahma and Revenue Minister Jogen Mahan, and Tourism Ministers of Mizoram and Arunachal Robert Rongmawaia Royte and Nakap Nalo, respectively.

As part of the festival, a trade meet was organised wherein around 60 buyers of Thailand interacted with MSME entrepreneurs and government agencies from India.

A B2B meet on tourism was also held and it was attended by 150 tour operators from Thailand who interacted with state tourism departments of Northeast, tour operators and policymakers of both the countries.

An exhibition of products of Northeast such as cuisines, crafts and tourism potential is also being held.

Source: economictimes.com- Jul 31, 2022

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RBI likely to hike repo rate by 35-50 bps

Most economists expect the Reserve Bank of India (RBI) to raise the repo rate by 35-50 basis points (bps) in its policy meeting this week. The monetary policy committee (MPC) is scheduled to meet from August 3-5. With consumer price inflation (CPI) falling to 7.01% in June, analysts expect the MPC to lower its inflation forecast of 6.7% for FY23. Earlier this month, RBI governor Shaktikanta Das said that inflation appears to have peaked, while cautioning that commodity prices remain high despite the softening trend observed in June.

The steady tightening of liquidity conditions in the banking system over the last few weeks is facilitating a faster accomplishment of the central bank's policy goals, according to RBI watchers, and this could mean a shorter rate-hiking cycle than previously expected.

Rahul Bajoria, MD & chief India economist, Barclays, said system liquidity is now below the 1.5% of net demand and time liabilities (NDTL) threshold suggested by the central bank, leading to a spike in short-term money market rates. "Liquidity shrinkage and external benchmarking of loans continue to fuel the faster and complete transmission of rate hikes. That should make the MPC's job easier, as it negates the need for a higher terminal rate," he said.

Madan Sabnavis, chief economist, Bank of Baroda (BoB), expects the MPC to step back from its commitment to withdrawal of accommodation as there is little liquidity right now. "They will indicate the use of OMO (open market operations) to provide liquidity," he said. Sabnavis expects a 25-bps hike in the repo rate.

Economists pointed out that though system liquidity has nominally fallen well below Rs 1 trillion, there is a sizeable amount of latent liquidity in the form of government balances with the RBI, estimated at Rs 3.5-4 trillion. The government's expected spending behaviour, therefore, could have a bearing on the MPC's actions.

Saugata Bhattacharya, EVP – business and economic research & chief economist, Axis Bank, said the neutral level of liquidity, earlier expected in December, seems to have kicked into the system much sooner. "That will have implications for how the RBI manages liquidity in the system, depending on how inflation and commodity prices pan out. That is something we'll have to watch," he said.

As consumer inflation shows signs of easing off, the rate-setting panel may take note of concerns around the external environment. The dollar has been strengthening amid rate hikes by the US Federal Reserve, putting pressure on the rupee, which has already touched the 80-mark against the greenback.

Upasna Bhardwaj, chief economist, Kotak Mahindra Bank, said that rate hikes could be frontloaded in the current cycle. "While some of the early signs of inflation moderation are visible, we believe that the external sector risks remain and to offset, at the margin, the increasing pressure on rupee, RBI should frontload the rate hikes even as the overall terminal rate may not eventually be very high," she said. Bhardwaj expects the repo to rise to 5.75% by end-2022 from 4.9% at present.

However, Bajoria of Barclays believes the MPC will not concern itself with the exchange rate, relying instead on the government's supply-side measures and the RBI's forex market interventions to curb volatility in the currency.

Market indicators are showing signs of pricing in the end of the rate-hiking cycle. Analysts at rating agency Crisil said in a recent note that the overnight indexed swap (OIS) curve has undergone 'bull-flattening' since mid-June. "It shows the market is betting the Reserve Bank of India (RBI) could cut rates faster than expected once it is done with the rate hikes," the note said.

According to Crisil, the ascent of the OIS rates since the beginning of the year was prescient in that it revealed market expectations of the RBI hiking the repo rate faster than communicated. The MPC effected its first repo rate hike of 40 bps in an off-cycle meeting in May, taking markets by surprise. This was followed by a 50-bps hike in the June policy.

Source: financialexpress.com- Aug 01, 2022

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Input tax credit system needs automation

The input tax credit (ITC) system, considered the soul of the Goods and Services Tax regime, needs an urgent overhaul. An ITC system based on invoice matching will reduce working capital blockage for 14 million GST registered firms, end fraud, and increase tax collection.

The GST used the concept of ITC to end the tax-on-tax problem faced by firms in the pre-GST era. For example, a shopkeeper selling a shirt had to pay VAT on the price of the shirt and also on the central excise duty already paid on it.

The GST solved the tax-on-tax problem by allowing credit for the taxes paid in the previous transaction stages. Firms could use such credit, called ITC, to pay the tax for the next step. An example of three firms in the apparel business will help.

An illustration

Firm A sells fabric to Firm B, which makes and sells shirts to firm C, the retailer. Assume GST on both fabric and shirt is 10 per cent. Firm A charges ₹110 from Firm B — ₹100 for fabric and ₹10 for GST. Firm A pays ₹10 as GST to government. Firm B will claim an ITC of an equal amount. Next, Firm B sells the shirts to a retailer at ₹275 — ₹250 as the price of a shirt and ₹25 as GST.

Firm B has to pay ₹25 GST to government. He pays ₹15 in cash (or ITC earned from other transactions) and uses the ITC of ₹10 available from the previous transaction. Finally, Firm C sells the shirts to the final consumer. Firms A, B, and C get ITC for all taxes, and the end-consumer pays all taxes.

A firm can claim correct ITC only when the buyer and seller invoice records for a particular transaction match. The GST law prescribes invoice matching by requiring firms to file three GST Returns (GSTR) monthly. But this system has not been implemented.

The modified system requires taxpayers to file details of outward supplies (GSTR-1) and a summary of transactions and taxes paid (a new form GSTR-3B). The lack of complete reconciliation led many firms to misuse the system. Here is how a fraud firm operates.

Fraudulent firms

The firm generates invoices through the GST system and mentions an enormous ITC value in its account. This is ITC created out of thin air. There is no corresponding tax paid or goods/services transferred. The firm then transfers the ITC via a series of shell firms located in different States. At the end of the chain, the firm uses the fake ITC to pay tax on its genuine transactions. A fraud firm may also transfer the ITC to an exporter who may use the ITC to pay IGST on his exports and claim cash refunds. If a firm inflates the export value, the government loses money by way of more refunds. The money involved is enormous.

Till October last year, the government had blocked ITC of ₹14,000 crore, affecting 66,000 taxpayers. Just one man had issued fake invoices of value exceeding ₹4,500 crore to over 600 firms. The genuine business person finds it difficult to ensure if the ITC claimed by him is true.

To check misuse, the government has introduced new rules and more safeguards since January. Now, a buyer can claim ITC only after the supplier files GSTR-1 (details of sales) and GSTR-3B (consolidated details of inward and outward supplies, ITC, and tax payment).

Buyers can view details of these documents through the auto-generated mirror documents. GSTR-2A mirrors GSTR-1, and GSTR-2B reflects GSTR-3B information. But even this approach is not foolproof.

Through the GSTR-2A, the buyer can merely know if the supplier has filed the GSTR-3B. It does not give the details of transaction-level tax payments. Buyers will never know if suppliers' GSTR-3B does not include details of buyers' transactions. Also, the reconciliation is not systems but taxpayer driven.

The buyer bears the burnt if the supplier is fake. Detecting fake bills is complex when many suppliers link through a long chain. Officers usually scrutinise only 5 per cent of cases. Their access to other cities' data is restricted even if all data resides on GSTN.

The current system works through many checks and balances. But a buyer is at the mercy of the supplier.

Automating the system

ITC should be seamless, system-driven, and must not rely on human intervention. The government may invite proposals for modifying the GSTN design. The new system may contain a new GSTN utility called the Invoice Generation System (IGS). Firms would use IGS for uploading business invoices and GST payment/ITC details.

Invoices would contain the HS Code of the product and the GST number of the buyer. The IGS will fetch the GST rate from the system and details of the buyer from GST registration records to populate the invoice.

The GSTN will match the details of sales and purchase invoices. The buyer can check from the government record if the seller has paid tax to government on his transaction. GSTN will allow ITC after verifying payment of that corresponding tax. This will take seconds. Each taxpayer will have a national ITC account.

Total tax paid must equal full ITC. Individual firms' ITC amounts will change as they transact business. GSTN will be responsible for the integrity of the system.

GST-paid goods and services generated 60 per cent of India's GDP last year. A seamless, fraud-free ITC system, as mandated in the GST law, will be the best gift to the tax-paying firms.

Source: thehindubusinessline.com- Jul 28, 2022

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Prepare well for rupee internationalisation

The Reserve Bank of India has introduced a mechanism to facilitate international trade in rupees. Now the import and export payments may be settled through special Vastro account, while banks, with prior approval from the RBI, can act as authorised dealers for such transactions. There is no doubt that this is a great step in the right direction considering the limitation for using the US dollar as medium of international transactions, especially with counties under sanctions. This would also help reduce exchange rate risk on traders and pressure on Indian rupee.

Currently, the global trade and the economy are going through difficult times, especially after the Covid-19 inflicted recession and the renewed geopolitical tensions in Eastern Europe. Many developing countries in Asia, Africa and the Latin America are on the verge of currency crises with severe foreign exchange shortages and volatility. Higher imported inflation and interest rate are in fact pushing these economies into a state of stagflation.

At this juncture, an alternative arrangement to US dollar-based settlement system with one using INR would be a win-win to both the partner countries in trade.

When the RBI floated the circular on this, there were wider discussions on internationalisation of the rupee. Although this can be termed as a step in this direction, such internationalisation requires a number of short-term and long-term actions.

An international currency is one that is used instead of the national currencies of the parties directly involved in an international transaction, whether the transaction in question involves a purchase of goods, services or financial assets.

Invoicing of merchandise trade (over-the-counter (OTC) and organised exchanges) including in trade between third countries, use of currency in capital market, both national as well as international, where foreign investors are the major players, are certain immediate aspects of internationalisation.

As per the latest Triennial Central Bank Survey, the dollar accounts for 88.3 per cent of global foreign exchange market turnover, followed by the euro, Japanese Yen and Pound Sterling; the rupee accounts for a mere 1.7 per cent, underlining the need for pushing the currency much farther to get an international tag.

It is true that gradual currency internationalisation may happen with increased share in international trade. However, in order to make the currency international so as to reap the benefits for trade and investments, multiple and concerted steps from the government and the regulators are important.

Concerted steps required

Some of them include removal of restrictions on buying and selling of domestic currency in both the spot and forward markets; domestic firms are able to invoice exports and imports in their own currency; foreign firms, financial institutions, government institutions and individuals are able to hold the country's currency and financial instruments; foreign firms and financial institutions, and government institutions are able to issue marketable instruments in the country's currency; the country's own financial institutions and non-financial firms are able to issue on foreign markets instruments denominated in their country's own currency; international financial institutions, such as the World Bank and regional development banks, are able to issue debt instruments in a country's market and to use its currency in their financial operations; and the currency may be included in the "currency baskets" of other countries, which they use in governing their own exchange rate policies.

As far as the rupee is concerned, our currency is fully convertible in the current account i.e., conversion mainly for trade in goods and services, but partially in capital account — that is, conversion for the purpose of moving capital across the border.

Here it would be interesting to look at the position of rupee against the aforementioned points, which will acknowledge why the rupee is partially convertible in capital account. In fact, India has already come a long way in capital account convertibility, but with cautious and gradual steps.

Although we opened up our economy for portfolio and direct investments, experience from the East Asian crisis and other major currency crises have taught us to avoid any radical step in this direction. It may be noted that the idea of issuing foreign currency sovereign bonds which was highlighted by the Finance Minister in one of her Budget speeches is still not actioned upon.

Some of the benefits of the internationalisation of rupee would include limited exchange rate risk for traders in goods and services, access to international financial markets for cheaper capital by domestic firms and institutions without incurring exchange rate risk, and wider business opportunities in global capital markets for domestic financial institutions. On the government side, this may give more options to meet their budgetary deficit while the issue of current account deficit can be addressed without drawing down the official reserves.

Costs involved

As regards the cost, internationalisation of currency will limit the country's ability to anchor monetary policy to its domestic economic landscapes and have fixed or highly managed exchange rate regime. Domestic currency may also be prone to wider fluctuations and depreciation as the overseas investor sentiment will have wider ramifications to the currency when sizeable portion of currency and instruments are held overseas.

Other than these, issuance of foreign debt in domestic market may pose risk especially when the debtors default. Most of the financial crises — be those in the 1980s, 1990s or the one in 2008 — are testimony for the costs involved.

Overall, currency internationalisation is a double-edged sword, with ability to hurt if we are not prepared well, but having immense potential, too. As a growing economic powerhouse, wider use of local currency with less barriers will help support international trade and investments.

The recent initiative of invoicing trade in rupee comes from a different global requirement and order, but for true internationalisation and wider use of the rupee overseas, opening up of trade settlement in rupee alone will not suffice.

Further opening up and liberalised settlements in rupee for various financial instruments both in India and overseas markets are more important.

Promotion of rupee-based settlement in both international trade and financial markets would also attract more global players to go for this option as the world is moving towards a multi-polar system where India will be a dominant power.

A strong foreign exchange market with an efficient swap market may be another precondition for rupee internationalisation.

Further improvement in overall economic fundamentals, financial sector health, followed by an upward movement in sovereign ratings will also strengthen confidence in the rupee, making the currency ready for next step in its international journey.

Source: thehindubusinessline.com- Jul 31, 2022

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Need to reconsider import tariffs to support MSME exporters: NITI Aayog Vice Chairperson Suman Bery

Trade, import, and export for MSMEs: NITI Aayog Vice Chairperson Suman Bery has said India should consider imports as an essential strategy to boost export competitiveness, instead of worrying about its consequence on the trade deficit.

Bery made his remarks at an event on Saturday to release a study on 'India's Export Competitiveness' by MVIRDC World Trade Center (WTC) in Mumbai.

"For a relatively open economy like India, competitiveness is linked to imports. In certain value chains such as precision engineering, India is dependent on imports. It is tempting to impose tariff on imports to reduce the trade deficit.

However, a tax on imports is a tax on exports and hence there is a need to reconsider import tariffs to support our MSME exporters," a statement by WTC quoted Bery as saying.

India, which has a surplus on services account and remittances in the balance of payment, has had a reasonably manageable trade deficit in the past, except in the current circumstance when energy prices are abnormally high, he noted. "There is little reason to consider a significant trade deficit to GDP ratio as worthy of policy attention."

India's trade deficit had doubled to $70.8 billion in April-June 2022 vis-a-vis $31.4 billion during the year-ago period due to an increase in the import bill of crude oil, coal, edible oil and precious metals.

Bery asserted that India should not be too rigid in the distinction between merchandise exports and services exports as a lot of service component is embodied in merchandise exports as well.

"Various digital initiatives that facilitate exports represent the embodiment of services in goods exports. Trade facilitation by itself is services intensive. So, it is not appropriate to draw a sharp distinction between goods and services exports in the supply chain. We need to identify the services provided by MSMEs that are embodied in goods exports," he said.

Vijay Kalantri, Chairman, MVIRDC WTC Mumbai in his remarks suggested the government for a task force under NITI AAYOG to revive local MSME units that became sick due to unfair competition from imports, especially in printed circuit boards, white goods and electronic components, the statement added.

“This is the right time to revive our MSMEs under the Aatmanirbhar program by rethinking import substitution. India should also reduce the cost of logistics, which stands around 8 per cent of GDP to less than 6 per cent so that we can compete in the international market,” said Kalantri.

Source: financialexpress.com– Jul 31, 2022

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Har Ghar Tiranga: Manufacturers, traders working day and night to meet 'unprecedented' demand for tricolour, says CAIT

Ease of Doing Business for MSMEs: Traders' body CAIT said manufacturers and traders are working day and night to meet the 'unprecedented' rise in demand for the Indian tricolour following the 'Har Ghar Tiranga campaign' launched by Prime Minister Narendra Modi on July 22 to encourage people to hoist or display the national flag in their homes for three days — between August 13 and August 15. The campaign is part of the government's 'Azadi Ka Amrit Mahotsav' initiative launched by PM Modi in March 2021 to commemorate 75 years of India's independence.

"Textile traders in Surat alone, which is the country's largest textile market, have received orders for more than 5 crore national flags and manufacturing mills are working day and night to deliver flags on time. Wherever there are textile markets in other states like Maharashtra, Delhi, Uttar Pradesh, Tamil Nadu, Madhya Pradesh, Chhattisgarh, Bihar etc. people have started making our national flags leaving their routine work," said CAIT National President BC Bhartia and Secretary General Praveen Khandelwal in a joint statement.

9×6, 18×12, 16×24, 20×30 and 53×35 are the sizes in high demand, said CAIT. The government had informed last week that to ensure the supply of flags across India, all post offices will be selling flags from August 1 2022 onwards while state governments have also tied up with various stakeholders for the supply and sale of flags. The government said it has also tied up with various e-commerce websites and self-help groups to streamline the process of the supply of the flag. The tricolour has also been registered on the GeM portal.

The surge in demand for flags is also linked to the government's move to make the tricolour campaign a part of the Corporate Social Responsibility (CSR) of businesses. The demand for flags generally used to be around Republic Day (January 26), Independence Day (August 15), and Gandhi Jayanti (October 2), but in the last two years due to Covid, the national festivals did not take place on a large scale, due to which the unused stock was made available this year, said CAIT. However, the demand spike following the campaign led to the shortfall.

Source: financialexpress.com– Jul 31, 2022

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India's factory growth hits 8-month high as easing price pressures lift demand

India's factory activity expanded at its quickest pace in eight months in July, driven by solid growth in new orders and output as demand continued to improve on the back of easing price pressures, a private survey showed.

The survey results suggested the Indian economy has remained resilient, at least for now, despite concerns over faster interest rate hikes, massive capital outflows, a weakening rupee and a rapidly slowing global economy.

The Manufacturing Purchasing Managers' Index (INPMI=ECI), compiled by S&P Global, jumped to 56.4 in July from June's 53.9, remaining above the 50-level separating growth from contraction for a thirteenth month.

While both new orders and output grew at their fastest pace since November, both input and output prices increased at their slowest rate in several months in a further boost to demand.

"The Indian manufacturing industry recorded a welcome combination of faster economic growth and softening inflation during July," said Pollyanna De Lima, economics associate director at S&P Global Market Intelligence.

"With incidences of shortages diminishing, the rate of input cost inflation eased to an 11-month low in July, subsequently dragging down the rate of increase in output prices to the weakest in four months."

If that gets translated into overall price pressures, which have already shown signs of easing amid slowing commodity and food prices, it could provide some breathing space for the Reserve Bank of India.

The RBI, which has already hiked its key interest rate by a cumulative 90 basis points since early May, is expected to raise it again this week.

The International Monetary Fund recently cut India's growth forecasts to 7.4% and 6.1% for 2022 and 2023, respectively, from 8.2% and 6.9% in April amid downside risks from a slowing world economy.

S&P Global's survey also showed foreign demand expanded at the weakest pace in four months in July and optimism improved only a tad last month.

Firms increased headcount at the slowest pace in three months.

"Although the upturn in demand gained strength, there were clear signs that capacity pressures remained mild as backlogs rose only marginally and job creation remained subdued," De Lima said.

Source: reuters.com- Aug 01, 2022

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India's organic certification procedures under cloud as APEDA penalises 3 more agencies

All is not well with the certification process of Indian organic products with the Agricultural and Processed Food Products Export Development Authority (APEDA) penalising three certifying agencies, including termination, for irregularities they committed in violation of the process.

In its latest orders issued a week ago, APEDA, the nodal agency for the National Programme for Organic Production (NPOP), has withdrawn the accreditation given to Bhummatha Organic Certification Bureau (BOCB), terminated the accreditation of APOF Organic Certifying Agency and suspended the certification of Fair Certification Services Pvt Ltd for six months.

Bhummatha and APOF will have to pay a "pecuniary penalty" of ₹5 lakh, while APEDA will notify European Commission on Fair Certification.

Recurring violations

APEDA's latest rulings have led to the country's accreditation system for organic farming, production, processing and trade being questioned since APEDA banned five certifying agencies eight months ago.

The ban was imposed after organic products certified by them for exports were found violating ethylene oxide norms of the European Commission.

In January this year, the nodal agency suspended TQ Cert for similar violations. APEDA's current findings are similar to the ones for which TQ Cert was penalised. Traders and experts say recurring violations require a total review of the certification and accreditation process.

The National Accreditation Board (NAB) provides accreditation against these agencies.

"The issue with the latest action that APEDA has taken against the three agencies is how are such firms given accreditation," wondered a trade source, who did not wish to be identified.

‘Intentionally compromising’

According to S Chandrasekaran, a trade analyst who tracks organic product exports, despite APEDA suspending or terminating five certification companies (in October 2021), the certification companies are either not serious or intentionally compromising the system due to lighter penal provisions.

The trade source agreed, saying while these certifying agencies earn crores of rupees, but they are penalised only ₹5 lakh.

A copy of APEDA orders for the three agencies shows glaring omissions that had been noted earlier too. All three have been penalised for committing irregularities in the organic cotton procedures.

A common violation found in these cases is that these firms had certified organic products when there was nothing on the ground. These firms did not have staff or infrastructure for carrying out inspections or supervision of organic production.

Surprisingly, all three firms were found to be involved in certifying organic cotton and they were found violating all norms during the unannounced inspections by an evaluation committee (EC) during February 21-22 this year.

Grower groups unaware

The EC found that growers were unaware that they formed part of a group involved in organic farming. They did not follow any norms for organic farming and applied agrochemicals to their crop.

These firms did not have an internal control system, which required an office in the place where the grower group grows the organic produce.

In the case of APOF, soyabean was shown as cotton and the yield per acre did not match for either cotton or soyabean. All three were given an opportunity to explain these irregularities, but NAB was not convinced during its hearing on June 30.

In the case of Fair Certification, the NAB acted after Bangladesh Textile Mills Association, through its High Commission India, approached the Textile Ministry and complained that transaction certificates (TCs) had not been issued for 16,100 tonnes of organic cotton imported from India. TCs are given by certifying agencies after farms are thoroughly scrutinised by their field staff.

In response, Fair Certification cancelled 73 applications for TCs and re-issued 72 such certificates for over 8,000 tonnes of cotton that was bought from various cotton growers groups.

Curious case

The trader said the curious case of Bhummatha should make the Centre and officials sit up and take notice of the repeated violations. An inspection carried out by the evaluation committee to validate its findings found that BOCB did not have any documents on the grower groups registered for producing organic cotton.

BOCB had issued 900 transaction certificates but documents were available only in the case of 50. The trader pointed out that the growers' groups had shifted to Bhummatha for certification after TQ Cert was suspended by APEDA.

“These groups have changed from Noca to Bio Cert to Vedic to TQ Cert and now to Bhummatha. All got into trouble for violations. The Centre allows the transfer of grower groups to ensure farmers do not get affected. But when this recurs, it is time for a policy review,” the trader said.

BOCB issued a huge number of transaction certificates between March and April this year. The area under organic cotton farming certified by it increased from 15 hectares to 2.83 lakh hectares. “TQ Cert was suspended in January end. This happened in March and April. This is a clear case that needs to be probed deeper,” the trader said.

Decades-old penal provisions

Chandrasekaran said NPOP penal provisions are two decades old. “The revamping of the accreditation process of organic certification agencies and enabling strong penal provisions will have to be done immediately,” the analyst said.

The current status of organic certification in India is a disincentive for investing in or promoting organic brands, Chandrasekaran said. “This prevents the growth of organic agriculture in India,” he said.

Traders and experts say with the EC taking a strict view on the issue of violation of norms of organic product imports into the union and coming under pressure to act against APEDA, the Centre will now have to review its policies and procedures on organic products.

Source: thehindubusinessline.com- Jul 30, 2022

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