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INTERNATIONAL NEWS

China: Exporters gain from lower sea freight rates

Lower sea freight rates will benefit China's export-oriented companies in the fourth quarter, which can be a practical driver to stimulate demand in the global market, said analysts and exporters. These comments came after spot rates for container shipments from Shanghai plunged 10.6 percent to $2,399 per forty-foot equivalent unit (FEU) on Sept 30, which have shown a downward trend for 20 weeks on the route to the west coast of North America, according to the latest data released by the Shanghai Shipping Exchange.

On the route to Europe, spot rates waned by 6.7 percent to $2,950 per twenty-foot equivalent unit (TEU), which have continued a downward trend for 18 straight weeks. Affected by factors such as the disruption by the COVID-19 pandemic, insufficient shipping capacity and global markets' soaring demand, the cost of a standard container from China to the United States west coast was around $20,000 in September last year.

Due to the launch of new container vessels and shipping companies' move to deploy more container carriers between China and the US, it is not surprising to see cargo rates falling, said Dong Liwan, a professor of shipping management at Shanghai Maritime University.

The lower shipping rates can help domestic companies ease the burden on logistics expenditures and cut goods' costs in many parts of the world, as freight rates represent a fairly large part of total costs — even more than the value of goods at times, said Lin Meng, director of the modern supply chain research institute under the Chinese Academy of International Trade and Economic Cooperation in Beijing. Caused by growing inflationary pressure, high energy prices and excessive goods supplies, Lin said, demand from overseas consumers has shrunk since the beginning of this year.

With the gradual recovery of consumer confidence, the shipping market demand is likely to grow in the fourth quarter, which will help further improve overall market supply and demand relationship, said Chen Shuai, vice-president of COSCO Shipping Holdings Co Ltd, a subsidiary of State-owned China COSCO Shipping Corp Ltd.

Global demand is at a relatively low point for the year and is expected to rise as overseas businesses have been gradually destocking, according to a preliminary survey of the market released by COSCO Shipping Holdings.

Ruan Hongwei, an official from Yiwu Customs, a branch of Hangzhou Customs, said these market changes have not notably affected businesses in Yiwu, the world's largest small commodity distribution center in East China's Zhejiang province. The city's exports soared 25.1 percent on a yearly basis to 279.11 billion yuan ($38.81 billion) in the first eight months, Customs data showed.

Because the dropping sea cargo rates have helped foreign buyers to cut the transportation costs under trade transactions settled with free on board (FOB) contracts, which relieve the seller of responsibility once the goods are shipped, many exporters in Yiwu found that export orders have increased since August, Ruan said.

Noting the challenges ahead, Huang Huigu, chairman of Guangzhou Kingsons Leather Products Co Ltd, said it is necessary to further expand the export market in the coming months. The company has been increasing the space of the cross-border e-commerce market to create more added value for its global customers, which rivals in Southeast Asian nations such as Vietnam and Indonesia are unable to offer.

Apart from spending more cash on product designs, the Guangdong province-based exporter has already begun to assist its overseas clients in promoting sales via reinforcing intellectual property protection measures, producing commercial videos and providing cross-border logistics services.

Since the global shipping market has turned from a seller's market into a buyer's market, Morten Juul, head of ocean management for the Asia-Pacific region at A.P. Moller-Maersk, a Danish shipping and logistics service provider, said the changes to the macroeconomic environment are accelerating the pace of market normalization and enabling ports to decongest, which in turn will put pressure on the value proposition offered by carriers.

Source: hellenicshippingnews.com - Oct 17, 2022

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Brazil-UK cooperation fully digitises, automates former's PNCE service

An early outcome of the cooperation between Brazil's ministry of economy and is the UK Foreign, Commonwealth and Development Office (FCDO) is the full digitisation and automation of the Brazilian National Plan of Export Culture (PNCE) export maturity self-assessment service, based on a benchmarked methodology developed by the Brazilian National Confederation of Industry (CNI).

Both sides have been cooperating since 2019 to promote inclusive economic growth in Brazil through the internationalisation of Brazilian micro, small and medium enterprises (MSMEs), according to a joint statement released by Brazil and the United Kingdom on such cooperation.

The cooperation is a result of a memorandum of understanding both sides signed on August 20, 2019, on prosperity fund cooperation on trade facilitation.

The main deliverable of this cooperation is the Global Trade Hub (GTH), or BRAEXP in its Brazilian brand name, a digital marketplace for export services focused on MSMEs and based on the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) Integrated Services for MSMEs in International Trade (ISMIT) concept, to be fully developed and transferred to Brazilian ownership and operation by March 2023.

The PNCE service allows any Brazilian MSME from any region or sector and with access to the internet to self-assess its export maturity and receive, for free, a tailor-made internationalisation plan with the identification of the export services it needs to consume to access or expand its sales in international markets.

While the service is already available to Brazilian MSMEs, it will be fully integrated into the Global Trade Hub (GTH) once the digital marketplace for export services is transferred to Brazilian ownership and operation and goes online.

The PNCE service and the GTH digital marketplace are based on open source, cloud-ready, and cutting-edge technology as well as on innovative international best practices.

They place Brazil as a leader among emerging economies in the digitisation of foreign trade procedures and trade facilitation, the joint statement added.

Source: fibre2fashion.com- Oct 17, 2022

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US retailers concerned over new labour department contractor proposal

A new notice by the US department of labour proposing guidelines on how contractors are classified has led to concerned retailers feeling that the rule, which could result in more people being deemed employees instead of 'independent contractors' could increase costs for businesses as employees are granted federal protections like minimum wage and overtime.

When employers classify their workforce as contractors they are not under obligation to pay payroll taxes that fund Social Security or unemployment insurance programmes.

The proposal is not expected to significantly affect textile and apparel workers in the country, according to a top US fashion news portal.

"The modern workplace is more complex in the wake of the pandemic. Retailers, along with countless other employers, maintain a wide range of business relationships with independent contractors, including billing, facility maintenance, data analysis, delivery, marketing and other critical services," National Retail Federation senior vice president of government relations David French said.

"The current rules clearly define the difference between employees and independent contractors, providing much-needed legal certainty for employers, employees and independent contractors alike. The changes being proposed by the Labour Department will significantly increase costs for businesses across all industries, and further drive already rampant inflation," he said.

"NRF staunchly opposes a change in this important area of law, which is both unwarranted and unnecessary. This decision will only foster massive confusion, endless litigation, reduced innovation and fewer opportunities for employees and independent contractors alike," he added.

The proposed rule offers guidance on classifying workers and seeks to combat employee misclassification. Misclassification is a serious issue that denies workers' rights and protections under federal labor standards, promotes wage theft, allows certain employers to gain an unfair advantage

over law-abiding businesses, and hurts the economy at-large, the labour department said.

“While independent contractors have an important role in our economy, we have seen in many cases that employers misclassify their employees as independent contractors, particularly among our nation’s most vulnerable workers,” said secretary of labour Marty Walsh.

“Misclassification deprives workers of their federal labor protections, including their right to be paid their full, legally earned wages. The Department of Labor remains committed to addressing the issue of misclassification,” he added.

The proposed rule would align the department’s approach with courts’ Fair Labour Standards Act interpretation and the economic reality test; restore the multi-factor, totality-of-the-circumstances analysis to determine whether a worker is an employee or an independent contractor under the FLSA; ensure that all factors are analysed without assigning a predetermined weight to a particular factor or set of factors; revert to the longstanding interpretation of the economic reality factors; and assist with the proper classification of employees and independent contractors.

Source: fibre2fashion.com- Oct 16, 2022

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China's apparel exports to India rise 2.5x in Aug over March 2022

China's apparel exports to India increased by two and a half folds in August compared to March 2022. Monthly exports rose to $131.555 million in August from $53.275 million in March 2022. Although, the trade value is insignificant for both nations, the trend is important as it indicates that more and more Indian buyers are importing cheaper Chinese garments.

A lot of speculations are floating in the Indian yarn market regarding the steep rise in imports of cotton garments from China which is seen as the main cause for low demand in the entire textile value chain in the country. "All the items in the garment category are being imported as they are cheaper than the garments made in India. If garments are imported from China, nobody will buy yarn or fabrics. Therefore, demand is not improving even during the festival season," a trader from Ludhiana told Fibre2Fashion.

Monthly garment exports from China increased consistently during the last six months. The exports grew to $77.066 million in April, $87.901 million in May, $109.995 million in June, $129.678 million in July and $131.555 million in August 2022, according to Fibre2Fashion's market insight tool TexPro. The data shows that garment exports grew in July 2022 over June 2022 when the US banned cotton and cotton products originating from the Xinjiang region of China. Cotton and yarn prices declined in the Chinese market after the ban.

Chinese exports to India increased to $274.963 million in the second quarter from $184.135 million in the first quarter of this year. Annually, the exports rose to $1,145.475 million in 2021 from $838.195 million in 2020. The exports were at $720.332 million in the first eight months of the current year. Chinese apparel exports were at $448.821 million in the first half of this year. Trousers and shorts contributed 22.61 per cent ($101.491 million) in the total supply. Jackets and blazers (18.17 per cent), accessories (15.27 per cent), socks (7.06 per cent) and dresses (5.78 per cent) were the other top products exported to India, as per TexPro.

Source: fibre2fashion.com- Oct 17, 2022

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Vietnam's exports to CPTPP nations rises by 38.7% in Jan-Aug 2022

The value of Vietnam's exports to member countries of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) rose by 38.7 per cent to $41 billion over the first eight months this year, while its imports from that grouping during the January-August period were worth $35 million, according to government statistics.

The country’s trade surplus was $6 billion during the period.

Vietnam's exports to Canada and Mexico grew by 32 per cent and 9.2 per cent to $4.5 billion and $3.2 billion respectively, according to a news agency.

CPTPP was signed by 11 countries—Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam in Santiago, Chile on March 8, 2018.

Source: fibre2fashion.com- Oct 16, 2022

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Pakistan: Delay in refunds to make matters worse for industry

Textile garment manufacturers and exporters have expressed disappointment at the performance of Federal Board of Revenue's (FBR) refund system as it has failed to timely clear the sales tax refund claims.

"The liquidity of exporters is stuck due to the irresponsible and uncaring attitude of the authorities," remarked Pakistan Readymade Garments Manufacturers and Exporters Association (PRGMEA) Central Chairman Mubashar Naseer Butt at an emergency meeting of the association on Saturday.

Highlighting the financial trouble afflicting the exporters, Butt urged the government to immediately release the tax refund claims of the textile industry.

He cited the government's commitment that the refund payment orders (RPOs) would be issued to the exporters in 24 hours, while refunds would be released within 72 hours of the issuance of RPOs.

"Practically, this commitment is not being fulfilled as 72 hours have extended to several weeks," he pointed out. Butt asked the government to take immediate measures to arrest the slowdown in textile exports as Pakistan's most valuable sector could collapse.

He recalled that the government had earlier created a culture of trust in the business community by paying tax refunds on time, which was appreciable, but "the situation has changed now".

"At present, we are facing financing gaps while the authorities are not ready to give us any reason for the delay, creating trust deficit," he regretted.

Talking to The Express Tribune, Insight Securities' analyst Ali Asif pointed out that the textile industry was already under pressure in the current uncertain times, where export orders were dwindling due to the global recession. "Delay in sales tax refunds will only make matters worse. Therefore, the government may probably make the sales tax refund payments as the textile sector plays a pivotal role in our economy and accounts for over 60% of exports," he said.

Echoing similar views, textile sector analyst Saad Ziker emphasised that sales tax refunds should be cleared as soon as possible because any delay would dent the liquidity of many companies, which would disturb the flow of working capital.

Also, he said, with the release of tax refunds, the companies would be able to purchase raw material and other things for the production of goods. “Release of refunds will definitely be a sigh of relief for all the exporters.”

Source: tribune.com.pk- Oct 16, 2022

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NATIONAL NEWS

Keeping up the pace India will achieve $2-trillion export target by 2030: Goyal

Commerce and Industry Minister Piyush Goyal on Sunday expressed confidence that the country will achieve the $2-trillion export target for goods and services by 2030.

The minister was speaking at the Exporters' Conclave held at Chennai.

Goyal emphasised on sustaining the export momentum and said he is confident that Indian exports will be able to wither global headwinds and will surpass growth in exports by a "big" margin.

He also said the country will become a $30-trillion economy with 25 per cent share in exports by 2047.

"By the year 2030, exports from India will be $2 trillion," he said.

Industry participants were assured that the government is committed to addressing issues raised by them.

Speaking at the event, A Sakthivel, President, Federation of Indian Export Organisations (FIEO) said Indian exporters have good opportunities for exports to Russia and the EU, despite the recessionary trends visible there. There would be $8-10 billion worth of additional exports to Russia in the next 12 months and $15-20 billion to the EU.

He requested the minister to introduce an exports refinance facility for banks so as to refinance them at the repo rate to the extent of credit extended to the export sector.

The levy of GST on export freight has added to exporters' liquidity woes, Sakthivel said.

In the meeting, exporters flagged several issues related to the rising cost of raw material, subdued demand in certain key export markets, and the need for more support to exporters.

Other issues discussed during the session include the need for higher interest subsidy for exporters, extension of benefits for export to Russia under rupee payment; higher freight costs; withdrawal of 50 per cent duty on export of law-grade iron ore; and non-tariff barriers faced by domestic exporters in the EU, Japan, and China markets.

Source: thehindubusinessline.com- Oct 16, 2022

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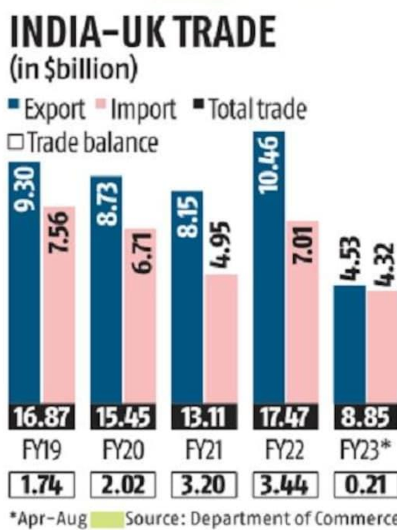
Wait for India-UK free trade agreement likely to extend until mid-2023

The free-trade agreement (FTA) discussions between India and the United Kingdom (UK) may spill over to mid-next year as both nations are yet to iron out their differences over providing greater market access for certain goods and services, people aware of the matter said.



Also, the brewing political tensions in the UK, coupled with the fear of a recession due to slower-than-expected economic growth, may defer the timeline for the finalisation of the pact.

Both nations kick-started formal negotiations earlier January this year, and set an ambitious Diwali deadline for the finalisation of the trade pact. While India is yet to officially comment on any change in the deadline, Commerce and Industry Minister Piyush Goyal earlier this month pointed out that India will sign FTAs after thorough consultation with industry, and the government would not diverge from this approach for the sake of deadlines.

Besides, UK Trade Secretary Kemi Badenoch on Friday said the negotiations were progressing well, but the two sides are no longer working on the Diwali deadline.

"India is taking a more cautious stance now. The deal may be signed early-mid 2023, although the negotiations team is going on with the discussions as usual," one of the persons aware of the developments told Business Standard.

E-mailed queries sent to the commerce and industry minister and the British High Commission remained unanswered. Biswajit Dhar, professor of economics at the Jawaharlal Nehru University, said that there is little appetite for free-trade agreements during a downturn, and it is difficult to finalise a trade agreement within a stiff deadline.

"Trade deals happen when economies do/grow reasonably well, and not in times of an economic downturn. That's been the track record. It is very difficult to perceive a situation where the British economy will be able to accommodate their partner nation's (India) interest.

Normal tendencies for all countries during a downturn — and we saw that during Covid-19, as well — is that they become protectionist," said Dhar, adding that it will be difficult for the UK economy to open up at this point.

One of the officials cited above said that the trade deal between India and the UK is at the last stage. While 80 per cent of the negotiations have already been done, consensus on key demands from the UK on lowering tariffs on whiskey and automobiles, as well as opening up India's legal, architecture, and financial services sector is yet to materialise.

As far as services are concerned, easier movement of skilled professionals has been one of the key demands from India, which has now sparked a fresh controversy. Last week, UK Home Secretary Suella Braverman raised concerns regarding the FTA as it could increase migration of Indians to the UK and said a large number of visa overstayers are from India.

"It is difficult to fathom how these differences can be resolved quickly. India will also have demand in the services sector (movement of skilled professionals). Similarly, the UK will also have interest in legal, financial and architectural services, which has been a problem from India's point of view, as well," Dhar said.

The UK was India's 17th largest trade partner during April-August (2022). India exported goods worth $4.5 billion and imported goods worth $4.3 billion during the first five months of the current financial year.

In May, 2021, both countries set an ambitious target of more-than-doubling bilateral trade by 2030. As the UK tries to build a post-Brexit trade relationship with the world, India, so far, is one of the largest markets the UK has committed to negotiating a trade deal with.

Source: business-standard.com- Oct 17, 2022

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Global branding push for 400 items to boost exports

Around 400 products, including Banarasi Zardozi, Gir Kesar Mango, Firozabad Glass, Kancheepuram Silk, Kangra Paintings and Araku Valley Arabica Coffee, are set to get a global branding push as India seeks to promote them globally to boost their exports.

The Department for Promotion of Industry and Internal Trade (DPIIT) plans to hold roadshows, car shows, product demonstrations and free product trials for products tagged with Geographical Indications (GI), as part of the plan

"This is a part of a larger plan to explore the export potential of GI products," a government official told ET.

As of July, 420 products were granted GI registration, of which around 150 GI-tagged products are agricultural and food products, and almost 240 are handicrafts and handloom.

The DPIIT wants to promote these in a focussed manner and an extensive plan is being drawn up on the lines of One-District One-Product scheme to provide much-needed support for their exports.

Celebration of GI Day, GI fair and a GI awareness campaign are also being discussed to develop a premium brand for Indian GI products and promote them as niche items having their reputation linked with the geographic region to which they belong.

India has exported Naga Mircha (King Chilli) from Nagaland, Black Rice from Manipur and Assam Lemon to the UK, three GI varieties of Mango (Fazli, Khirsapati, and Laxman Bhog) from West Bengal and one GI variety of Mango (Zardalu) from Bihar to Bahrain and Qatar.

DPIIT plans to rope in professional agencies for the GIs of India programme, and onboard brand ambassadors and influencers from celebrities and renowned personalities.

Source: economictimes.com- Oct 16, 2022

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Indian govt keeping watch on increasing trade deficit, says FM Nirmala Sitharaman

The Indian government is keeping a watch on the growing trade deficit to check if there is a disproportionate increase in the gap against any one country, Finance Minister Nirmala Sitharaman has said.

"Trade deficit is actually growing," she said.

"It is growing across the board, meaning we are importing a lot more than exporting. And the net is definitely going against us. But, we're also keeping a watch as to if there's a disproportionate increase against any one country," Sitharaman said, responding to a question on the increase in trade deficit against China to nearly USD 87 billion.

India's trade deficit with China widened in 2021-22 and continues to do so in 2022-23, the Ministry of Commerce data showed. In the financial year 2021-22 (FY22), the trade deficit was recorded at USD 72.9 billion, up nearly USD 29 billion from FY21's figure of USD 44 billion. In 2020-21, the trade deficit was recorded at USD 48.6 billion.

"Equally, if you look into the items that are imported, they are less of final consumption goods and more of intermediaries. And when I say more of raw materials and intermediate goods, it's also got a potential for value addition and exports," Sitharaman said.

"So, I wouldn't want to immediately get anxious about this net deficit, meaning imports being far higher than exports, because I think carefully if you look at it, the kind of imports that are happening are very essential, also for our industrial activity and for our value addition for exports purposes," she said.

Source: economictimes.com- Oct 16, 2022

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Consistent rise Foreign investment in India may reach $475 b in next five years: CII-EY report

India has optimistic growth prospects for foreign investments with a potential to attract FDI flows of $475 billion in just the next five years, a CII-EY report has projected.

FDI in India has seen a consistent rise in the last decade, with FY22 receiving an inflow of $84.8 billion, despite the impact of the pandemic and geopolitical developments, said the report titled "Vision – Developed India: Opportunities and Expectations of MNCs".

About 71 per cent of multinational companies (MNCs) working in India consider the country an important destination for expansion. The optimism is driven by both short-term as well as long-term prospects. A majority of MNCs feel the Indian economy will perform significantly better in 3-5 years, backed by 96 per cent of respondents being positive about the overall potential, according to the report.

Increasing investments

"Against the backdrop of growth challenges being faced by major economies of the world and new geopolitical issues, it is heartening to note that MNCs consider India an attractive investment destination and are planning expansion. We are confident that the continuing reform momentum by the government will attract increasing volume of investments from MNCs and facilitate their larger integration in the domestic supply chain," said Chandrajit Banerjee, Director General, CII.

Sudhir Kapadia, Partner, Tax & Regulatory Services, EY India, said: "The report, in collaboration with CII, captures the MNCs' perspective on steps that the government must take and policy measures that will power the next leap of economic development. Additionally, it also shares industry views on initiatives that will lead to the decarbonisation of India's economy to further boost its sustainability efforts."

India recently emerged the fifth-largest economy in the world, and it will continue to follow this growth trajectory in the coming years as well. It is seen as an emerging manufacturing hub in global value chains, a growing consumer market, and a global leader in the digital transformation of government and private sectors alike, Kapadia added.

'Stable partner'

Soumitra Bhattacharya, Chairman, CII National Committee on MNCs, and Managing Director, Bosch India, said, “In the tumultuous backdrop of pressures on the global investment environment, recovery from the pandemic’s after-effects and geopolitical conflicts, it is reassuring to note that multinational investors continue to consider India as a stable partner as well as an attractive investment destination.

The CII-EY report highlights the factors that are attracting investors and what more needs to be done to maintain this momentum. It is time for India to leverage its strengths to enhance its role in the global economy while meeting the aspirations of its large and mostly young population, it said.

According the report, the direction of India’s growth is being determined by the strong momentum in domestic consumption, services, digital economy and infrastructure. The estimated real growth in consumption is the third highest, behind only the US and China while the fast-expanding digital economy is expected to reach $1 trillion by 2025.

Besides, the confidence in India’s potential stems from strong consumption trends, digitisation and a growing services sector, along with the government’s strong focus on infrastructure and manufacturing, the report added.

Majority of MNCs laud the government’s consistent efforts for improving the business environment in the country which has been at the core of their growing interest in the Indian economy. Over 60 percent of MNCs said there was an improvement in the business environment in the last three years. MNCs appreciated the impact of GST, the government’s digital push in various spheres and transparency in taxation, among other reforms.

The country’s thrust on structuring modern Free Trade Agreements (FTAs) to boost trade and create cross-border investment opportunities also finds favour with MNCs as 82 per cent of them support the trade initiatives which they believe will create opportunities.

Source: thehindubusinessline.com- Oct 16, 2022

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India not insulated from global slowdown: Kotak Securities report

As global demand slows down, India is unlikely to be immune with the trade and capital channel being the key risks and determinants of its growth, cautioned Kotak Securities Ltd (KSL).

"A growing rhetoric of India decoupling from the rest of the world may not bear out.

"While India could fare well relatively, policy steps (and missteps) of Developed Markets will reflect in external (Current Account Deficit/Balance Of Payments/Rupee) and internal (inflation/fiscal) balances, which will be headwinds for domestic growth," per a report put together by KSL's economic research team comprising Suvodeep Rakshit, Upasna Bhardwaj, and Anurag Balajee.

The economists cautioned that India faces headwinds from imminent global demand/trade slowdown, risks of higher-for-longer global inflation/ rates, dollar strengthening, and enduring geopolitical tensions.

Over the medium term, the global macro scenario will see structural shifts from the past couple of decades, they added. Even as economic activities in India have seen sharp increases in terms of growth rates, the recovery to above pre-Covid levels is incomplete, per the report.

"Through this recovery, exports and investments have been the mainstay. Global shocks propagate to the domestic economy through four key channels: trade flows, commodity prices, capital flows, and financial sector.

"Any lower exports coupled with a relatively strong domestic growth (hence higher imports) could risk worsening the external balance. Exports have helped push GDP back to pre-pandemic levels," the KSL economists said.

KSL maintained its FY2023-24 real GDP growth estimates at 6.8% and 6% with downside risks in the near term given the external sector headwinds.

Energy prices risk

On the other hand, India can benefit from recession-led fall in commodity prices. But energy prices' outlook will be uncertain given the geopolitical tensions. Higher energy prices may negate much of India's benefits from a global slowdown, opined the economists.

The economists assessed that more than domestic factors, external factors such as global slowdown, geopolitics-led risks to energy prices, dollar strengthening, and higher-for-longer global inflation and rates (implying risks of lower-for-longer global growth) will weigh on India's macro outlook.
Outlook

In the near term, the extent of INR depreciation and RBI's response through rates and FX reserves will be watched, they said.

Over the medium term, markets will evaluate the extent of growth recovery, success in capping inflation pressures, and managing twin deficits.

Recalling the impossible trinity (fixed exchange rate, free capital flows and independent monetary policy) defending specific levels of exchange rate on a sustained basis, in an uncertain global environment, could unduly impinge on monetary policy, the economists said.

The economists opined that given an incomplete domestic growth recovery, a nascent credit growth cycle and a relatively encouraging inflation outlook, letting the INR depreciate gradually could then partly reduce the need for a sharp fiscal consolidation and aggressive hikes in policy rates to calibrate the external-internal imbalances.

"We expect USD-INR between 79 and 83 over the rest of FY2023. We pencil in terminal repo rate at 6.25-6.50% (we estimate FY2023-24 average inflation at 6.6% and 5.1%)," the economists said.

Source: thehindubusinessline.com- Oct 15, 2022

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Many roads lead to GST

We are generally wary of "silver bullets", the elegant idée fixe which is supposed to solve complex problems. But many of the problems that we see in the present Indian landscape can be solved by one important reform: A correctly designed goods and services tax (GST). The GST experience of recent years has helped clarify the mind around some of the basic improvements which are required, such as a uniform 12 per cent rate. Cities are fundamental to the future of the republic, and they require an incentive-compatible revenue base, a 2 per cent slice of this GST. The difficulties of indirect taxation are hobbling investment into India, and the solution lies in the correct reform of indirect taxation.

GST is widely criticised for underwhelming outcomes. Design problems have hindered the gains. The rates of 18 and 28 per cent are very high levels of taxation. Some individuals see the piling of a 28 per cent GST on top of a 42 per cent income tax, adding up to one of the world's highest levels of taxation. What works best is a single rate of 12 per cent that is applied to all goods and services. This needs to go with a simple administrative system where every producer (even an individual) gets offsets correctly. We believe that a 12 per cent rate will generate adequate tax revenues, and potentially after a few years, these revenues can go up slightly if it is not the case.

At a low rate, the tendency to evade goes down. At a single rate, classification disputes are eliminated. Both factors reduce the level of conflict between the tax administrator and the people. In addition, a fundamental rethink of the operations of GST is required to reduce the amount of legal/accounting/IT support required by each Indian firm.

There is a great interest in improving the environment for private investment in India, and in attracting foreign investment in a context where many global firms are keen to reduce their activities in China.

The indirect tax landscape contains a minefield of "disabilities", including inverted duty structures coming from the combination of cesses, tariffs, anti-dumping duties, foreign trade agreements, and GST.

India is a great place to produce in terms of business potential. But there are infirmities in the Indian state, such as the policy and administration aspects of indirect taxation, which hold back investment.

The complex and fluctuating indirect tax environment generates policy risk. For non-financial firms, the profit after tax (PAT) margin averages just 6 per cent of sales. A change in taxation that has an

impact of one percentage point of sales constitutes 16.66 per cent of the PAT. Therefore, small fluctuations in indirect taxes have big implications for the return on equity. The possibility of future fluctuations of any of the many numerical values of the indirect tax system creates policy risk. This large number of numerical values also creates a political economy dynamic around lobbying for rate changes.

When the Production-Linked Incentive Scheme (PLI) is brought into the picture, the PLI rate becomes one more number that can fluctuate, and thus a source of policy risk. There is a mean and a variance:

The present numerical value of the disability (which can potentially be offset by a correctly calculated PLI), and the policy risk engendered by the indirect tax + PLI system (which is not solved by today's level of PLI). That policy risk hinders the investment decision.

A comprehensive indirect tax reform is the best solution. This involves three ideas. First, it is in India's best interests to unilaterally drive all tariffs / duties to near-zero levels. We should have three slabs of customs rates: 0 per cent, 1 per cent, and 2 per cent, where the worst tariff rate (2 per cent) can be stomached by firms when buying imported inputs without too much damage to their return on equity.

Second, all cesses and every other form of indirect tax needs to be removed; there should be only one single-rate GST. Third, the GST needs to work correctly with imports and exports: All imports should face GST on imports, and all exports should be zero-rated with no imposition of working capital requirements upon the taxpayer.

We are at a unique moment in India's history where major gains can be obtained by persuading global firms that India has rule of law, sound economic thinking, and low policy risk. It is tempting to not take on these difficult problems, and make do with a PLI. But the PLI can at best solve the mean; it does not solve the variance, the policy risk, that is central in shaping investment decisions. The complete reform of indirect taxation solves both problems.

A critical element of a sound GST design is to lay the resource foundations for the third tier of government, i.e. local government. We should have a slice of GST, 2 per cent, which goes to the relevant local government. This creates adequate resourcing of the third tier, commensurate with the prime role of local government in producing public goods.

A slice of GST that goes back to the city government is an incentive compatible, and improves the behaviour of the city government. GST is a consumption tax. When economic growth takes place in a city, consumption in the city would go up, and 2 per cent of consumption within a city would go back to the relevant city. Self-interested politicians and officials would then be more inclined to foster growth, as this would directly feed their coffers. It would become possible to undertake borrowing to improve public infrastructure in the city, as the increased consumption at future dates would pay for debt-servicing.

We are accused of being one-track minds around our idée fixe, GST, from 2003. But a correctly done GST is one of the single-most important solutions to some of the big problems of the country today, and it looms large in our imagination, 19 years into the journey. We should all put our shoulders to the task of getting it right.

Source: business-standard.com- Oct 16, 2022

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Dull Diwali for Surat textile mills, orders dip 50% to Rs 8,000 crore

Diwali orders at Surat's textile mills have fallen by 50% to Rs 8,000 crore in comparison to last year. Textile manufacturers of Surat say that the demand is not coming from the retail end which is why wholesalers are not picking up dyed fabric and other textile items like sarees, garments from them.

However, Confederation of All India Traders (CAIT) said that the retailers have huge inventory from last two years which they are clearing now and that is the possible reason for lower offtake from Surat's mills. But the demand is very strong this year, said Praveen Khandelwal, secretary general of CAIT.

"Retail demand is down by 60 per cent across India. Last year, during the Diwali festive season period, we had clocked a business of Rs Rs 16,000 crore. But this year we may at the best we can achieve a business of Rs 8,000 crore,' said Champalal Bothra, general secretary f the Federation of Surat Textile Traders Association (FOSTTA).

Bothra added that the price of fabric has also come down due to lesser demand. "A month ago, it was Rs 40 per metre. It has now come down to Rs 32-33 per metre. The wholesalers are waiting for prices to further fall. And therefore, the off take is less."

Source: economictimes.com- Oct 16, 2022

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India's 2021-22 cotton crop estimated at 14-year low

India's cotton output for the season ended September 30, 2022, fell to 307.5 lakh bales (each of 170 kg raw cotton) against 360.13 lakh bales estimated at the beginning of the season in October last year. This is the lowest since 2007-08, when the production was 307 lakh bales.

This is lower by about 13 per cent than 353 lakh bales estimated for the previous season ended September 30, 2021.

Trade body Cotton Association of India (CAI) late on Friday released the final estimates of the cotton crop for the last season, after its Crop Committee meeting on Thursday.

Supply and closing stock

As per CAI estimates, total cotton supply would be at around 392.89 lakh bales including 307.05 lakh bales of the crop, 14 lakh bales of imports and 71.84 lakh bales of carry-over from the previous year. The consumption for the year is estimated at 318 lakh bales besides the exports of 43 lakh bales. The closing stock is estimated at 31.89 lakh bales for the season-ending September 30, 2022.

Cotton output in the largest grower Gujarat is impacted the most due to unseasonal rains and climatic conditions. The output is now estimated at 76.30 lakh bales against the previous year's projection of 91.5 lakh bales, down by 17 per cent.

Output in Maharashtra and Telangana is estimated to be 75 lakh bales and 35 lakh bales, respectively, against 81 lakh bales and 44 lakh bales, respectively, in the previous year.

The crop in Haryana and Rajasthan is projected at 16.10 lakh bales and 25.67 lakh bales respectively, a tad lower than the previous year. Output in Punjab is seen at 8.5 lakh bales against about 10 lakh bales last year.

The estimate comes on the heels of cotton prices hitting record levels of over ₹95,000 per candy (of 356 kg 29mm ginned variety) and over ₹12,000 for a quintal of raw cotton (kapas) last season.

In the southern region, the cotton output is estimated at 80.40 lakh bales against 91.5 lakh bales estimated for last year.

Cotton output in Madhya Pradesh is estimated higher at 20 lakh bales from 18.5 lakh bales last year.

Source: thehindubusinessline.com- Oct 15, 2022

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