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IBTEX No. 159 of 2022 August 17, 2022

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INTERNATIONAL NEWS

China factory orders drop in ominous sign for global outlook

Makers of Christmas decorations to clothing and tents say orders from overseas customers are drying up, with some predicting the best they can aim for is flat demand versus last year, according to more than a dozen export managers interviewed by Bloomberg News. The snapshots from factories in key Chinese hubs indicate households worldwide, already tightening their belts to contend with a rapid rise in the cost of living, may be cautious for longer and adds weight to warnings about a potential global recession.

“Consumers don’t have the money to spend with soaring inflation” and the decline in demand has happened suddenly, said Wendy Ma, marketing manager at a textile maker in the eastern city of Ningbo. Orders for items including buttons, zippers and sewing thread dropped about 30% in July and August from a year earlier as demand from major markets like the US and Europe declined, she said.

The reports from manufacturers suggest the resilience being seen in China’s export data may fade. That said, the boom has been somewhat helped by price inflation as well as Chinese manufacturers making up for delays from pandemic lockdowns and orders that were brought forward in light of ongoing supply chain distortions.

“The general direction is export growth will slow down in the coming months, and it’s possible to reach a negative territory by the end of the year,” said Larry Hu, head of China economics at Macquarie Group Ltd. Still, the decline in demand for China-made goods will be gradual, instead of a collapse, he said.

The fading strength in exports could add another blow to a Chinese economy that’s already showing a slowdown in some aspects. China’s central bank unexpectedly cut its key interest rates on Monday to ramp up support, as official data showed retail, investment and industrial production numbers for July all missed economists’ estimates.

Headwinds have been slowly building for months. Clark Feng, whose Vita Leisure Co. buys tents and furniture from domestic manufacturers to sell overseas, said export orders have been dropping since March and European clients are only asking to buy about 30% to 50% of what they wanted last year. Workers in some of the factories he sources from have been laid off or sent on vacation, something he hasn't seen in his decade in the industry.

Overseas clients are looking to clear their existing inventories instead of ordering new products, Feng said. "Our products were very popular last year, and now we swing from one extreme to another extreme and the demand is even lower than pre-pandemic. There's a sense of panicking."

Bloated Stockpiles

Over the last year, inventories at companies in the S&P consumer-discretionary and consumer-staples indexes rose by $93.5 billion, a 25% increase, according to data compiled by Bloomberg. That came after companies bulked up purchases in 2021 to cope with lengthy shipping delays, and as some front-loaded their Christmas orders.

It's also coincided with a shift in global consumer spending toward services, rather than goods, as travel demand picks up in many parts of the world. Retailers such as Walmart Inc. and Target Corp. are slashing the prices of merchandise such as apparel and home goods, even as they charge more in other categories amid soaring US inflation.

Many retail buyers need to lock in orders in advance, meaning a downturn now is a sign that consumer demand may be weak for months, according to some firms.

Joe Kwok, general manager at Shanghai-based textile and garment manufacturer Hengda Printing & Dyeing Co., said his top sportswear and retail clients have cut orders by as much as 30% since June. He forecasts demand will remain low for a year or two.

Chinese manufacturers will find it difficult to make up for the overseas shortfall in their home market. The country's adherence to Covid Zero, which includes sudden lockdowns, constant testing and movement curbs, has weighed on consumer sentiment and wrought havoc on the manufacturing sector.

Yiwu, the world's biggest hub for Christmas goods from tree ornaments to plastic reindeer, shows how precarious business can be.

Over the weekend, the city extended a lockdown that continues to ban most residents from leaving their homes, as the outbreak that started this month topped 630 infections. The city was also locked down in April, but the latest restrictions are a major setback for manufacturers in the middle of what's usually their busiest season for production and shipping.

Exporters have learned from previous disruptions, and brought forward their delivery schedule by a month or more in anticipation of uncertainties, according to Cai Qinliang, secretary-general of the Yiwu Christmas Products Industry Association, which has 200 members that own 500 to 600 factories.

But it's not enough to support a full recovery. Cai said Christmas-related business was slashed by more than half in 2020 as the pandemic threw the global trade into disarray and major customers canceled orders. Sales improved last year, though were still 20% to 30% lower than before the pandemic, and may hold at that level this year, he said.

It's a situation echoed 250 miles to the north, where Melissa Shu said she's gone from working overtime last year at a manufacturer of LED car lights in the city of Zhenjiang to facing an order book that's fallen by at least a third.

Clients "are acting with a great deal of caution," said the export manager. "The macro-economic environment is dim -- the war, the inflation, the living crisis -- none of us can escape."

Source: economictimes.com– Aug 15, 2022

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US textile and apparel exports up 13.1% in first half

Exports of textile and apparel from the United States went up by 13.10 per cent year-on-year in the first six months of this year. The value of exports stood at $12.434 billion during January-June 2022 compared to $10.994 billion in the same period of 2021, according to data from the Office of Textiles and Apparel, US department of commerce.

Category-wise, apparel exports increased by 24.97 per cent year-on-year to $3.489 billion, while textile mill products rose 6.07 per cent to $8.945 billion during the first six months of 2022.

Among textile mill products, yarn exports increased by 21.34 per cent year-on-year to $2.313 billion, while fabric exports were up 3.58 per cent to $4.460 billion and made-up and miscellaneous article exports grew 9.15 per cent to $2.171 billion.

Country-wise, Mexico and Canada together accounted for more than half of the total US textile and clothing exports during the period under review. The US supplied $3.460 billion worth of textiles and apparel to Mexico during the six-month period, followed by $3 billion to Canada and $0.857 billion to Honduras.

In recent years, US textile and clothing exports have remained in the range of $22-25 billion per annum. In 2014, they stood at $24.418 billion, while the figure was $23.622 billion in 2015, $22.124 billion in 2016, $22.671 billion in 2017, $23.467 billion in 2018, and $22.905 billion in 2019. However, the value dropped to $19.330 billion in 2020 because of the COVID-19 pandemic. In 2021, US textile and apparel exports stood at $22.652 billion.

Source: in.fashionnetwork.com– Aug 15, 2022

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USA: Analyst Says 'Robust' Discounts Will Move Overweight Fashion Inventory

Retailers and vendors are still learning their post-Covid lessons as "just-in-time" inventory planning gives way to "just-in-case." Forecasting errors mean retailers are getting whipsawed after overordering and then finding themselves stuck with late-arriving product that shoppers no longer wanted.

Goldman Sachs' consumer staples analyst Jason English describes this scenario as a "durable goods recession," that will yield "robust" clothing discounts now that consumers aren't so interested in the loungewear that sustained retail assortments throughout the pandemic. "We do think those discounts will probably run through year-end," he said. Retailers can pack away some items for next season. But there are limits to how much, especially with merchandise still flowing in and only so much shelf space to store everything.

Vendors have a different problem. They can pull back on manufacturing or keep production as is, hoping that orders pick up later on. But then they'll need to figure out where to store it all and absorb the losses should those hoped-for orders fail to materialize.

Fashion brands can stock core basics by telling factories to delay production, but that causes issues for upstream manufacturers and suppliers. For now, novelty fashion involves is something of a guessing game that requires a good amount of luck. Retailers know they need the good stuff to entice customers into stores, and they can cancel orders up to a point. Even without cancellations, vendors still face the dreaded curse of markdown money when they tally up end-of-season sales.

Stanley Black & Decker, for one, has trimmed its product line by nearly half to save on costs. It's fortunate that its products are still quite relevant one season later. But the cautionary warning here for retailers and fashion firms is depth of the appliance brand's assortment edit, which could signal that consumer spending is heading for a nosedive. That raises another problem for down the road—recessions are prime time for retailers to close stores, which narrows the distribution channel for all suppliers in the game.

When Walmart slashed its profit outlook last month, CEO Doug McMillon said it was marking down apparel to encourage customers to buy. He "anticipat[es] more pressure on general merchandise in the back half." Walmart is said to be changing some terms with suppliers, such as adding new transportation fees by the start of fall, as it aims to cut costs. The retailer recently cut 200 corporate jobs.

Target was among the first to lean into a smaller home goods section to right-size its inventory in June. A blog post that same month by CEO Brian Cornell said the company was taking steps to adjust post-Covid. With profits on the line, Target is either delaying receipts on some goods or taking ownership on an as-needed basis.

The discounter is also asking vendors to pay for transportation costs by ordering from a supplier's U.S. warehouse instead of paying for shipments from China, according to Reuters. This helps Target free up both space for incoming in-season merchandise and cash to buy goods they might lack. And even though vendors grumble about added cash flow burdens, most will play nice for fear of alienating a major customer.

Fast fashion e-tailer Asos is also delaying fall receipts. One source said the British e-tailer has also canceled some autumn orders. The retailer has been fighting a "significant increase in returns rates," it said in June. It wasn't immediately clear if the returns surge stems from fit issues—a problem plaguing Asos—or if consumers had a change of heart now that U.K.'s rising inflation rate is forcing them to make tough choices.

VF Corp., meanwhile, rolled out a supply chain financing program with most of its finished goods suppliers to ensure it gets the goods to meet consumer demand. With VF taking inventory control one month earlier at the point of shipment instead of the point of destination, it's also paying its suppliers sooner. Starting Sept. 1, the Supreme and Dickies parent will increase payment terms with most of its finished goods suppliers. This ensures the Vans owner becomes the preferred customer of choice, while improved payment terms helps suppliers manage their cash flow.

Promoting healthy supplier relationships is a corporate responsibility. Early in the pandemic Ralph Lauren made sure its suppliers—considered "critical stakeholders of the company"— were paid for both "finished goods and goods already in production."

Source: sourcingjournal.com- Aug 16, 2022

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As China's energy crisis closes factories, how much is it affecting the economy?

A short-term shutdown of major industries and widespread electricity rationing in China's southwestern manufacturing hub of Sichuan – with local authorities prioritising the residential power supply – may have only a "limited" economic impact as long as the curbs can be lifted within a few weeks, according to analysts.

Temperatures as high as 40-42 degrees Celsius (104-108 degrees Fahrenheit) have sent power demand soaring and dried up crucial rivers and reservoirs, with industrial production suspended for six full days, since Monday, in all but two of its 21 cities.

Sichuan, with a population of around 84 million, is China's sixth-largest economy in terms of gross domestic product, with industry accounting for more than 28 per cent. It plays a leading role in the production of silicon metal, electrolytic aluminium, chemicals, electronics and power-generation equipment.

"The power curbs will, for sure, have some negative impacts on economic growth. But I think if the power situation improves in a few weeks' time, the industrial producers might be able to catch up with the lost production later on," said Qin Yan, a carbon analyst with financial services company Refinitiv.

"At the moment, the situation is quite extreme with heatwaves and drought, therefore regulators have curbed industrial power consumption to ensure residential power supply.

"I think the adverse impact on gross domestic product is limited if the power curbs will last less than several weeks."

Sichuan relies on dams to generate around 80 per cent of its electricity, but water flows into hydropower reservoirs have dropped by 50 per cent this month.

"Under the continuous high temperature, Sichuan's power load is growing, but due to the low water coming from the Yangtze River during the dry season, Sichuan's main source of electricity consumption –

hydroelectric power generation – is limited," said Yuan Jiahai, a professor with the School of Economics and Management at North China Electric Power University.

Several provinces suffering from electricity shortages have already been gradually guiding enterprises to reduce electricity consumption since the start of August through initiatives and economic incentives, according to Yuan, who is also a member of the Chinese Society of Electrical Engineering.

High-energy-consuming industries had been expecting electricity restrictions, but were unprepared for full shutdowns, Yuan added.

Click here for more details

Source: scmp.com- Aug 17, 2022

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Indonesia's garment, textile exports set to reach 14 billion USD this year

Indonesia's textile and garment industry will expand its markets to meet the export target of 13-14 billion USD this year, according to the country's Industry Minister Agus Gumiwang Kartasasmita. The textile industry continues to give a good performance, mostly driven by the rapid growth of sales through e-commerce platforms as well as consumer awareness of the sustainability principle, which is in line with the commitment to reduce carbon and water consumption in the production process, Kartasasmita said in a statement.

On the commodity side, the principle of sustainability is also being encouraged through the use of environmentally friendly raw materials and the application of the circular economy principle, the official added. "The existence of Making Indonesia 4.0 will encourage the transformation of the textile industry to make it more competitive and innovate in an effort to compete and answer global market demands," the minister was quoted by Antara news agency as saying.

To accelerate the implementation of the Fourth Industry Revolution, the textile industry is expected to utilise several key technologies to beat the global competition, including artificial intelligence, novel fabrics, Internet of Things (IoT), rapid data analysis for quick adaptation, mobile commerce, virtual and augmented reality (VR), online vector editors, 3D printing, blockchain technology, and sustainable practices.

The Industry Ministry has initiated a strategic step in the form of a 35% import substitution programme in 2022 to encourage the increased utilisation of existing industries, as well as boost investment in Indonesia. It is also carrying out a machine and equipment restructuring programme in the fabric refinement and fabric printing industries.

According to Kartasasmita, this effort has been proven to increase production capacity, production realisation and energy efficiency by 21.75%, 21.22% and 11.86% respectively, as well as raise sales volume, both domestically and via export, by 6.65%.

Source: en.vietnamplus.vn- Aug 15, 2022

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UK launches Developing Countries Trading Scheme, cuts product tariffs

The United Kingdom launched the Developing Countries Trading Scheme (DCTS), which will extend tariff cuts to hundreds of more products exported from developing countries, going further than the European Union's (EU) Generalised Scheme of Preferences (GSP). This is on top of the thousands of products that developing countries can already export to the country duty-free.

This will mean 99 per cent of goods imported from Africa under the scheme will enter the United Kingdom duty free, an official press release said.

DCTS covers 65 countries across Africa, Asia, Oceania and the Americas, including some of the poorest countries in the world.

"As an independent trading nation, we are taking back control of our trade policy and making decisions that back UK businesses, help with the cost of living, and support the economies of developing countries around the world," UK international trade secretary Anne-Marie Trevelyan said launching the scheme.

A wide variety of products—from clothes and shoes to foods that aren't widely produced in the United Kingdom—will benefit from lower or zero tariffs under the new scheme.

It will ensure that British businesses can benefit from more than £750 million per year of reduced import costs, leading to more choice and lower costs for UK consumers to help with the cost of living.

"UK businesses can look forward to less red-tape and lower costs, incentivising firms to import goods from developing countries," Trevelyan said.

The scheme removes some seasonal tariffs, meaning more options for British supermarkets and shops all year round.

The scheme also simplifies complex trade rules such as rules of origin, making it easier for many businesses in developing countries to export and play a larger role in the global trade community, the release added.

This drive includes a new initiative called Platinum Partnerships, designed to grow trade between the United Kingdom and selected lower and middle-income Commonwealth countries and reduce dependency on aid. The partnerships will strengthen two-way green trade and investment, helping countries' adaptation to climate change.

Source: fibre2fashion.com- Aug 16, 2022

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EU industrial production up by 3.2% y-o-y in June 2022

In June 2022 compared with June 2021, industrial production increased by 2.4 per cent in the euro area and by 3.2 per cent in the EU, according to estimates from Eurostat, the statistical office of the European Union. In June 2022, seasonally adjusted industrial production rose by 0.7 per cent in euro area and by 0.6 per cent in EU, compared with May 2022.

In the euro area in June 2022, compared with June 2021, production of capital goods rose by 7.6 per cent, durable consumer goods by 4.0 per cent and energy remained stable at 0.0 per cent, while production of intermediate goods fell by 0.5 per cent and non-durable consumer goods by 1.1 per cent, Eurostat data showed. The euro area (EA19) includes Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

In the EU in June 2022, compared with June 2021, production of capital goods rose by 7.5 per cent, non-durable consumer goods by 2.6 per cent, durable consumer goods as well as energy by 2.4 per cent, and production of intermediate goods remained stable at 0.0 per cent.

Among Member States for which data are available, the highest annual increases were registered in Ireland (+25.4 per cent), Denmark (+25.0 per cent) and Bulgaria (+17.4 per cent). The largest decreases were observed in Belgium (-11.6 per cent), Slovakia (-5.7 per cent) and Romania (-3.7 per cent).

The European Union (EU27) includes Belgium, Bulgaria, Czechia, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland and Sweden.

Source: fibre2fashion.com- Aug 17, 2022

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Bangladesh needs further investment in start-ups for growth: Experts

Bangladesh needs further investment in start-ups to boost economic growth, according to experts, who recently told a virtual session that a strengthened start-up policy to facilitate ease of starting and operating such small firms with streamlined regulations and requirements, and better incentives for investors interested in start-ups is crucial.

The start-up ecosystem also needs to be nurtured through industry-academia collaborations to encourage innovation and talent development at school and university levels as well as continued government support through enabling policies and regulatory frameworks to foster innovations, experts said.

Titled 'Levering Start-up Investments for Bangladesh's Economic Growth', the session was organised by LightCastle Partners, Startup Bangladesh Limited, Anchorless Bangladesh, Bangladesh Angels and BD Startup Founders.

Hasan A Arif, head of investments portfolio at Start-up Bangladesh, said the government has already taken several initiatives to increase the flow of investment in the start-up sector with the Bangladesh Securities and Exchange Commission (BSEC) drafting rules to allow loss-making sound start-ups to be listed on the country's stock exchanges and offer initial public offers.

Over the last decade, Bangladeshi start-ups have raised over $800 million in investments, spearheading the economy and creating 1.5 million direct and indirect employment opportunities while positively impacting the citizens' day-to-day lives.

However, industry insiders feel as the start-up ecosystem in the country matures, the support for them needs to evolve to enable Bangladesh's economic growth further. The impact made by startups makes the sector an economic powerhouse that needs more attention and support.

Source: fibre2fashion.com- Aug 16, 2022

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Cambodia's CDC approves 3 factories with investments worth $15.7 mn

The Council for the Development of Cambodia (CDC) recently approved three new investment projects in in the Kampong Speu province and Phnom Penh with a total capital of $15.7 million. The approved garment and yarn factories will belong to Jade Fashion (Cambodia) Garments Company Limited, Hong Yu Fang Garment Co., Ltd. and Shun Wei Fang Zhi Ke Ji Co. Ltd.

The projects would help create around 2,300 jobs.

Jade Fashion will set up a garment tailoring factory in Phnom Penh, while Hong Yu Fang's garment tailoring unit and Shun Wei Fang's yarn production factory will be based in the Kampong Speu province.

In the first week of this month, CDC approved five investment projects worth $26.3 million, with the potential to generate 4,192 jobs, according to Cambodian media reports.

The five projects were related to the garments, shoe accessories, solar panels, wardrobes, etc, CDC said. The factories will be based in Phnom Penh and the provinces of Preah Sihanouk and Kampong Speu.
The country's garment, footwear and travel goods industry posted a 40 per cent increase in exports in the first half this year. It exported products worth $6.6 billion during the January-June period this year, compared to exports valued at $4.72 billion for the same period last year.

Source: fibre2fashion.com– Aug 17, 2022

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Pakistan's textile exports up 0.67 pct in July

Pakistan's textile exports increased by 0.67 percent in July, the first month of the fiscal year 2022-2023, year-on-year, according to figures from the Pakistan Bureau of Statistics (PBS) on Tuesday.

Exports of textile commodities were recorded at 1,481.02 million U.S. dollars in July, the PBS data showed.

Cotton cloth, raw cotton, knitwear, and ready-made garments were among the commodities that contributed to the trade growth of the textile sector in July.

However, the textile commodities that witnessed negative growth in trade included cotton yarn, which declined from 89.871 million dollars to 71.364 million dollars, the data showed.

According to the PBS, the textile industry of Pakistan contributes over 60 percent of the total exports and employs 40 percent of the industrial labor force, rendering it the major industrial sector of the country which plays an important role in the economic growth of the country.

Source: china.org.cn– Aug 16, 2022

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Pakistan, Turkey sign Preferential Trade Agreement

Prime Minister Shehbaz Sharif witnessed the inking of the PTA at a ceremony held at the PM Office, as the visiting Turkish Trade Minister Dr Mehmet Mus and Minister for Commerce Syed Naveed Qamar signed the accord.

Commonly known as the Trade in Goods Pact, the PTA includes comprehensive provisions on bilateral safeguards, balance of payment exceptions, dispute settlement, and periodic review of the agreement.

Prime Minister Shehbaz termed the agreement “a great moment and a milestone” in the brotherly and historic relations between Pakistan and Turkey.

He recalled that following his official visit to Turkey in May, the untiring efforts of the ministries of both sides resulted in the signing of the agreement.

The premier added that immense business opportunities existed between the two countries and expressed confidence that the accord would further explore the trade avenues in diverse sectors.

The PM also said Pakistan would continue to work with Turkey on strengthening bilateral ties.

Trade Minister Dr Mehmet said the occasion marked a significant milestone which would contribute in a long way to further strengthening and expansion of trade ties.

He said that meeting the expectations of all stakeholders was not easy but dedication and step-by-step measures led to the conclusion of the accord.

The Turkish minister also thanked PM Shehbaz for his leadership to seal the agreement for the betterment of the two countries and enhancing linkages between their business communities.

Qamar hoped the PTA between Pakistan and Turkey would open up new opportunities to boost bilateral trade across various sectors.

He said Pakistan also looked forward to working towards materializing a Free Trade Agreement (FTA) with Turkey.

The trade minister stressed the need to increase business-to-business interaction for strengthening trade and investment relations between the brotherly countries.

A key highlight of the trade concessions offered by both sides under the agreement is that Turkey had offered concessions to Pakistan on 261 tariff lines, which include key items of Pakistan's export interest to Turkey from both agriculture and the industrial sectors.

Pakistan and Turkey enjoy historical relations, which are growing in different domains including political, defence, culture and education.

However, realizing that economic engagement, especially trade, required concentrated steps to improve bilateral relations, the Framework Agreement between Pakistan and Turkey was signed in 2016 by the Turkish Minister of Economy, Mustafa Elitas and Minister of Commerce Engineer Khurram Dastagir.

The agreement laid the ground for a gradual liberalization of goods, services, and investment by establishing a Free Trade Area.

Under the ambit of the agreement, a Joint Scoping Study was conducted to identify the areas in which both sides can make progress in reducing tariff barriers to trade.

Turkey highlighted its sensitivity in the textile sector whereas Pakistan highlighted its sensitivities in various sectors such as auto, iron and steel, processed agriculture, dairy, value-added textile, and specific products in the chemical, plastics, and white goods.

Negotiations on Pakistan-Turkey Preferential Trade Agreement (PTA) remained slow-paced until Prime Minister Shehbaz Sharif's recent visit to Turkey from May 31 to June 2, 2022.

During the visit to Turkey, Qamar and Dr Mus inked a joint Ministerial Statement to conclude the Trade in Goods Agreement based on mutual benefit between the two countries.

The Trade in Goods Agreement will help achieve the strategic goal of bilateral trade of $ 5 billion in the medium term.

After 19 rounds of bilateral negotiations, the agreement was finalised to be signed on August 12.

Both sides agree that once the initial agreement creates goodwill and economic gains, both sides can move towards a more comprehensive arrangement.

Under the PTA, Pakistan has market access in 261 tariff lines. Pakistan's global export of these products is $5.1 billion. Turkey's global import of these products is $7.6 billion.

Pakistan has offered concessions to Turkey on 130 tariff lines. Turkey's global export of these products is $23 billion (12% of Turkish global exports). Pakistan's global import of these products is $6 billion.

Pakistan has gained market access in traditional sectors such as leather, rice, dates, mangoes, cutlery, and sports goods; and non-traditional sectors including seafood, processed agricultural products, rubber tubes and tyres, plastics, and engineering goods.

Pakistan-Turkey bilateral trade

The total trade between Pakistan and Turkey stood at $883 million in the fiscal year 2021-22 with Pakistan's exports to Turkey amounting to $366 million and Pakistan's imports from Turkey amounting to $517 million. The balance of trade is in favour of Turkey with a negative trade balance of $151 million in 2021-22.

Source: tribune.com.pk– Aug 12, 2022

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NATIONAL NEWS

India's trade deficit hits record $30 billion as exports struggle

India's trade deficit widened to a record $30 billion in July as exports grew at a much slower pace compared to imports, data released by the commerce and industry ministry showed on Friday.

Merchandise exports declined to a five-month low of $36.27 billion in July but witnessed a marginal increase of 2.14 per cent year-on-year (YoY). The preliminary data released on August 2 had shown a 0.76 per cent contraction in exports at $35.24 billion, and even a wider trade deficit of $31 billion, for July.

Inbound shipments grew 43.61 per cent YoY in July to $66.27 billion, though slightly lower from $66.31 billion in June.

The rise in imports has been mainly due to an increase in the purchase of petroleum products, electronic goods, and coal. Among major import items, gold declined 43.6 per cent to $2.37 billion after the Centre raised import duty on the metal last month. However, import of non-oil and non-gems and jewellery products grew 42.91 per cent due to recovery in domestic economic activities as well as elevated price pressure.

As for outbound shipments, there was a contraction in some of the key drivers of export growth in India. Engineering goods witnessed a 2.08 per cent contraction, gems and jewellery 5.2 per cent, pharmaceuticals 1.05 per cent, readymade garments 0.6 per cent, and cotton yarn 28.17 per cent, amid tepid demand from Western nations.

However, some items continued to witness growth. Petroleum products grew at 9.18 per cent, chemicals 8.03 per cent, electronic goods 46.0.9 per cent, and rice 30.88 per cent.

A Sakthivel, president, Federation of Indian Export Organisations, said signs of a likely slowdown in exports could be seen as global inventories were pretty high.

"Merchandise exports are facing the triple whammy – there is again a shift in consumption from goods to services with the opening up of economies after the Covid-19 pandemic; the inflation affecting all economies by reducing the purchasing power; and many economies entering the recession while some advanced ones already in recession," Sakthivel said.

Besides, the normalisation of Covid disruptions has also added to the piling up of inventory as goods that used to reach the West Coast of the United States in 150 days now reach in only 60 days, he added.

On a cumulative basis, India exported goods worth $157.44 billion during April-July, up 20.13 per cent.

Engineering Export Promotion Council (EEPC) of India Chairman Mahesh Desai said the dip in engineering goods exports in the month of July reflected weak demand from India's major markets.

"The recession fears in the West have added to the uncertainties. While geopolitical risks remain elevated and pose downside risks to growth, the recent softening in commodity prices has come as a relief," Desai said.

Earlier this month, Commerce Secretary B V R Subhramanyam had said that with fears of recession looming in some of India's largest export markets — the US and Europe — India should be "worried", although India will be able to compensate for the hit from these two regions with recently signed trade deals with the United Arab Emirates and Australia.

Source: business-standard.com– Aug 12, 2022

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Industry to give more inputs as India-UK FTA talks enter final stage

The Indian industry is set to provide more inputs to the government on the on-going India-UK Free Trade Agreement, which is expected to double bilateral trade to $100 billion by 2030, as negotiations have now entered an advanced stage with October-end fixed as the deadline to conclude talks.

“After the fifth round of negotiations on the India-UK FTA concluded recently, there is more clarity on what each side wants and what could be achieved. It is the right time to take more inputs from the industry to push for what it wants and also protect what needs to be shielded,” a person tracking the matter told Business Line.

Exporters’ body Federation of Indian Export Organisations has organised a discussion with industry representatives and experts next week on the likely impact of the proposed India-UK FTA and invite further suggestions on the pact that the government could incorporate.

“In the area of goods, UK is keen on more market access for items such as transport equipment, electrical equipment, medical devices, chemicals, motor vehicles and parts as well as wines and spirits and some fruits and vegetables. While the government has held a lot of consultations with various industry sectors on crucial areas, more inputs at this point of the negotiations could be helpful,” the source said.

The Indian industry hopes to make big gains from the FTA with the UK in areas such as textiles, food and beverages, tobacco, leather & footwear, and agriculture items including rice.

Services trade

Apart from manufactured products, India also holds strong services trade relation with the UK and is the 10th largest service trade partner to the UK, according to a communication from FIEO to its members.

“India is the 20th largest export destination for UK with a 1.3 per cent share and for India, UK is the 7th largest export destination with 3.5 per cent share in the UK’s global services imports…It is expected that the FTA between India and the UK will significantly help to bring down the current trade barriers and restrictions o¬n trading in goods and services between the two countries and is likely to boost investments and exports across sectors," it said.

In the area of services, India is pushing for greater liberalisation of work visa norms and mutual recognition of professionals.

The India-UK FTA negotiation was formally launched in January 2022 by Commerce and Industry Minister Piyush Goyal and UK Trade Secretary, Anne-Marie Trevelyan. India also launched FTA negotiations with the EU this year.

Source: thehindubusinessline.com– Aug 15, 2022

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Textile tech scheme of more help than PLI for MSMEs, say Surat units

Textile units in Suart have sought the implementation of the Textiles Technology Development Scheme (TTDS) with retrospective effect from April 1. At a recent meeting of industry leaders on the production-linked incentive (PLI) scheme for the textile sector, participants said the scheme was not viable for the fragmented MSME textile industry across India, sources said.

They demanded that the TTDS be implemented immediately or the Amended Technology Upgradation Funds Scheme (ATUFS) be extended, instead of PLI.

Ashish Gujarati, former president of the Southern Gujarat Chamber of Commerce and Industry, said, "Government of India has projected a domestic market size of $250 billion and exports of $100 billion by 2025-26.

Currently, the export value of the textile sector of India is around $40 billion and the domestic market size is estimated to be around $120 billion. When such huge expansion of market size is expected, it requires faster adoption of modern technology. The proposed PLI scheme will not be able to facilitate this."

Gujarati, who owns a weaving unit in Surat, said the textile PLI scheme introduced last year was aimed at promoting manufacturing of garments and specialty yarns that are not being manufactured in India.

"The challenge as of now is regarding capacity building of Indian textiles and apparel industry not only for increasing exports to capture the space being vacated by China, but also to retain India's share in the domestic market as slowly international brands are capturing the share," he said.

"PLI scheme offers incentive on sales value only, therefore it will attract only production-based commodity textiles," says Vallabh Thummer, former president of the Textile Machinery Manufacturers Association. "It will not mobilise investment in specialty products which are either export-oriented or import substitutes.

Textile industry value chain after spinning is still fragmented and the majority are still engaged in doing jobs for others. Such smaller entrepreneurs will not be covered under the proposed PLI. Instead, giving them one-time capital-like subsidies under TTDS or ATUFS would work for the entire textile value chain," Thummer said.

"The biggest problem of the proposed textile PLI scheme is potentiality of creating a market imbalance between the prices offered by the PLI beneficiary and that of non-beneficiary," said Ashok Jariwala, president of Federation of Gujarat Weavers Association.

Source: financialexpress.com– Aug 16, 2022

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Can India's exports beat global recession?

Exports of goods and services as a share of GDP showed a marginal improvement to 21.5% in 2021-22 from 18.8% the previous year but trailed an average ratio of 24.6% between 2011-12 and 2014-15.

A stellar rise in India's exports may have helped the pandemic-battered economy look up recently, but it is barely enough to suggest a turnaround for the long run. Exports as a share of gross domestic product (GDP) are still not high enough and, with the tides of the global economy now turning for the worse, further growth has become more challenging.

Indian exports are highly sensitive to global growth shocks, analysts at Crisil had said in a report in December 2021. This already seems to be playing out. In July, exports growth was the slowest since February 2021, having grown 47% in between, shows trade data released last week. The high growth had been driven by the global pent-up demand and base effect.

However, many peers saw an even faster rise in exports. More worryingly, exports of goods and services improved marginally to 21.5% of GDP in 2021-22 from 18.8% the previous year but trailed an average of 24.6% seen between 2011-12 and 2014-15.

While India touted the $400 billion worth of merchandise exports in 2021-22 as a milestone, relative to GDP, the figure was behind the trend seen before 2014-15. Even the targeted $1 trillion in exports by 2030 will not be much of an improvement, assuming that the economy would have grown to $5 trillion by then.

Not only will India have to show resilience amid a global slowdown, but it will also have to make an effort to diversify its exports basket, experts said.

Lost intensity

India's exports basket is dominated by engineering goods (25%), petroleum products (16%), and labour-intensive industries such as leather, textiles, and gems and jewellery (32%). The first two are capital-intensive, but the real push to growth comes from the labour-intensive sectors, which create more jobs. However, their share in India's exports has been on a decline, which could take a toll on jobs-led growth.

The growth in exports of labour-intensive items has been lagging overall exports growth, according to a Mint analysis. The rise in labour-intensive items was only 36% against a growth of 45% in overall exports in 2021-22.

The labour-intensive industry has consistently fallen behind after 2016-17, which economists say is because of the hardship faced by the industry following demonetization, the implementation of the goods and services tax, and lockdowns aimed at containing the spread of covid-19.

Recession bells

The GDP of the US has contracted for two consecutive quarters, sparking a debate whether the country has already slipped into a recession.

This could be bad news for India, which relies heavily on the world's biggest economy for exports. Not only is the US India's top export destination, it is also way ahead of the other countries such as China and the UAE.

"We believe the export downturn has already started and will accelerate in the second half of 2022," said Nomura in a report on 3 August.

What a possible China slowdown means for India

India's exports growth is likely to be hurt in the coming months with a recession also likely in the euro area, the UK, Australia, and Canada, among others, the report said.

The persistent supply-chain issues, shortage of raw materials, and high inflation are also headwinds for exports as efforts to push free trade agreements are yet to show results.

Moving up?

In 2021, India ranked 18th globally on outbound shipments, its best standing in several years, shows World Trade Organization data. This, however, is only a marginal improvement, with India always ranking 19 or

20 over the last decade. India could very well have been in the top 15 if its exports were higher by at least $50-60 billion.

However, global headwinds, smaller countries exhibiting faster exports growth, and the slowing trend in India are major challenges. India took around five to six years to jump from $00 billion to $200 billion in exports and from $200 billion to $300 billion.

However, adding another $100 billion took nearly a decade. At the current pace, India risks losing out to Spain, Switzerland, and Australia, among others, and will need a policy shift away from subsidy-based promotion of exports and towards faster adoption of the environmental, social, and governance (ESG) regulations.

Source: livemint.com– Aug 16, 2022

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India experiences decline in its textile exports in April-July '22

India has clocked US $ 12.89 billion turnover from apparel and textile exports during April-July 2022, registering a growth of 2.15 per cent to reach.

According to DGCI&S data, which was further analysed by the Confederation of Indian Textile Industry (CITI), the export had valued US $ 12.62 billion during April-July 2021.

During July '22, Indian textiles exports registered de-growth of 24.15 per cent over the same month of the previous year, while apparel exports registered de-growth of 0.6 per cent over July '21.

Cumulative exports of textiles and apparel during July' 22 have declined by 15 per cent.

During April-July '22, Indian textiles exports have declined by 10.30 per cent over the same period of the prior year, while apparel exports have registered a growth of 22.46 per cent during the review period.

Cumulative exports of textiles and apparel during April-July' 22 have registered a growth of 2.15 per cent on Y-o-Y basis.

T. Rajkumar, Chairman CITI stated that in the last few months Indian T&A Industry had been facing unprecedented challenges which are evident in the quick estimates of T&A export data released recently.

Source: apparelresources.com– Aug 16, 2022

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Volatile cotton prices, weak domestic demand hurt Gujarat's denim industry

Volatile cotton prices and high inflation have forced Gujarat's denim industry to function at 60 per cent capacity at a time when it was hoping to recoup losses in the upcoming festive season.

Gujarat has around 25 denim manufacturing mills, with a combined installed capacity of over 1 billion metres per annum, forming over 60 per cent of India's total 1.6 billion metre per annum installed denim capacity.

The impact has been felt the most by micro, small, and medium enterprises (MSMEs), which are staring at low demand in both domestic and export markets.

According to denim makers, the industry has been forced to operate at sub-optimal capacity of around 60 per cent even as domestic deliveries have been impacted. This is because these players have been forced to pass on high input costs to buyers, leading to a 10-15 per cent rise in prices.

Cotton prices

Among input costs, cotton prices have fluctuated since the beginning of 2022.

The price of a candy of cotton, which weighs 356 kg, more than doubled from roughly Rs 36,000 in September 2020 to Rs 78,000 by February 2022, before touching a peak of Rs 1.10 lakh in May 2022. Though prices have eased since then, they were still high at Rs 80,000 per candy in July 2022 before rising again to Rs 95,000 in August.

According to the denim industry, which uses over 10 per cent of cotton produced in India, firms stopped procuring cotton as prices began to fall from the peak of Rs 1.10 lakh per candy in the expectation that there would be a further decline in prices.

Now, however, they have been forced to purchase cotton at relatively higher prices in light of the continuing volatility, which has impacted their margins.

“Due to volatility in yarn and cotton prices, the user demand for denim fabric has also been fluctuating for us. People in the domestic market are currently reluctant to buy, leading to an increase in stock losses,” said Kumar Agarwal, chief executive officer of Ahmedabad-headquartered Venus Denim, which has a 36 million metres per annum installed capacity.

He added that denim products are made to order, and buyers are waiting to see if prices will stabilise.

Reduced exports

The industry has also been impacted by reduced exports, which has forced it to depend even more on the domestic market, said Vinod Mittal, managing director of Surat-based Vinod Denim.

“Dollar fluctuation and high shipping freights have put tremendous pressure on exports. But even on the domestic front, while the industry is operating at 60 per cent capacity utilisation, almost 20 per cent of denim produced is not getting delivered and remains in stock due to sluggish demand,” Mittal added.

Volatile cotton prices have also made India’s denim uncompetitive for MSMEs, since products from China and Bangladesh are now more affordable in the international market.

Agarwal explained that the textile industry depends on credit lines and fluctuating prices have resulted in order cancellations. “If cotton prices are regulated, this can be avoided,” he added.

Fluctuating prices and reduced exports have put an end to the denim industry’s plans to expand capacity ahead of the festive season.
While Vinod Denim was planning to add another 12 million metres per annum capacity, Venus Denim was looking to ramp up by 20 per cent.

Listed players

Larger listed players are still better off, especially those like Jindal Worldwide, which also has its own backward integrated spinning capacity.

“With the help of our backward integrated spinning capacity, we have been able to improve our Ebitda margin to 11.5 per cent. We are fully integrated, so we have an advantage of buying cotton for our spinning capacity at lower levels," said Gaurav Davda, head of corporate finance and strategic initiatives at Jindal Worldwide. "However, our quarter-on-quarter (QoQ) revenue was down by 12 per cent due to seasonal cycles but Q3 and Q4 will be better quarters for us. On an annual basis, we will grow in revenue in the high single digits due to per metre realisation increase and spinning capacity."

Similarly, Arvind saw a 1 per cent year-on-year dip in denim volumes at 19.5 million metres in the first quarter of financial year 2022-23 (FY23). Arvind's denim exports volume stood at 12 million metres in Q1, compared with 16 million metres last year. However, the company posted 34 per cent growth in realisation, driven by higher prices that offset cost and currency impact.

Source: business-standard.com– Aug 17, 2022

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More GST rate changes likely to address inverted duty, exemptions

The Goods and Services Tax (GST) Council may go in for another round of rate changes to correct the remaining instances of inverted duty, apart from withdrawing some more exemptions. A group of ministers (GoM) headed by Karnataka chief minister Basavaraj Bommai is working on the second round, people aware of the matter told ET.

"The inverted duty correction exercise has not concluded yet and there is more work left," said a senior official, adding that the GoM is working on the next list and a proposal may be floated before the next council meeting, which is likely in September. "The last two-three meetings were productive, with many important decisions being taken. But some items are still pending, including textiles," the person said.

Inverted Duty Structures

Inverted duty refers to structures where the rate of tax on inputs is more than the rate of tax on outward supplies, which discourages value addition. If required, tax authorities will engage with industry for feedback, the official said.

Inverted duty structures also prevail in automobiles, including electric vehicles, some electronic items, urea and other fertiliser inputs, according to experts.

"The correction in inverted duty structure in sectors such as textiles, electric vehicles, etc, would help the industry in liquidating their accumulated credits, smoothen working capital issues and reduce compliances," said Saurabh Agarwal, tax partner, EY.

The resolution of inverted duty structures in sectors where production-linked incentive (PLI) schemes have been introduced will help improve the internal rate of return.

Currently, companies in these sectors are not able to utilise the input tax paid on the procurement of capital goods; nor are they able to get refunds toward this, leading to increased working capital costs, Agarwal said.

In September last year, the GST Council decided to rectify the inverted duty structure for footwear and textiles. Duty on footwear and finished apparel of any value was set at 12%, effective January 1. Earlier, the GST rate was 5% for sale value up to Rs 1,000 per piece in the case of finished apparel such as shirts, and per pair in the case of footwear.

Traders and manufacturers opposed the increase, saying it would adversely impact India's textile industry and lead to job losses. Many states - including Rajasthan, Telangana, West Bengal and Delhi - opposed the increase, which was eventually rolled back.

Excluding textiles, the GST Council has continued with the exercise to correct duty inversion.

In June, the council adjusted rates to correct inverted duty on items such as edible oil, solar water heaters, LED lamps, printing ink and knives, among others. Additionally, it imposed 5% GST on pre-packaged and pre-labelled retail packs of certain food items to address tax evasion. It also removed many items from the exemption list.

Source: economictimes.com– Aug 16, 2022

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Commerce ministry suggests host of incentives to revamp SEZs

The government's move to revamp special economic zones (SEZs) could begin with the introduction of a host of direct and indirect incentives, as proposed by the commerce ministry, an official said.

The expected incentives could include deferral of import duties and exemption from export taxes, which could pave the path for revamping Special Economic Zones, through a new legislation.

The Centre proposed in the Union Budget this year, to replace the existing law governing Special Economic Zones (SEZs) with a new legislation to enable states to become partners in 'Development of Enterprise and Service Hubs' (DESH).

The commerce ministry has sought views of different ministries, including finance, on the new bill, PTI quoted an official as saying.

After collating the feedback, the ministry would seek approval of the Cabinet and then introduce the new bill in Parliament.

The proposals seek to provide incentives such as retention of zero-rating of IGST (integrated goods and services tax) on domestic procurement by a unit in an SEZ; continuation of indirect tax benefits to developers of these zones; and allowing depreciation on sale of used capital goods cleared to domestic tariff areas.

Moreover, there is also a plan to extend the corporate tax rate to 15 per cent without any exemptions for units undertaking authorised operations in these development hubs.

States can also provide support measures to these zones to boost manufacturing and job creation.

The existing SEZ Act was enacted in 2006 with an aim to create export hubs and boost manufacturing in the country. However, these zones started losing their sheen after imposition of minimum alternate tax and introduction of sunset clause for removal of tax incentives.

These zones are treated as foreign entities in terms of provisions related to customs. Industry has time and again demanded continuation of tax benefits provided under the law. Units in SEZs used to enjoy 100 per cent income tax exemption on export income for the first five years, 50 per cent for the next five years and 50 per cent of the ploughed back export profit for another five years.

In the Budget 2016-17, the government had announced that the income tax benefits to new SEZ units would be available to only those units which commence activity before March 31, 2020.

As on June 30, 2022, the government has given formal approvals to 425 SEZ developers, out of which 268 are operational. These zones have attracted about Rs 6.5 lakh crore investments and employ about 27 lakh persons.

During April-June this fiscal, exports from these zones rose by 32 per cent to about Rs 2.9 lakh crore. It was about Rs 10 lakh crore in 2021-22 as compared to Rs 7.6 lakh crore in 2020-21.

Presenting the Budget 2022-23 , Finance Minister Nirmala Sitharaman had said: "The Special Economic Zones Act will be replaced with a new legislation that will enable the states to become partners in Development of Enterprise and Service Hubs."

This would cover all large existing and new industrial enclaves to optimally utilise available infrastructure and enhance competitiveness of exports.

Source: economictimes.com– Aug 14, 2022

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Manufacturing needs cohesive policies

The Development of Enterprise and Service Hubs (DESH) Bill, seeking to revamp the existing SEZs, proposes a new set of concessions. DESH will be an addition to four existing schemes promoting manufacturing.

Generally, any scheme with a more attractive feature diminishes the competitiveness of existing schemes. Let us understand the impact of different incentives and concessions offered under various schemes on a firm's performance. How can the concession ecosystem for manufacturing be improved ?

The four major schemes for promoting manufacturing in India are: Special Economic Zones (SEZs); 100 per cent export-oriented units (EOU); Manufacturing & Other Operation in Warehouse Regulation (MOOWR); and Domestic Tariff Area (DTA) units.

SEZ units are located within a physical wall. Any unit can opt for the EOU or MOOWR scheme irrespective of location. A unit outside the SEZ, EOU or MOOWR framework can be considered a DTA unit.

Features of major schemes

A firm willing to set up manufacturing in India has to choose from these. For this, it needs to understand how concessions under various schemes compare. Most schemes differ in the parameters like location choice, tax benefits, payment of import duty, GST on imports, exports, domestic sales, and purchases.

The Table highlights the scheme-wise concessions.

The Table shows that SEZs offered more incentives than EPZs and EOUs. A MOOWR provides more than what SEZs or EOUs offer. Now DESH proposes to offer more than everyone else.

A firm opts for a scheme that offers the most concessions. But the change from one scheme to another involves cost. In the past, thousands of units have been shut down or crippled because they could not move to schemes that offer better concessions.

Comparison of schemes for manufacturing in India

Schemes	Location	Direct tax benefits	Exports to be more than imports	Sourcing of inputs		Sale of finished products	
				Domestic – GST payment by supplier	Imports – Customs duty & IGST payments	Domestic	Exports – IGST payments
Development of Enterprise and Services Hubs	Specified walled areas	Proposed	No	No IGST	No Customs duty, No IGST	Customs duty foregone on inputs +IGST on output	No
Special Economic Zones	Specified walled areas	Till 2020	Yes	No IGST	No Customs duty, No IGST	Customs duty foregone on output +IGST on output	No
Export Oriented Units	Anywhere	Till 2012	Yes	Pay GST, seek refund	No Customs duty, No IGST	Customs duty foregone on inputs with interest +GST on output	No
Manufacturing under Customs Bond (MOOWR)	Anywhere	No	No	No GST (credit)	No duty, No IGST (deferred)	Customs duty foregone on inputs +IGST on output	No
Domestic Tariff Area for domestic sales	Anywhere	No	No	Pay GST	Pay duty and IGST	GST on output	NA
Domestic Tariff Area for export sales	Anywhere	No	Yes	Pay GST, seek refund, supply against Advance Authorisation/EPCG	Use Advance Authorisation- No duty, No IGST	NA	Optional, pay and seek refund or seek exemption

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The Export Oriented Units scheme is an example of how a successful scheme fades when new schemes offer better terms.

A case study

Introduced in 1981, the EOU scheme produced thousands of export-focused units across the country. Textiles/garments, food processing, chemicals, pharmaceuticals, gems and jewellery, engineering goods, and electrical/electronics were the key sectors. In 2009, exports under EOUs at $39 billion were higher than SEZ exports, at $22 billion. The EOUs faced discrimination as the government offered more incentives to new schemes since 2011.

For example, direct tax exemptions were withdrawn from the EOU scheme in 2011 even though they continued for 10 more years for the SEZ scheme. To benefit from tax exemption, a few large EOUs converted into SEZs. Many EOUs shut shop as relocation was not easy. The EOUs faced the next shock in 2017, when the GST regime refused to allow continuation of exemption of taxes on domestic procurement of inputs and capital goods. It, however, allowed such exemptions to the SEZ and subsequently to the MOOWR schemes.

Also, sale in the domestic market was conditional for EOUs, while SEZ or MOOWR units have no such restrictions. More incentives to other schemes made the EOU units less competitive and maimed them.

A raw deal

Firms that contribute most to exports and manufacturing have got a raw deal. Lakhs of small and thousands of medium/large units functioning in the DTA contribute to 80 per cent of merchandise exports and much of the domestic manufacturing turnover.

The 10,000 units under the SEZ, EOU and MOOWR regimes contribute to an estimated 20 per cent of merchandise exports from India. DTA units are thus the bedrock of manufacturing and exports. But compared to other schemes, the DTA units get the lowest concessions.

A few examples: (i) A DTA unit pays both the Basic Customs Duty and IGST on the import of machinery for making products for domestic sale. But a unit under MOOWR or SEZ can import machinery duty-free. This affects the DTA units and machinery makers.

(ii) A DTA unit must use government-approved raw materials to make an export product. No such limitation under SEZ or MOOWR.

(iii) No GST exemption for domestic sourcing of raw materials for the export product. Such a facility is available to MOOWR and SEZ units.

The way out

A three-step plan will harmonise the concessions under various schemes and strengthen the manufacturing framework:

DESH must subsume only large SEZs/industrial parks, so the zone becomes competitive and self-contained.

MOOWR is EOU plus more concessions. The two may be merged or the government should allow the EOUs to get all MOOWR features. But this is unlikely as the Finance Ministry — the owner of MOOWR — may not agree with the Commerce Ministry — the owner of the EOU scheme.

Create a cohesive policy framework for the DTA units. There is none now. They work under different schemes and frameworks. DTA units must not be getting lower concessions than SEZ or MOOWR units as they are India's best hope of becoming a manufacturing powerhouse and job creator.

Source: thehindubusinessline.com– Aug 15, 2022

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GST hurting key sectors

The infrastructure sector is considered the backbone of the Indian economy. The strongest part of the recent Union Budget was the government's renewed thrust on investments in strengthening the country's infrastructure. However, this sector faces certain issues under GST, which are discussed below.

Cost of input material: The sector depends on several factors such as electricity, logistics, cement and consultancies. Higher tax rate on these sectors will have an impact on the costs of construction. A higher GST rate of 28 per cent imposed upon cement would adversely impact construction cost.

Electricity is not within the ambit of GST and tax on the same is an additional burden. Revisiting the GST rates for the dependent sectors can reduce the cost for this sector.

Taxability of bonus on early completion of projects: In case of certain projects (such as construction of highways, dams) the project owner typically pays to the contractor a bonus equal to a specified percentage of the project cost if the work gets completed as per schedule or prior to the due date of completion. Such bonus payment, although a reward, is considered a part of the consideration for supply of works contract services.

Providing tax exemption on bonus will inspire the contractors.

The benefit of zero-rated supplies available to the main contractor supplying goods or services to an SEZ unit or developer is not available to sub-contractors supplying goods or services to such contractor.

This results in blockage of funds/working capital for the contractor. Extending exemption to sub-contractors shall resolve the issue of blocked funds for these contractors.

Deemed deduction of land value: The GST law does not provide for deduction of actual value of land, thereby making deduction lower in cases where the actual value exceeds the deemed deduction. Providing for actual deduction of land value can reduce costs and, thereby, give the sector a boost.

The impact of Covid-19 has been hard on businesses affected by the lockdowns. However, the lockdowns have pushed consumers towards online shopping. A small seller or a large established chain all can sell goods across India and e-commerce helped to amplify the reach. There are a few key issues that need to highlighted, though:

Higher compliance cost: Under GST, with the burden of TCS, e-commerce operators are required to undertake additional compliances in States where their suppliers are located. This significantly increases the compliance burden on e-commerce operators, as many of them have a large number of vendors. Further, matching invoice data with those of the suppliers and deducting appropriate TCS are proving to be difficult. The mismatches are mainly due to multiple transactions occurring with a particular supplier, and communication gap between e-commerce operators and the suppliers. It is hoped the government will ease these restrictions in near future.

Registration concerns: GST law mandates e-commerce operators to get separate registrations for TCS, irrespective of whether they are already registered under GST or not. Registration for TCS is required in each State as collection of TCS is compulsory on all supplies.

E-commerce operators are in a dilemma about getting registered in States where they do not have physical presence. Since most players are discouraged to opt for marketplace model to comply with registrations in multiple States, the registration requirement needs to be relaxed.

Stock transfers between branches of a single e-commerce entity are deemed to be supplies, subject to GST. Though the tax paid is available as credit to the entity, this may result in cash flow blockages. Tax liability would arise at first stage of stock transfer, which can only be offset at the time of final supplies by the e-commerce entity. Hence, making stock transfers between branches non-taxable can fix the cash flow issues.

The government should discover the challenging areas and come out with resolutions on the issues faced so that there would be more opportunities rather than challenges and the growth of these sectors is promoted.

Source: thehindubusinessline.com– Aug 16, 2022

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Cotton yarn prices further up in south India, stronger demand may stay

Cotton yarn prices increased in south Indian market because of better buying and stronger cotton. The prices went up ₹5-8 per kg in Tiruppur since last week. Cotton yarn was traded higher ₹3-5 per kg in Mumbai also. Traders said that there was optimism for higher demand of yarn in the coming months. Stronger cotton is also supporting yarn prices.

Carded yarn prices gained in Tiruppur market during last one week. Traders said that carded yarn prices had recorded steep decline because smaller mills were forced to reduce prices due to their limited financial capacity. Now they are increasing carded yarn prices more aggressively to recover from losses. The prices gained ₹5-8 per kg in south India's major yarn market.

A trader told Fibre2Fashion, "There was optimism about higher demand in future. Stronger cotton is also supporting yarn prices. Upward trend is likely to continue in the coming months." Today, 30 count combed cotton yarn was traded at ₹350-355 per kg (GST extra), 34 count combed at ₹362-367 per kg and 40 count combed at ₹365-370 per kg in Tiruppur market. Cotton yarn of 30 count carded was sold at ₹322-325 per kg, 34 count carded at ₹330-334 per kg and 40 count carded at ₹337-342 per kg, according to Fibre2Fashion's market insight tool TexPro.

Mumbai market too noted upward trend in cotton yarn prices as mills and traders were trying to keep the prices upside by tightening supplies and sale. Traders said that mills and traders were selling yarn in limited quantities amid better demand. Therefore, cotton yarn prices gained ₹3-5 per kg in last one week.

A broker said that there was confidence about better buying in the weeks to come which is supporting yarn prices. 60 count carded cotton yarn of warp and weft varieties were traded at ₹1,925-1,975 and ₹1,825-1,870 per 5 kg (GST extra) respectively. 80 carded (weft) cotton yarn was sold at ₹1,780-1,800 per 4.5 kg. 44/46 count carded cotton yarn (warp) was priced at ₹365-375 per kg. 40/41 count carded cotton yarn (warp) was sold at ₹345-350 per kg. 40/41 count combed yarn (warp) was priced at ₹410-440 per kg, as per TexPro.

In Gujarat, cotton prices surged further due to nominal arrival in the mandis. According to the traders, prices are gaining despite limited buying because mills are least interested to buy cotton on higher prices. cotton prices increased by ₹4,000-5,000 per candy of 356 kg since last week. Cotton was traded at ₹92,000-100,000 per candy in spot market of Gujarat.

Source: fibre2fashion.com– Aug 16, 2022

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