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INTERNATIONAL NEWS

Brazil's cotton exports surge to 189 mn kg in Sept 2022

Exports of fibre, specifically cotton, from Brazil have jumped many folds in terms of value and volume in the last two months as the new marketing season began in August 2022. Brazil exported 189.733 million kg cotton amounting to $382.944 million in September 2022, up from 65.040 million kg cotton (valued at $127.434 million) in August 2022.

The monthly shipment in terms of value increased two-fold during September over the shipment in August. In terms of volume, the exports witnessed a 190 per cent rise over the previous month. The shipment during August increased about two times in terms of volume and value over July 2022. Brazil had exported 23.715 million kg fibre worth $53.391 million in July, according to Fibre2Fashion's market insight tool TexPro.

Brazil's fibre exports stood at $168.117 million (69.404 million kg) in June, $197.566 million (87.648 million kg) in May and $315.845 million (142.666 million kg) in April 2022. Brazil exported fibre worth $2.329 billion (1,139.887 million kg) in the first nine months of this year. Its total fibre exports stood at $3.489 billion (2,078.208 million kg) in 2021, $3.314 billion (2,190.566 million kg) in 2020 and $2.733 billion (1,664.626 million kg) in 2019.

Brazil is the fourth largest cotton producer country in the world.

Source: fibre2fashion.com- Oct 20, 2022

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Cambodia seeks more Korean funds in textiles

As part of the process to strengthen and widen the base of the economy as the country has entered the fourth quarter of 2022, the Government of Cambodia is seeking to tick all the right boxes, and it includes tourism, textiles exports as well as fresh investments in different sectors.

The Kingdom has urged South Korea to increase its investments in the textile sector, especially in and around the Cambodian capital Phnom Penh.

The request was put forward at a meeting between Khuong Sreng, Governor of Phnom Penh, and Joo Nak-young, Mayor of Gyeongju city of the Republic of Korea, in Phnom Penh on October 18.

The Governor of Phnom Penh said the Royal Government of Cambodia has created favourable conditions for all foreign investors, including those from South Korea.

The Kingdom is striving to create strong interest among South Korean investors in setting up units for production in Cambodia and their shipment to the Korean market. This will also help increase bilateral trade from $549.930 million in January-August 2022, as per the data reported by Customs.

On his part, Joo Nak-young pledged to encourage more Korean investors, particularly from Gyeongju city to invest in textiles in Phnom Penh so as to further strengthen the good relations and cooperation between the two cities and countries.

The value of garment exports from Cambodia to South Korea is at present negligible. The garment trade between the two countries has also not been able to recover from the hammerings it received during the Covid-19 pandemic.

However, Cambodia is putting a lot of weightage on the free trade agreement (FTA) between the two countries, which is set to come to force on December 1, 2022, to strengthen textile investments and relations.

In January-May 2022, Cambodia's garment exports to South Korea were valued at $79.228 million. Cambodia exported $111.35 million worth of merchandise to South Korea in January-June (H1) this year, which was 22 percent higher than the same period of the previous year.

Bilateral trade between Cambodia and South Korea increased 13.6 percent to $421.33 million, in January-June 2022.

Under the FTA, South Korea has agreed to remove tariffs on 95.6 per cent of products imported from Cambodia, while Cambodia will eliminate duties on 93.8 per cent of imported goods.

In 2021, Cambodia imported $600 million of goods from South Korea, and its exports to the East Asian nation reached $341 million.

According to Fibre2Fashion's market insight tool TexPro, Cambodia's export of apparel to South Korea has yet not recovered from the damage of Covid-19.

The Kingdom had exported $167.151 million worth of apparel in 2021, which was below the shipment worth $187.650 million in 2019. In 2020, the export had fallen to $169.716 million. Apparel exports have been valued at $79.228 million in the January-May of this year.

Cambodia's apparel export to South Korea was 1.51 percent, of its total apparel export of $11.099 billion in 2021. Cambodia's share was also negligible in South Korea's import of apparel last year. The north-eastern country had imported 1.60 percent of apparel from Cambodia, out of its total import of $10.467 billion, as per TexPro.

China, Italy, Indonesia, Bangladesh and Myanmar were the top five suppliers for South Korea in 2021.

Source: khmertimeskh.com- Oct 20, 2022

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60% global shoppers may drop apparel, shoes from holiday shopping: IBM

Over 60 per cent of consumers will cut down on non-essential categories like apparel, footwear, jewellery, and accessories if they are forced to reduce their holiday shopping budget, according to a recent International Business Machines Corporation (IBM) report. Nearly half of consumers will spend less if inflation continues to drive price increases.

As COVID-19 pandemic concerns abate for many consumers, worries are shifting towards uncertain economic and supply chain conditions this holiday season. Moreover, 2022 shopping budgets are up 8 per cent over 2021 — in line with Bain's economic forecast, according to 'The 2022 Holiday Shopping and Travel Report' by technology company IBM.

However, factors including inflation and price increases have made economic concerns top of mind this holiday season. While 59 per cent of consumers surveyed say they will be less concerned about COVID-19, two in three say they will be more concerned about the economy. Fifty-nine per cent of respondents report worrying more about supply chain disruptions that could make holiday shopping harder or more expensive.

"According to the survey results, in 2022, consumers are hoping to re-embrace holiday traditions they've had to alter for the past two years," said Karl Haller, Partner, Consumer Center of Competency Leader, IBM Consulting.

"They're starting their shopping and travel planning earlier but also want to hedge their bets with options like free returns or cancellations. To adapt to these changes in consumer behaviour, retailers will need better visibility and traceability across product inventory, fulfilment, and returns. AI can help them understand, prioritise, and resolve critical issues in real time."

The study found that uncertainty around inflation, gas prices, and supply chain is driving consumer plans. If goods are not available due to supply chain issues, 41 per cent of respondents say they will spend less – but 30 per cent will spend more if they can find substitutions easily. If gas prices go down, 35 per cent of consumers surveyed will do more in-store shopping.

Continuing the shift away from the traditional Black Friday start of the shopping season, 58 per cent of consumers surveyed plan to start holiday shopping before November, compared to 44 per cent last year. Almost two in three plan to pre-order this holiday season to get their products on-time with guaranteed prices.

At the same time, consumers want to keep their options open. Nearly seven in ten respondents surveyed will opt for brands or retailers that offer free cancellations, order changes, and returns, as well as a COVID-19-safe environment this holiday season. The study findings seem to indicate these perks are often worth the price due to the continued worries around supply chain and product availability this season.

Three fourths (73 per cent) of respondents said they are considering sustainability when shopping for the holidays. Twenty-nine per cent of consumers surveyed will bundle multiple orders to help reduce carbon emissions, while 38 per cent will avoid single-use plastics, and two in five will choose to shop nearby (42 per cent), and buy products that are branded as being environmentally sustainable or socially responsible (41 per cent). Notably, respondents surveyed are willing to pay an average premium of 41 per cent for sustainable products, 34 per cent for sustainable air travel, and 37 per cent for sustainable lodging this holiday season.

Source: fibre2fashion.com- Oct 19, 2022

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42% European firms foresee raising FDI in Vietnam by year end: Survey

Forty-two per cent of European firms anticipate they will raise foreign direct investment (FDI) in Vietnam by 2022 end, a survey has found. Respondents indicated Vietnam could bolster these FDI levels by reducing administrative difficulties (68 per cent), improving infrastructure (53 per cent), developing human resources capacity (39 per cent) and reducing visa barriers for foreign experts (39 per cent).

The Business Climate Index (BCI) survey was published by the European Chamber of Commerce in Vietnam and produced by YouGov Decision Lab.

Despite a quarter of respondents identifying green growth as a key factor in attracting FDI to Vietnam, the number of respondents rated Vietnam's green potential positively decreased from 44 to 32 per cent.

Respondents recommended Vietnam should improve its legal framework (92 per cent), infrastructure (87 per cent) and investment incentives (86 per cent) to accelerate green development.

The perception of benefits of the European Union-Vietnam Free Trade Agreement (EVFTA) has declined by four percentage points compared to the previous quarter. Administrative procedures were cited as the primary reason for this (38 per cent), followed by a lack of understanding of the agreement (18 per cent) and technical barriers to trade (16 per cent).

“It is true that we are less optimistic now than we were at the beginning of 2022 due to external factors slowing global growth. The fourth quarter will also likely be less positive than the second or third quarters of the year. Still, these survey results are encouraging.

Vietnam will certainly be in a better position in two or three years, demonstrating its place among the most exciting and dynamic business and investment destinations," EuroCham chairman Alain Cany was quoted as saying by a Vietnamese media outlet.

BCI results also showed a decline in optimism among European business stakeholders. Nearly 42 per cent of participants anticipate that the economy will stabilise or improve in the fourth quarter this year. This is an 18-point decrease from the previous quarter when 60 per cent held this view.

Similarly, the percentage of those anticipating economic deterioration increased by seven points to 19 per cent.

Only 2 per cent of respondents reported that they had relocated a significant portion of their operations from China to Vietnam, suggesting that there is still considerable room for growth.

Source: fibre2fashion.com- Oct 20, 2022

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Bangladesh: RMG export to EU sees 43.38% growth in Jan-Jul'22

Bangladesh's readymade garment (RMG) export to the European Union (EU) saw a positive growth of 43.38% to $13.15 billion in the first seven months (January-July) of this year, according to the latest import statistics revealed by the European Statistical Office (Eurostat) and compiled by the BGMEA.

Manufacturers had exported apparel items worth $7.82 billion to the EU countries in the same period last year, revealed the Eurostat data.

Moreover, the EU's global apparel imports grew to $56.33 billion in the first seven months of 2022, attaining a growth of 24.74% from $45.16 billion in the same period last year, data showed.

However, local manufacturers said that Eurostat usually has a gap of three months in publishing data.

So, since July, the global situation has changed notably due to economic turmoil, inflationary pressures, war, and prolonged summer which led to a decline in orders and already caused a negative growth in September by 7.52%, which may continue in the coming months.

However, according to the Eurostat data, China, the top apparel exporter to the EU, registered a growth of 23.52% year-on-year (YoY) to $14.93 billion in the mentioned period, higher than $12.09 billion in the same period last year.

Vietnam secured the fifth position by exporting apparel items worth $2.3 billion in the first seven months of 2022, fetching a YoY growth of 22.78% from $1.87 of the same period last year.

Among other notable global apparel manufacturers, Pakistan fetched a YoY growth of 28.05% to $2.14 billion, Cambodia of 41.5% to $1.96 billion, and Morocco of 16.67% to $1.88 billion in the January to July period of the current year, Eurostat data showed.

Talking to Dhaka Tribune, Mohiuddin Rubel, director of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), said that the growth was higher due to revenge shopping and unit price of raw materials coming out till July or August.

“EPB data has already shown that the growth in September was negative by 7.52%.When Eurostat's September data will be published, it will be seen that negative growth is also happening in Europe,” he added.

Due to Eurostat data being published later, a gap of positive-negative or confusion has been created, he further said, adding that due to the recent geopolitical tension, retailers are struggling to adapt to an increasingly inflationary global market.

“The retail sales of many European brands have declined which increased their inventory stock and due to these challenges in the global economy, EU’s import may start slowing down in the final quarter of the year.

Orders have decreased as retail sales have decreased. Buyers are postponing orders, even now asking for discounts on product prices, offering lower prices,” he added.

The global economy may recover from this turbulent situation only if the war ends

“In fact, we are going through an uncertain situation. To mitigate this, we have to focus on markets outside of the West,” he added.

Source: dhakatribune.com- Oct 19, 2022

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Pakistan: Cotton: spinners turn lucky?

Back in late August, various independent forecasts placed Pakistan's cotton import demand during July 2022 - June 2023 marketing season at anywhere between 5-6 million bales (of 170kg). News from farm spelled doom for the local spinning industry, as up to 75 percent of Sindh's expected 3 million bales worth of crop was reported to have been lost to flooding. This came at a time when world cotton prices still averaged above 125 cents per lb, as the unit price of imports during that month averaged well above 130 cents per lb.

A lot has changed since then. Since August 15th, world cotton prices have dropped over 40 cents, closing at 81 cents per lb earlier this week (Monday). It increasingly looks like that monthly average price may easily average below 90 cents, the lowest in at least 16 months. In fact, near-term forecasts suggest cotton prices may stay around 75 cents per lb (or ~$1.8 per kg barrier) for the rest of the marketing year 2022-23, keeping the yearly average price in the 90 cents per lb (or $2 per kg) territory.

That's great news for Pakistani spinners, who were all set to import record quantities of cotton fiber during the ongoing marketing year. In fact, an earlier forecast by BR Research projected the annual cotton import bill at $2.25 billion (or a range of $2 - $2.5 billion), based on various pricing scenarios ranging between $2 - $2.75 per kg and import volume ranging between 5 – 5.5 million bales (of 170kg). This would have meant cotton imports rising by at least 10 – 40 percent in value, adding anywhere between $200 - $700 million to the trade bill.

But three-month into the trading year and the cotton import bill seems well under control. For 3MFY22, Pakistani spinners imported 0.3 million fewer cotton bales compared to the previous year, staying on the sidelines due to higher pricing dominating international markets at the time.

Now, world prices have effectively collapsed (compared to peak levels kissed just five months ago). Floods may have very well destroyed Pakistan's cotton crop, but world markets have remained unfazed. For reference, the Cot look 'A' Index had climbed to $3.61 per kg on May 22, the highest in over 11 years.

If world prices average around 100 cents per lb (or between $2 - $2.25 per kg) over the next 8 months, fiber import bill may very well remain range bound at the same level as last year, well below $2 billion per annum. If prices continue to fall even more precipitously, import bills may as well decline, but that may not bode well for the pricing of exports, either.

And that's only if Pakistan still imports record amounts of cotton. During 3MFY22, monthly imports averaged 260 thousand bales. Imports may very well pick momentum by December (once local crop arrivals end) peaking around February. But in the most optimistic scenario, imported cotton demand struggles to push past 4.75 million bales given the ensuing slowdown in global apparel demand.

Will spinners then use the opportunity to build inventories, considering the rising unreliability of local crop dynamics? Either way, with generous subsidies now secured on energy tariffs, spinners cannot possibly ask for better days. Time to turn fortunes around during a recession. Happy profits!

Source: brecorder.com - Oct 20, 2022

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NATIONAL NEWS

India trade deal matters more than date, says UK trade minister

The free trade agreement (FTA) talks between India and the UK are "progressing well" and a deal that works for both sides is more important than the date when it is signed, Britain's Trade Policy Minister Greg Hands said with reference to the now abandoned Diwali deadline for a draft India-UK FTA.

The minister, who was joined at a Diwali Reception in London on Tuesday by the UK's Chief Negotiator of the FTA Harjinder Kang, said the Department for International Trade (DIT) was committed to build on the Enhanced Trade Partnership between India and the UK.

He said his boss, Trade Secretary Kemi Badenoch, is continuing regular dialogue with Commerce Minister Piyush Goyal to build an "even warmer and more productive relationship" with a focus on quality over speed.

"Talks are progressing well. We have completed five rounds of formal [FTA] negotiations and we are seeing a way forward for a deal that works for both sides," he said.

"As my boss, the Trade Secretary [Badenoch], likes to say, it's the deal that's more important than the date when it comes to delivering for businesses and consumers in both our countries," Hands said.

"Given the importance of the free trade agreement to both our nations, our focus must be on quality, not speed. And by concentrating on the deal and not the date, we'll build an agreement that truly serves all of our citizens," he said.

The Diwali timeline for a draft FTA had been announced by former British Prime Minister Boris Johnson during his meeting with Prime Minister Narendra Modi in New Delhi in April.

However, Badenoch – who took charge at DIT under the new Liz Truss government last month – recently confirmed that the negotiators were no longer working towards that timeline “to focus on the quality of the deal rather than the speed of the deal”.

There was much speculation whether UK Home Secretary Suella Braverman's controversial remarks, casting doubts over the expected Indian visa concessions that an FTA would involve, may have derailed the talks.

“Naturally, there is an economic imperative for our countries to work together, which is why we are so eager to secure a trade deal,” Brav-erman said at the same Diwali reception, in an apparent att-empt to distance herself from being blamed for the delay.

“The contribution of the Indian diaspora to British life is enormous. Our villages, towns and cities have been profoundly enriched by immigration from India," she said.

"There are many, many people of Indian heritage in prominent positions in politics, business, the arts, the police, the armed forces, civil service, sport and other arts and leisure activities, further proof that this is a country at peace with itself and genuinely meritocratic and welcoming,” she said.

The event, organised by UK-based India Global Forum (IGF) at London's Taj Hotel, also brought together other UK government ministers including Foreign Office Minister Lord Tariq Ahmad, shadow cabinet members from the Opposition Labour Party, parliamentarians, business leaders and diplomats.

“We in the Labour Party long and hope we will get a trade deal with India, and we hope the visa obstacles will be overcome,” said David Lammy, the shadow foreign secretary.

The Acting High Commissioner to the UK, Sujit Ghosh, reflected upon the International Monetary Fund (IMF) characterising India as a “bright spot” amid the headwinds currently faced by the global economy.

Source: business-standard.com - Oct 19, 2022

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India-UK FTA: Internal consultations gain momentum even as Diwali deadline set to be missed

The India-UK Free Trade Agreement (FTA) is clearly set to miss the ambitious Diwali deadline but the Commerce Department has stepped up internal consultations for greater clarity on where things stand in tricky areas, such as duty cuts for automobiles and wines, e-commerce, government procurement, visas and new areas such as labour, environment and gender.

The preparations are on, despite the politically charged situation in London — where UK Prime Minister Liz Truss is fighting calls for her resignation — as there is no conceivable threat to the Indo-UK trade talks which has wide-based support, sources told businessline.
'Watching closely'

"We are watching the political developments in the UK closely. We don't know whether PM Narendra Modi will be meeting his UK counterpart next month, virtually or in-person, but officials want to be prepared with India's response on all contentious issues, in case an announcement around the negotiations is to be made," said a source.

Not only are internal meetings happening in the Commerce & Industry Ministry, discussions are also taking place at the "higher level" to understand how much compromise and adjustments will be politically acceptable, the source added.

The proposed FTA, which is expected to double bilateral trade to $100 billion by 2030, could set the tone for India's future negotiations with other nations as for the first time the country is considering substantial lowering of tariffs for its highly protected automobile sector and focus on areas such as government procurement, e-commerce, labour, environment and gender.

Pressure for lowering of import duties on wines and spirits, including Scotch Whisky, is also high but India has already made a start in the area by committing to lower tariffs on wines in its free trade pact with Australia.
Lots to be done

"While the fight for low duties on automobiles and Scotch will continue right till the end, positions have to be established conclusively in areas such as digital trade, government procurement, labour, environment and gender. In the areas of labour and environment, the government believes that it has unilaterally achieved enough and the free trade pact will not pose a problem but in other areas strong commitments need to be avoided," the source added.

For India, apart from greater market access for labour intensive items such as garments and textiles, leather and foot wear, agriculture and processed food and tobacco, it is also important that it gains some concessions in the area of work visas. "Although the UK Home Secretary made some adverse comments recently on visa overstayers, it has no direct connection with the FTA talks," the source said.

Source: thehindubusinessline.com- Oct 19, 2022

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India's trade policy challenges in a changed world

Global merchandise trade volume is predicted to lose momentum sharply in 2023 because of adverse developments, such as marked slowdown in the major economies of Europe, China and the United States; food and fuel inflation-led surges in the cost of living and manufacturing; tight monetary policy conditions in most countries; and continued supply chain disruptions. So, world trade growth is projected to slump from 3.5 per cent in 2022 to barely 1 per cent in 2023 (WTO press/909, October 5, 2022).

However, a slowdown in global trade is not new. Ever since the restructuring of global value chains (GVCs), the principal driver of global trade dynamism since the early 1990s that was initiated after the global financial crisis of 2008-09, trade growth has been subdued.

So, what is different this time? In the early years of the last decade, shifts in GVCs in response to natural disasters in East Asia were limited in time and trade impact. Towards the end of the decade, the US-China trade war initiated the "China plus one" strategy for GVC diversification. The pandemic further accelerated the process of GVCs restructuring and diversification.

The Ukraine crisis has dealt the final blow to the process. The prospects of the war coming to an end soon seem dim. The destruction in Ukraine is massive, and the political realignments vis-a-vis Russia are likely to be longer term. Both Russia and Ukraine have been major suppliers of critical elements and minerals in GVCs.

The cumulative impact of these unprecedented and unforeseen events is likely to be a more permanent reassessment of risk and underlying volatility by large multinational corporations as well as a re-alignment of global trade partners.

This does not, however, imply that GVCs will be unravelled to an extent where reshoring to home economies or a reversal of production unbundling will become dominant trends. The cost of GVC shifts and the investment capital required for this are expensive propositions. Post-pandemic circumstances do not augur well for this trend to pick up substantial momentum.

Also, production fragmentation is a continuous process. Differential developmental levels across economies will ensure that the supply chain networks are continuously evolving and expanding. The difference this time, though, will be that in their search for resilience, MNCs aiming at dual/multiple input sourcing, will be looking for allies in close proximity. Nearshoring coupled with “ally-shoring” will be the likely guiding principle, implying thereby an intensification of intra-regional trade or increased trade intensity within regional trade blocs.

The principal trade mechanism furthering this trend will be the same as over the last decade, namely, mega-regional free trade agreements (FTAs). Increasingly, multilateralism is no longer at the heart of global trade, notwithstanding the 12th Ministerial Conference agreements of June 2022. FTAs continue to expand in number with the EU and East Asia leading the way. In East Asia, the Regional Comprehensive Economic Partnership (RCEP) entered into force in January 2022 and the EU signed a trade agreement with New Zealand, also an RCEP member economy, in June 2022. The EU has, in particular, emphasised the need for accelerating conclusion of its FTA negotiations in the wake of the Ukraine crisis, as a means to both, economic growth and its geopolitical standing.

So, what does India need to do in this evolving global trade context?

Firstly, circumstances necessitate that India diversify beyond its traditional markets and trade partners to achieve its target export growth. Over the past year, India’s exports have registered positive growth, but not in a sustained manner. Export growth has been more a consequence of price effect and opportunities arising out of alternating pandemic waves and trade route blockages on account of the Ukraine crisis. More sustained growth will require productivity enhancement in the manufacturing sector.

Participation in GVCs is a means towards achieving that objective in a relatively shorter period. A comprehensive policy framework with emphasis on creating a conducive business environment and ensuring regulatory reform and serious improvement in infrastructure and logistics, can contribute to making India an attractive location for export-oriented foreign direct investment (FDI) and MNCs in their GVC diversification strategy.

Secondly, FTAs need to be appreciated as key instruments facilitating GVC participation. While India has signed two agreements this year, with the UAE and Australia, these may not contribute to India's enhanced GVC participation, globally or in the region. The FTA with Australia is an interim agreement with select coverage of goods and services. A more comprehensive and substantive agreement is yet only in the pipeline. The agreement with the UAE, which is not a manufacturing or GVC hub itself, does not help in furthering India's GVC objectives.

India needs to negotiate trade agreements that emphasise liberalisation of substantially all trade, investment and development provisions with trade dynamic economies that foster its participation in GVCs. In addition, membership of at least one mega regional trade agreement—the RCEP, Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) or Indo-Pacific Economic Framework (IPEF) trade pillar must become part of India's immediate trade policy agenda.

Third, it is necessary that India evolve its negotiating position beyond its traditional stance on trade-related issues. Domestic policies have to be developed in alignment with the global context. This is particularly relevant in respect of labour and environment standards as these have become an integral component of all international trade agreements. Post-pandemic, there is almost universal acceptance of the need to make trade more inclusive and sustainable.

Fourth, India's negotiating position in trade agreements also needs to undergo a major rethink in the context of the services sector. India needs to shift focus from identifying mode-4 liberalisation as its sole comparative advantage to those services that are an integral part of manufacturing sector exports and adopt an integrated approach for goods and services negotiations in its FTAs (see "An alternative export strategy", Business Standard, March 10, 2022).

Fifth, as the next foreign trade policy announcement is now postponed to April 2023, supportive policy inputs from the budget will contribute to attracting GVC investments. In particular, a phased reduction in average applied most-favoured nation tariffs in manufacturing and for inputs in sectors of GVC dynamism, in line with our longstanding objective to achieve Asean tariff levels, should be a principal component of trade policy.

Finally, the institutional changes announced earlier this year — that is, setting up of a separate trade body with domain expertise exclusively focused on trade issues — should be expedited so as to create sufficient knowledge base well ahead of the policy formulation and announcement in April.

Source: business-standard.com - Oct 19, 2022

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Bigger worries pounding exporters to Europe than concerns over currency

To Indian exporters providing IT services or supplying medicines to Europe, concerns run way deeper than seeking a resolution to a discussion on whether it is the rupee falling or the dollar lurching upwards. That Europe accounts for a quarter of total Indian IT export revenues and is the second biggest global destination for exports for pharmaceutical products with about 18 per cent of total pharma exports from India, make developments in Europe hard to ignore for both the sectors that lend an edge to India in global markets.

That the pound and euro are also falling against the dollar and at a faster pace than the rupee only adds to the woes, though companies could find ways to deal or live with it either by negotiating deals in dollar terms or through hedging mechanisms.

Major companies

The developments in Europe also matter since these could have a direct bearing on the fortunes of leading Indian companies – from Intas Pharmaceuticals, Aurobindo Pharma, Dr Reddy's to Glenmark and others in pharma with some like Aurobindo and Dr Reddy's also having a retail presence in the region.

From IT sector, there are majors like Tech Mahindra, TCS, Infosys, Wipro apart from others. And except for a few MSMEs (Medium, Small and Micro Enterprises) who may be supplying to only one or two countries in Europe, most IT and pharma exporters to Europe also supply to the US and tend to gain from the appreciating dollar and thereby get to offset the hit in Europe.

Beyond Uncertainty

"The big worries at the moment appear to be the uncertainty over the Ukraine war and its impact on growth and revenues prospects, the energy crisis in Europe, snarled supply chains, inflation apart from rising working capital costs.

All of these in addition to fears of businesses and plants shutting down because of energy shortages," says Kris Gopalakrishnan, a thought leader in the technology arena, philanthropist, co-founder of Infosys and the chairman of Axilor Ventures. The various statements by IT company CEOs, already coping with the challenges of attrition in the IT industry, is indicating "a sense of caution by the IT companies and while they do seem to have the orderbooks in hand their concerns hinge on the hopes of seeing these translate into revenues in the expected timeframes," says Gopalakrishnan, who has not only backed many entrepreneurial ventures but has also been investing in his personal capacity into frontier areas of technology such as brain research.

Threat of shutdowns

The pressure due to the rising energy costs is especially for companies in Germany, France and Poland for instance. Indian companies that source some material from these regions already talk of companies issuing a force majeure while others have started raising prices on account of increases in costs of raw material, transportation and energy. For example, one of the Indian companies procuring supplies from BASF in Germany says the company has already effected an over 50 per cent price increases in just about a month.

Plus, the worries also stem from the possible impact that the confluence of these factors could have on the expenditure plans by companies and on discretionary spending. Will consumption reduce because of the stress in supply chains or on account of inflation is anybody's guess at the moment.

Not all deals in dollars

Sudin Apte, CEO and research director at Offshore Insights and a veteran IT sector analyst, says, "today about a quarter of Indian IT sector's revenues come from Europe.

Though this share is lower than in the past, there is concern as not all companies transact in dollars and some major players still prefer to negotiate in local currencies. So, there is pressure for Indian players." Add to this, says Sudin, who formerly used to lead the operations for Forrester's in India, "the fact that some of the leading players in Europe are facing challenges like Credit Suisse, the Swiss lender for instance, that has been in the news for its business woes, is only adding to the worries."

Therefore, he feels, “companies will now not only need to revisit the geographies they are servicing but also closely track the business sustaining abilities of their customers in Europe.”

Worry for MSMEs

The concerns run even deeper for MSMEs, says Tulsi Jayakumar, professor of economics and executive director at the Centre for Family Business & Entrepreneurship at Bhavan’s SPJIMR. Given that dollar is a default exchange currency for most countries, there is perhaps a good reason that more than 86 per cent of export trade from India is denominated in dollars even though US accounts for only around 5 per cent of total exports from India.

What matters therefore for the MSMEs is the currency in which the export contracts are negotiated. There is a good chance that the export order is being invoiced in dollars in which case it could work in their favour. However, if it is denominated in euro or pound then there would be a negative impact.

But then, whether the exchange rate works in their favour or against, a big worry for the MSMEs is their lack of bargaining power in global trade. Therefore, even if the exchange rate favours an MSME there is a good chance that the contracts could get re-written by the importers.

The other challenge for the MSMEs would be coping with the uncertainties around their own raw material supplies because it is quite likely that the MSME is exporting to Europe but importing inputs from another country in costlier dollar terms. The MSMEs, she reminds, form an important segment in exports from India as around 40 per cent of total global exports from India are by the MSMEs.

Feeling the Impact

Even for the major exporters, it is not as if the currency movements are not complicating matters. Intas Pharmaceuticals, which grew its presence in Europe through acquisitions and today gets about a billion dollar business or 40 per cent of its total export revenues from Europe is already, according to sources, “seeing a low single digit impact on its bottomline.”

It is apparently trying to reduce the net impact by its ability to buy and sell in local currencies and withholding any plans to invest more, at least at the moment. The big question that confronts players in Europe is sustaining manufacturing despite rising energy costs. Here, much depends on the nature of manufacture and its energy-dependence.

For example, in the case of Intas again, what may be working in its favour is having a formulation or an oral solids (tablets and capsules)-making facility in the UK, which most find less challenging than the more energy-intensive manufacturing of active pharmaceutical ingredients, with some of such units now facing a likely prospect of a shutdown. Whether Indian companies can ramp up supplies to “bridge the resulting supply gap” is as yet an unknown.

Hedging & hoping for growth

T V Mohandas Pai, co-founder of Aarin Capital, former member on the board of Infosys and a thought leader with deep insights in matters of finance, HR, education and research, feels, “the companies need to learn to live with currency fluctuations. It is a reality of life in a free market economy and the way out is only through hedging for say three to six months. But for the exporters to Europe, the big concerns remain around the prospects for growth and revenues.”

Source: financialexpress.com - Oct 19, 2022

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India's economic growth outlook stagnates, stuck in lower gear

India's economy will grow well below its potential over the next two years, with inflation staying above the mid-point of the Reserve Bank of India's tolerance band despite recent interest rate rises, according to a Reuters poll of economists.

While growth was expected to be faster than many other economies, it would be too slow for the job creation needed to pull tens of millions of people out of poverty in a country typically ranked one of the worst in the world for hunger.

Growth likely slowed sharply to an annual 6.0% in the third quarter from 13.5% in the second that was supported mainly by statistical comparisons with a year earlier rather than new momentum. It was expected to decelerate further to 4.4% in the fourth quarter, according to an Oct. 13-19 Reuters poll.

The median expectation was for 6.9% growth in the 2022-23 fiscal year, slightly above International Monetary Fund (IMF) and World Bank projections of 6.8%. It was forecast to slow to 6.1% next year.

While those figures were only trimmed from the previous poll medians, a deteriorating global economic outlook suggests there may be further downgrades in coming months.

"India has...its own set of domestic challenges: weak employment, negative real wages and weakening industrial activity even in the lead up to the main festive season," noted Kunal Kundu, economist at Societe Generale.

"This, we believe, will result in the RBI having to shift its focus toward supporting growth and away from anchoring inflation expectations by engineering a growth slowdown."

The poll results underscore how the RBI's interest rate-hiking campaign, which only started five months ago and according to the poll will end in the first quarter of 2023, has done little to bring down price pressures.

Inflation is felt most acutely by lower-income households who form a significant portion of the country's population of about 1.4 billion people.

Like other economies around the world, India has struggled with soaring energy prices stemming from Russia's invasion of Ukraine and a particularly devastating pandemic, from which businesses are still recovering.

India's retail inflation accelerated in September to a five-month high of 7.41% year-on-year as food prices surged, raising fears of further rate hikes when the central bank meets for its next policy review in December.

While the central bank's targeted band for inflation is 2%-6%, the poll showed inflation would average 6.7% in the year ending March 2023, and 5.2% in the following year, a small upgrade from 6.6% and 5.0% in a September poll.

"Easing food and energy inflation will drag headline consumer price inflation lower over the coming months, but strong underlying price pressures mean that the drop will be gradual and inflation will remain elevated," noted Shilan Shah, senior India economist at Capital Economics.

A falling rupee, which has lost over 10% of its value against the dollar this year, is also adding to inflationary pressures through import prices.

Despite the RBI burning through its dollar reserves, the rupee has hit multiple lifetime lows against the greenback this year and was trading close to 83 per dollar on Wednesday.

The poll showed the RBI taking a softer approach with rates. Despite no clear majority, median forecasts showed the central bank hiking the repo rate by another 50 basis points to 6.40% by end-March. It was then expected to stay there until end-2023.

Source: economictimes.com- Oct 20, 2022

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GST Council to meet before mid-Nov; GoM report on tax casinos on agenda

The GST Council is likely to meet in the first half of November to discuss the reports of the panel of ministers on setting up GST appellate tribunal and levy of tax casinos and online gaming, an official said.

In addition, the status on the much awaited full report of the committee tasked with rationalisation of GST rates may also come up for discussion at the 48th Council meeting in Madurai.

Even if the report, which is to look at merger in GST slab that may result in prices of some goods and services going up, is presented, it is unlikely to be acted upon by the GST Council in view of high inflation.

The GoM on rate rationalisation set up on September 24, 2021 was originally due to submit its report within two months or November 2021. The panel has got subsequent extensions since then. The Council, in its last meeting in June, had given the GoM time till September to submit a full report.

The official said that the GoM on GST appellate tribunal has already submitted its report, while the differences with respect to GST on casinos and online gaming are still being ironed out.

"The Council will meet next month, before mid-November," the official told PTI.

In its last meeting on June 28-29, the Council had decided to remove tax exemptions on a host of goods and services and also corrected inverted duty structure.

The 47th GST Council meeting in June, held in Chandigarh, had approved the interim report of the GoM on rate rationalisation, headed by Karnataka Chief Minister Basavaraj Bommai. The Council had then given a 3-month extension to the panel for submitting a full report on rate rationalisation and potential tax slab merger under the GST.

With regard to setting up GST Appellate Tribunal (GSTAT), the Haryana deputy chief minister Dushyant Chautala led GoM have submitted its report to finance minister Nirmala Sitharaman.

The report, a source said, has recommended one technical members and one judicial member in the GSTAT. The GSTAT would hear appeals against the orders passed by the GST Appellate Authority, which consist of tax officers.

The official further said the GoM on applicable GST rate on casinos, horse racing and online gaming is yet to arrive at a consensus and a final decision is expected soon.

The GoM, headed by Meghalaya chief minister Conrad Sangma, had originally suggested levying 28 per cent GST on online gaming, casinos and horse racing.

However, the Council, in June, referred back the report of the panel for further discussion after Goa finance minister Mauvin Godinho highlighted that there was a need for greater detailing and greater understanding on why casinos require a different treatment in taxation compared to horse racing and online gaming.

Source: business-standard.com - Oct 19, 2022

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Tussle over secrecy delays trade data compilation by Commerce Dept: Sources

The department of commerce is staring at a crisis as it has not been able to generate crucial foreign trade data for nearly two weeks now, amid differences with the revenue department over secrecy of customs data, people aware of the matter said.

The Directorate General of Commercial Intelligence and Statistics (DGCIS), which compiles and publishes trade statistics, has not been able to process and validate the crucial daily and weekly trade data. This is because the electronic portal of customs — Indian Customs Electronic Gateway (ICEGATE) — has not been sharing key information such as shipping bill number and date, bills of entry number in the daily trade return since October 7, one of the persons cited above told Business Standard.

“Daily and weekly alerts have already been delayed because of masking of these data fields,” the person cited above said.

The details are critical in linking the data pertaining to invoices and multiple items within a shipping bill or bill of entry and data pertaining to amendments carried out in shipping bill or bill of entry at a subsequent date.

Daily trade return is the day-to-day data that the DGCIS receives from customs. Without the number and date of the bill of entry as well as the shipping bill, DGCIS, which comes under the administrative control of the commerce department — will not be able to finalise the aggregate data and publish foreign trade statistics.

Compilation of daily and weekly statistics is regularly analysed by various government departments and ministries, including the department of commerce, Prime Minister’s Office, and inter-ministerial committee for monitoring of export and import.

The development comes in the backdrop of India’s merchandise exports witnessing 4.8 per cent year-on-year rise to $35.45 billion in September, reversing its earlier estimate of a contraction for the first time in 19 months. Any delay in the compilation of trade data can also adversely affect policy response, at a time exports growth from the country has started slowing due to recession fears in developed economies.

Over the last few days, senior government officials from the department of commerce have already had hectic meetings with officials from the department of revenue to resolve the matter. The revenue department, on its part, has been citing reasons pertaining to trade data security for not sharing the information. On the other hand, the department of commerce’s view is that the DGCIS is legally empowered to collect data under the Collection of Statistics Act, 2008.

The department of commerce has also urged that the revenue department's IT arm Directorate General of Systems and Data Management to resolve the matter urgently.

Source: business-standard.com - Oct 19, 2022

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Non-tax benefits for MSMEs for 3 years even after reclassification

The government on Wednesday said that micro, small and medium enterprises (MSME) will continue to avail all non-tax benefits in their respective categories post re-classification for three years, in a major relief for the sector.

The MSME ministry notified that in case of re-classification in terms of investment in plant and machinery or equipment or turnover or both, and consequent re-classification, an enterprise shall continue to avail of all non-tax benefits of the category it was in before the re-classification for three years from the date of the such upward change.

"This decision has been taken after due deliberations with MSME stakeholders and is in line with the Atmanirbhar Bharat Abhiyan," the ministry said in a statement.

"Landmark Decision: MSMEs on upgradation and consequent reclassification, get non-tax benefits for a period of 3 years from the date of upward change," the ministry said in a tweet.

Source: economictimes.com- Oct 19, 2022

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Better Cotton Documents India Impact

Better Cotton has released a new study on the impact of its program in India that explores how cotton farmers who implemented Better Cotton-recommended agricultural practices achieved healthier profits, reduced synthetic input use and improved sustainability.

Conducted by Wageningen University and Research between 2019 and 2022, the study, "Towards More Sustainable Cotton farming in India," examined farmers in the Indian regions of Maharashtra (Nagpur) and Telangana (Adilabad) and compared the results with farmers in the same areas who did not follow Better Cotton guidance. Better Cotton works with program partners at the farm level to enable farmers to adopt more sustainable practices, such as better managing pesticides and fertilizers.

The study found that Better Cotton farmers were able to reduce costs, improve overall profitability and safeguard the environment more effectively, compared with non-Better Cotton farmers.

Better Cotton farmers decreased their costs for synthetic insecticide by almost 75 percent, a notable decrease compared to non-Better Cotton farmers. On average, Better Cotton farmers in the regions saved $44 per farmer during the season on synthetic insecticides and herbicides expenses during the season, significantly reducing their costs and their environmental impact.

Better Cotton farmers in Nagpur received around 13.5 cents per kilogram more for their cotton than non-Better Cotton farmers, the equivalent of a 13 percent price increase. Overall, Better Cotton contributed to an increase in farmers' seasonal profitability of $82 per acre, equivalent to about $500 income for an average cotton farmer in Nagpur, according to the study.

For the baseline, the researchers surveyed 1,360 farmers. The majority of farmers involved were middle-aged, literate smallholders who use most of their land for agriculture, with around 80 percent used for cotton farming.

"Better Cotton strives to ensure that cotton production is more sustainable," Better Cotton CEO Alan McClay said. "It's important that farmers see improvements to their livelihoods, which will incentivize more farmers to adopt climate resilient agricultural practices.

Studies like these show us that sustainability pays off, not just for reducing environmental impact, but also in overall profitability for farmers. We can take the learnings from this study and apply it in other cotton-growing regions."

Wageningen University in the Netherlands is a globally important center for life sciences and agricultural research. Through this impact report, Better Cotton seeks to analyze the effectiveness of its programs. The survey demonstrates the added value for profitability and environmental protections in the development of a more sustainable cotton sector, Better Cotton said.

Better Cotton is considered the world's largest cotton sustainability program. Its mission is to help cotton communities survive and thrive, while protecting and restoring the environment.

Through its network of field-level partners, Better Cotton has trained more than 2.5 million farmers in 25 countries in more sustainable farming practices. Nearly a quarter of the world's cotton is now grown under the Better Cotton Standard.

Source: sourcingjournal.com- Oct 19, 2022

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