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INTERNATIONAL NEWS

China's trade weakens to worst since first Covid lockdown as demand falls

China’s exports and imports both contracted at steeper paces in November as external demand continued to weaken and a worsening Covid outbreak disrupted production and cut demand at home.

Exports in dollar terms fell 8.7% in November from a year earlier to $296 billion, the General Administration of Customs said Wednesday. That was the lowest level since April, when the lockdown of Shanghai closed factories, shut roads and stopped companies from putting goods on ships.

The contraction was the biggest since February 2020 when trade was hit by the first Covid lockdown, and comes in a month when exports would normally be rising strongly ahead of the Christmas and holiday season overseas. The decline in imports also widened to 10.6%, leaving a narrower trade surplus of $69.8 billion last month, the data showed.

“Weakening domestic and foreign demand, Covid disruptions and a rising comparison base lead to a perfect but well-expected storm to Chins's exports and imports,” said Bruce Pang, chief economist and head of research for Greater China at Jones Lang LaSalle Inc.

The worsening trade performance is undermining a strong pillar of China’s economy over the last two years, where the rise in exports to record levels have provided Chinese firms with stable demand, even as domestic spending has struggled due to a housing collapse from last year and then increasing Covid outbreaks and lockdowns this year.

The government is now looking to loosen the Covid Zero policy to reduce its impact on the economy, but policymakers may need to add more stimulus.

The Politburo, the ruling Communist Party’s top decision-making body, said it would seek an economic turnaround next year by pledging to keep fiscal policy active and monetary tools targeted and “forceful,” according to a readout of its latest meeting Wednesday.

The uncertainty in how much net exports will contribute to economic growth next year is why the Politburo "vowed to focus on expanding domestic demand and give full play to the fundamental role of consumption and the key role of investment," Pang said.

Stocks in Hong Kong and China had a volatile morning session Wednesday. The Hang Seng Index was up 0.1% as of 11:45 a.m. while the onshore benchmark CSI 300 was lower by 0.2% before closing for a lunch break. The offshore yuan pared gains to trade 0.1% higher around 6.97 per dollar.

China's economy likely slumped in November on a worsening Covid outbreak, a set of early indicators tracked by Bloomberg showed, and that may continue into this month if disruptions to movement and production continue. Economists now see the economy expanding by just 3.2% this year.

External demand is set to continue weakening as the world economy slows and major economies hike interest rates to battle still-high inflation. In addition, competition from factories in Southeast Asia is rising as they return to a new post-pandemic normalcy, while China is still facing disruptions from virus control measures and outbreaks.

The fall off in demand has been seen clearly in the slump in the cost to ship goods from China, where prices are back at the level of mid-2020, before they spiked due to the surge in exports and the tangled supply chains of the last two years.

Source: business-standard.com- Dec 07, 2022

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2022 H1 sees weaker merchandise trade growth, to slow further in H2

Weaker world merchandise trade growth was witnessed in the first half of 2022 due to the war in Ukraine, high inflation and lingering effects of the COVID-19 pandemic, the World Trade Organisation (WTO) said recently in a statistical report.

Such growth fell to 4.4 per cent year on year (YoY) in the second quarter of 2022, with slower growth expected in the second half of the year.

Weaker growth is also expected in 2023 as the global economy slows.

World merchandise trade volume and real gross domestic product (GDP) rebounded strongly in 2021 after slumping in 2020 following the onset of the COVID-19 pandemic. Merchandise trade volume rose by 9.7 per cent in 2021 while GDP at market exchange rates increased by 5.9 per cent.

Both merchandise and commercial services trade grew at double-digit rates in the first half this year when measured in nominal US dollar terms.

Merchandise exports were up by 17 per cent YoY in value terms in the second quarter this year.

Merchandise trade made a strong recovery in 2021, as demand for imported goods continued to rebound from the pandemic-induced slump of 2020. However, disruptions to supply chains increasingly weighed on growth over the course of the year.

Growth in merchandise trade in 2021 was accompanied by a 5.8 per cent increase in world GDP at market exchange rates, well above the 3 per cent average rate for 2010-19. World trade grew around 1.7 times faster than world GDP in 2021.

Source: fibre2fashion.com- Dec 06, 2022

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How to Be Successful in Nearshoring Textile Manufacturing in Mexico

Mexico has been attracting foreign manufacturing investment for the fabrication of textiles for many years. It's well known that the Maquila program was created to promote economic development and organization for Mexican and U.S. companies doing business at the border region. At first this was cotton cropping, and then years later the apparel industry became a key player in this program.

Presently, it's estimated that there are over 400 textile companies established in Mexico using the advantages of temporary import programs created since 2006. These companies employ more than 131,000 people in their operations, representing 5 percent of the total employment generated by IMMEX-certified companies in the country. IMMEX refers to an import duty-deferral government program that provides benefits to authorized companies that engage in the manufacturing or maquila operation scheme in Mexico, including import-export.

So how best can textile manufacturing be nearshored? To effectively address that, some additional questions must be addressed.

What is the ultimate reason a company wants to move at least part of its manufacturing to Mexico to be near the U.S. market?
Does it reduce the supply chain length, or costs, or risks?
Will it impact production costs?
Can it address the company's labor challenges?
Will there be a risk to intellectual property and designs?
Can it provide ease of management and better control over operations?

The reason leadership must begin with this line of questioning is that answers will help guide the CEO and executive leadership to make better decisions about location (within Mexico), the level of investment, and any local partners and collaborators.
Overcoming the unique challenges

Companies will do well to make strategic choices based on both their stated goals and on opportunities and challenges arising from the realities on the ground. Labor difficulties are one notable example of such a challenge that requires thoughtful management.

Labor challenges have shown increased turnover rates in industrialized regions across the globe. Although Mexico has abundant labor, sometimes competition for similar positions with other industries might be an opposing force to consider, especially for those regions where the automotive industry is present.

How has this been addressed? In the Saltillo region, where 2 OEMs are located, bringing workers from nearby municipalities every morning for three shifts has been a common practice for seating cut-and-sew operations since 2016. That's why manufacturing investment subsequently increased and turnover rates showed a marked decrease.

This environment has affected apparel manufacturing and new investments. Depending on their submarket, and business cost structure, this has forced companies to search for less saturated industrial markets in which to assemble. This means sacrificing skills, location and best practices to enter into new regions, such as Central Mexico or the South of the country. An example is the new Nike (Vertical Knits) plant announcement for Yucatan, Mexico.

While there are obvious similarities and advantages that come from proximity to the U.S., there are differences in customs, laws, local supply chains, and traditions. It's best to identify local experts that are able and willing to invest time in understanding the business without offering standard, run-of-the-mill solutions that may not be ideal to support the company's unique needs.

Local support for the initial setup

It's likely that the CEO is not planning to move the company's entire production to Mexico, at least not initially. This being the case, the leadership team must identify what components of the operation ought to move to Mexico first. The answers to the first set of questions mentioned above will inform the decision here.

As well, one initial decision will be to decide whether to find an existing supplier or set up a new one. In any case, vetting a local supplier's operations is a necessity and may take some time to complete. Once this local support has been established, creating or deepening relationships with relevant local government agencies is the next step. Confirming any job creation metrics and identifying priority industries are key to availing the company of any officially approved incentives for new arrivals.

With the 1-to 2-year-long challenges of identifying local suppliers that can conform to the needed compliance, price, and quality standards, it is helpful to ask whether there are any more direct routes to obtaining local suppliers in the short-term. Contract manufacturers (CM) are one option to provide shorter term relief, but they also raise important questions that the leadership team must answer as to the amount of control that the company is willing to outsource. Procurement, manufacturing, design, and engineering are all relevant areas that outsourcing can address, but these also carry some risk to the nearshoring company.

Moving to Mexico provides real opportunities

There are certain other advantages to moving a company's manufacturing to Mexico that may not be leadership's primary driving force, but they are real and tangible. By outsourcing to Mexico, the CEO is essentially taking investments/commitments in the company's own brick-and-mortar and labor, and converting it to something that offers more flexibility.

Labor availability is much better in Mexico. And direct labor costs are much lower—the hourly wage is about 20 percent as much—in Mexico as compared with the United States.

Logistical costs—and the attendant risks—of long supply chains from Asia are significantly reduced by moving operations into Mexico close to United States locations. With the recent pandemic and military conflicts abroad, nearshoring to Mexico serves to mitigate the risks of future black swan events. Rising tensions across the Taiwan Strait make the risk of a real disruption greater than zero. And shorter supply chains provide shorter lead times for innovation with apparel styles and the like.

While there are many potential obstacles to moving large textile operations from one region of the world to another, recent difficult events and the multiple benefits within Mexico provide real opportunities to safely grow one's business in challenging times.

Source: sourcingjournal.com- Dec 06, 2022

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USA: Transportation Trends: What to Know About Cost, Congestion and Capacity

The highs and lows of supply and demand during the pandemic—of goods, labor and ships—created transportation bottlenecks and pricing surges, but shipping is beginning to get back to normal.

At the height of the shipping crisis in the first months of 2022, a record 109 container ships were waiting for a berth outside of the Port of Long Beach, said Peter Tirschwell, vice president, maritime, trade and supply chain at S&P Global Market Intelligence, during the United States Fashion Industry Association's 2022 Apparel Importers Trade & Transportation Conference. Globally, 15 percent of ocean container capacity was idle due to backups, compared to about 2 percent in normal, pre-Covid times and 8 percent currently.

Freight rates have also stabilized after prices hit $30,000 and more per container traveling from Asia and the U.S.'s West Coast. Today, the cost of a container for this route is around $1,500.

"Even though on the surface it looks like the system is normalizing—freight rates coming down, vessel backups diminishing, there's still vessel backups on the East Coast—there is now, going into this sort of post-Covid era, what my colleagues and I believe to be a higher level of risk," Tirschwell said.

Whereas before, there was a degree of reliability that allowed for models like just-in-time manufacturing, slimmer inventories and shorter lead times, Tirschwell noted that, "the level of confidence that exists in the system is now greatly damaged and diminished as a result of the experience that we've seen over the past couple of years." This "lost faith" therefore has companies considering their inventory levels.

"If you've lost confidence in the supply chain, and if the supply chain has elongated by double the amount of time required to get goods from the factory to your distribution center or the customers, well, then you're going to make sure that whole pipeline is completely full, and that means ordering a lot more inventory," said Tirschwell.

The number of containers moving into the U.S. has been growing, but Tirschwell noted there has not been berth capacity expansions at ports to handle this larger volume. One outlier is Charleston, S.C., which opened a new terminal in March 2021, which he said was the first newly built terminal in over a decade. The Port of Savannah in Georgia is also expanding its capacity with a new berth.

In response to historical issues like labor disruptions, companies diversified their shipment destinations, causing the West Coast to lose share of imports while the East and Gulf Coasts grew their shares in the last couple decades. Lately, with labor unrest out West as well as production shifting from China to Southeast Asia—which makes travel through the Suez and Panama Canals to the U.S. strategic—more imports are coming to the East Coast. For the last few months, New York has risen to the top position in monthly port volumes. “This is putting an enormous amount of pressure on U.S. East Coast ports where the capacity is really not there to handle it,” said Tirschwell.
East Coast

In another session, representatives from the Port Authority of New York and New Jersey and the Port of Long Beach shared what they are seeing on their respective coasts.

Although there has been some “softening,” Michael Bozza, assistant director, commercial division, port department at the Port Authority of New York and New Jersey, said that volumes are still up 34 percent over pre-pandemic levels.

A key challenge for the New York area has been chassis availability, but this has also improved. Bozza noted that recently, there were 1,200 to 1,400 chassis available in a New Jersey facility that was at one point nearly empty. “Things are starting to come back,” Bozza said. “Whether or not they stay that way, I think that remains to be seen, but for now, we feel like we’re getting a little bit of a break.”

To tackle the issue of empty containers causing congestion, the Port Authority introduced a container imbalance fee in August, which went into effect in September. From the time the fee was announced, 15 percent of the 200,000 surplus empty containers were removed.

Another effort underway to improve the movement of goods is the $150 million roadway project. This initiative will soften turns, improving safety for truckers while also preventing backups due to accidents. Other investments include increased berth space, ship to shore cranes and the Southbound Connector project that will grow intermodal rail capacity.

The Port Authority is also looking beyond its ports with a warehouse working group. Everything is interconnected, and if a warehouse is closed or doesn't have capacity, there is nowhere for goods to go. "We have to be mindful of the entire chain, we can't just worry about what happens to the box when it leaves our terminals," said Bozza. "We're making connections with the warehouse and distribution committee and trying to connect with those nodes."

West Coast

At a high point, the congestion in Long Beach led to 14,000 containers waiting for trains for more than nine days, and 10,000 containers were queued up for trucks. Now the figure has dropped to 1,200 containers waiting for trains past nine days, said Samantha Galltin, managing director, commercial operations bureau, at the Port of Long Beach.

During the pandemic, the port turned 200 acres of unused land into container storage. Half of these acres were for a "short term overflow resource" for containers waiting to leave the port, thereby also raising capacity in the terminal. "I would expect in the next couple of months, instead of being filled with imports and rail boxes, it will now be filled with empties," said Galtin.

Like New York, Long Beach faced a buildup of empty containers, and it urged carriers to clear them out by suggesting it would charge them. At one point, just 35 percent of all containers in the terminal were empty, but it has since risen to 52 percent.

Another project is a $1.5 billion rail yard. "Rail is the way of the future," said Galltin. "If we are going to get our volumes up, if we're going to handle the volumes that we think we're going to have in the next 10 years, we're not going to do it all by putting that through our gate; we're going to have to do it by rail."

With all of the disruptions, visibility is crucial. The port has created a platform called SWIMS, named for the frequently heard question: Seriously Where is My Stuff? Stakeholders such as steamship lines and railroad companies can add information about container movement, centralizing it. After a successful six-month test, it is expanding the portal to all of its terminals, as well as with partner ports like Oakland, Miami and Charleston, with the hope that it is eventually a nationwide resource.

Another area of investment is sustainability. Long Beach is piloting stations that can charge electric vehicles, and it has developed green shipping corridors with global partners, including the recently announced partnership between Singapore, Long Beach and Los Angeles.

“We retagged and rebranded in 2020 as ‘The Port of Choice,’” said Galltin. “While we are still absolutely environmental stewards, and that is one of our first and foremost things, we also recognize that we have a commitment to operational excellence and making sure that the customer and our stakeholders, our tenants, are all getting exactly what they need, in an environmentally safe and effective way.”

Source: sourcingjournal.com- Dec 06, 2022

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USA: NRF: Third Quarter Saw 'Solid' Improvements for Retail

Consumers made fewer overall purchases during the third quarter, but spending on goods and services contributed to a "solid," 2.6-percent annualized improvement in the U.S. GDP. That's a "much better than expected" result than previously anticipated, according to National Retail Federation (NRF) chief economist Jack Kleinhenz.

Following two consecutive years of year-on-year decline, the turnaround "clearly dispell[s] the notion that the U.S. economy is in a recession and the silver lining was the ongoing resiliency in consumption," Kleinhenz said.

Recent economic performance including the Thanksgiving week holiday sales period outpaced the first half of the year, which saw declines of 1.6 percent in the first quarter and 6 percent in the second quarter. "A strong labor market, rising wages and access to excess savings built up during the pandemic have given households strong balance sheets that have helped spending continue despite inflation and higher interest rates," Kleinhenz said.

The news should bode well for retailers heading into what could to be a softer end-of-year, according to Kleinhenz. With the economy cooling, GDP is expected to slow down in Q4—"at best about half of what was recorded in the third quarter," he added. And with much of their holiday shopping complete, consumers could trim discretionary spending in favor of the high prices that food, gas and mortgages command.

But employment numbers are on an upswing and will continue to rise through the fourth quarter and heading into 2023. "There will be economic hardships, and some may feel like they're in a recession, but for those who have jobs and feel secure about their employment, spending will continue," Kleinhenz said.

Job growth has slowed to a pace that isn't matching labor demand and poses issues for retail and similar sectors. Recent Bureau of Labor Statistics (BLS) data showed that unemployment and job listings have fallen, but retail job listings rose month-on-month from September to October.

Inflation may not play a significant role in curbing consumer spending moving forward, according to Kleinhenz. Consumer Price Index (CPI) data showed that year-over-year inflation dropped from 8.2 percent in September to 7.7 percent in October—the lowest level since January. With hourly earnings growth also slowing to 4.7 percent year over year in October, from 5 percent in September, employers will also feel less pressure to raise prices to mitigate operating expenses.

And despite seeing higher prices at retail, consumer “willingness to spend has been stable,” Kleinhenz said. Retail sales increased 7.5 percent year over year for the first 10 months of 2022, putting the year’s overall sales on track to meet NRF’s forecasts of 6 percent to 8 percent growth over 2021. Holiday sales during November and December are also projected to see similar percentage growth, he added.

Executives are less bullish about the 2023 retail outlook, however. A McKinsey report last week said that 56 percent of industry leaders are bracing for an economic slowdown, and 85 percent believe inflation will remain a core challenge to their businesses in the year ahead.

Source: sourcingjournal.com- Dec 06, 2022

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Eurozone PMI contracts to sub-50 for 5th month in a row: S&P Global

Eurozone's output levels shrank for the fifth consecutive time, as the seasonally adjusted composite purchasing managers' index (PMI) reading in November 2022 was 47.8, as per a survey by S&P Global. Although November's reading was up from 47.3 in October, and therefore indicated a softer rate of decrease, it marked the longest downturn in the euro area economy since the recession between 2011 and 2013.

Notably, a pronounced softening of cost pressures in the manufacturing sector helped bring the overall rate of input price inflation down to its lowest since September 2021. Output charges were subsequently lifted to a weaker extent. Business confidence improved slightly, marking a further step-up from September's 28-month low. Nevertheless, optimism remained weak, according to S&P Global eurozone composite PMI.

The latest survey data also pointed to a softer deterioration in demand for goods and services, although backlogs of work fell at a stronger pace in a sign of alleviating capacity constraints. Employment continued to rise, although the rate of job creation was the weakest in almost two years.

Output levels across the manufacturing sector contracted in November. Subdued demand conditions were a considerable drag on economic activity across the euro area once again, while the energy crisis also dampened output at some companies.

For the first time since May 2020, combined manufacturing and services output fell in each of the euro area nations where composite PMI data are available. Germany remained the worst performer in November, although the downturn here eased as activity fell at the weakest pace since August. Softer contractions were also seen in Italy and Spain, although France and Ireland recorded their first declines in output since February 2021.

While the pace of reduction softened from October's 23-month record, it was still strong overall. Factory order book volumes sank sharply and compared with a more modest reduction in the demand for services, according to the survey.

Capacity pressures subsided further in November, as evidenced by a fifth monthly fall in the volume of work outstanding. Moreover, the rate of backlog depletion was the fastest in two years.

The survey's price gauges indicated receding inflationary pressures across the euro area. Input costs rose sharply, but to the softest extent since September 2021.

The rate of input price inflation across the manufacturing sector eased notably in November. Output charges meanwhile rose at the weakest pace in three months.

Source: fibre2fashion.com- Dec 07, 2022

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Bangladesh's garment exports up 15.61% in July-Nov 2022

Readymade garment (RMG) exports from Bangladesh increased by 15.61 per cent to $18.331 billion in the first five months of fiscal 2022-23 (July-June) compared to exports of $15.856 billion in July-November 2021, as per provisional data by the Export Promotion Bureau. Exports were 4.36 per cent higher than the target of $17.566 billion for July-November 2022.

Knitwear (Chapter 61) exports witnessed a lower growth compared to woven RMG exports. Exports of knitwear increased by 12.55 per cent to $10.113 billion in July-November 2022, as against exports of $8.985 billion during the same months of the previous fiscal. Exports of woven apparel (Chapter 62) increased by 19.61 per cent to $8.217 billion during the period under review, compared to exports of $6.870 billion during July-November 2021, as per the data.

Home textile exports (Chapter 63, excluding 630510) decreased by 7.98 per cent to $518.63 million during the period under review, compared to exports of $563.6 million during July-November 2021.

Woven and knitted apparel, clothing accessories and home textile exports together accounted for 88.24 per cent of Bangladesh's total exports of $21.946 billion during July-November 2022.

RMG exports from Bangladesh had witnessed an increase of 35.47 per cent to $42.613 billion in fiscal 2021-22 compared to exports of $31.456 billion in fiscal 2020-21. Bangladesh had achieved an all-time high in terms of value of RMG exports in 2021-22.

The total exports also breached the target of $43.500 billion with 19.73 per cent rise during the period. However, the growth in textile exports slowed down during the recent months due to global economic challenges. But Bangladesh succeeded to outperform in terms of textile exports despite economic odds during November 2022.

Source: fibre2fashion.com- Dec 07, 2022

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Pakistan: Modest trading activity on cotton market

The local cotton market on Tuesday remained steady and the trading volume remained low. Naseem Usman said that the rate of cotton in Sindh is in between Rs 14,000 to Rs 16,500 per maund. The rate of cotton in Punjab is in between Rs 14,500 to Rs 16,500 per maund.

The rate of Phutti in Sindh is between Rs 5,000 to Rs 8,000 per 40 kg. The rate of Phutti in Punjab is in between Rs 5,000 to Rs 8,500 per 40 kg. The rate of cotton in Balochistan is in between Rs 15,000 to Rs 17,000 per maund.

800 bales of Rohri, 200 bales of Saleh Pat were sold at Rs 14,800 per maund, 2000 bales of Mian Wali were sold at Rs 16,500 per maund and 800 bales of Fort Abbas were sold at Rs 16,000 per maund.

The Spot Rate remained unchanged at Rs 16,500 per maund. Polyester Fiber was available at Rs 285 per kg.

Source: brecorder.com- Dec 07, 2022

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Pakistan: No one to blame but ourselves

After two years of unprecedented profitability, Pakistan's textiles and clothing exports are facing a strong demand downturn as consumers tighten their belts in the US, Europe and other markets. But Pakistani textile manufacturers aren't the only ones experiencing this gloomy situation; the orders in the world's every garment exporting country, including China, India and Bangladesh, have been slowing because of the Ukraine war's impact on price inflation, interest rates and energy markets worldwide. With consumers in the US, Europe, and elsewhere worried about putting food on the table and paying heating bills, their textile and clothing budget is squeezing.

"With food and energy prices going up, the consumers have stopped spending on bedsheets and clothing. This is why retailers and brands in the US, Europe, and elsewhere have slowed down their orders and asked their suppliers to delay the shipments," Ahmed Kamal, chief executive of the Kamal Group, told this correspondent in an interview.

"The ongoing textile gloom has nothing to do with any domestic factor, as some exporters would like you to believe. The downturn is driven by the slump in the global demand for textiles. Dar, Miftah, Imran Khan or anyone else have nothing to do with this. With electricity available for nine cents a unit, gas at a third of the international price and minimum wages a little over $100 a month, what else the industry wants from the government?

"The only thing the government can do is bring down inflation, which pushes borrowing costs up, improve exchange rate and implement uniform gas prices across the different industries."

Pakistan's textile and clothing exporters have profited immensely in the last two years from surging sales after demand spiked in most major markets once Covid-19 restrictions eased and interest rates floored. The nation's textile and clothing exports rose 23 per cent to $15.4 billion in 2020-21 and by 26pc to $19.4bn in 2021-22.

The Pakistan Bureau of Statistics data shows that the textile and clothing shipments have dropped just 2pc to $5.9bn in the first four months of the present fiscal year, but exporters warn that the decline would be significant over the next few months as the manufacturing capacity is shutting down due to piling stocks in their warehouses as importers put shipments on hold.

“Every textile producing country is experiencing a downturn in their foreign sales, leading to capacity closures. India saw the world recession and shut down half of its textile manufacturing capacity. Pakistan, too is facing the same pressures impacting its textile and clothing sales and the profitability of its manufacturers. But we imported expensive cotton without realising that commodity boom was easing and global demand for nonessential items deflating,” Mr Kamal says.

Unlike his peers from the industry, he admits that Pakistan’s textile and clothing exports had grown in the last two years in the post-Covid period in value rather than in quantity. “Those who say otherwise are lying to you. Indeed, the demand spiked after Covid curbs on mobility were eased or lifted. But the actual reason behind the unusual jump of nearly $7bn or well over 50pc in textile sales in two years is the commodity price boom.

“The cotton price doubled as energy rates shot through the roof. So was the case with other commodities. The volumes of export shipments also grew. But the growth in the dollar value of our exports far outpaced the increase in exported quantity. As the cotton prices rose, exporters, who had bought the raw materials at much cheaper rates, were afforded a lifetime opportunity to make enormous profits on inventory gains.

But now we have inventory losses since many of us imported expensive cotton at $1.30/1.50 a pound, which is down to 80 cents. Global oil is also declining. So export value had to come down even if demand hadn’t squeezed. When the industry made inventory gains, we would take all the credit for boosting export sales. How can we now blame someone else for our wrong decisions that are resulting in trade losses?” He says the world is adjusting to new realities, and the textile market will take three months or so to return to normal.

Elated by enhanced export demand, the textile industry claims to have invested around $5bn in new capacities over the last couple of years to further increase its foreign sales. But Mr Kama is critical of the industry for expanding the manufacturing capacity just because cheap money at subsidised rates was available (under the State Bank’s Temporary Economic Refinance Facility scheme introduced to induce the manufacturers not to cancel or hold their plans to invest in their capacity expansion).

“We neither have cotton to feed our existing mills nor energy to operate them. On top of that, the nation is faced with one of the worst dollar liquidity crisis. Where’s the wisdom in increasing capacity on the basis of imported cotton and fabric?

“China and India are leaders in the textile and clothing trade because they produce their raw materials and are not dependent on imported fibre. If you want to increase manufacturing capacity and boost exports, you must first grow enough cotton, become competitive, diversify products and then invest in manufacturing.”

The downturn in global clothing demand has come at a time when Pakistan is facing a full-blown currency crisis, with the exchange rate depreciating fast amid soaring inflation and a rising budget deficit. With foreign exchange reserves fallen to around $8bn, the government is struggling to ward off a potential default on its foreign loans in the face of drying multilateral and bilateral flows, stagnating exports and declining remittances.

“You cannot boost exports overnight, and remittances are more likely to drop further because of global inflation and higher interest rates in Europe, America and elsewhere. So the only solution to the currency crisis is to reduce your import bill, banning all nonessential imports to balance your current account. Only those products and items should be allowed to come into Pakistan that are essential for our survival.

“We also need to fortify our borders and ports to prevent the entry of under-invoiced and smuggled goods into the country. I wonder why mobile phones worth over $150 a set are still allowed to be imported and how the shelves of departmental stores are filled with under invoiced and smuggled items?” he argues.

Source: dawn.com - Dec 05, 2022

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NATIONAL NEWS

World Bank sees India's growth at 6.9% this year

India's economy is expected to grow 6.9 per cent in the current fiscal year, the World Bank said on Tuesday, adding that it is well-positioned to tackle global headwinds.

Asia fourth-largest economy expanded 6.3 per cent in the July-September quarter, and gross domestic product growth for the full fiscal year is likely to be 6.8-7 per cent, the government said last week.

The World Bank raised its forecast for India's growth to 6.9 per cent for the current fiscal year from 6.5 per cent earlier. The Bank trimmed its expectation for next fiscal year to 6.6 per cent from 7 per cent earlier.

India, like its global peers, has been plagued by a rise in commodity prices and tightening monetary policy by central banks worldwide.

However, the World Bank is confident that the global slowdown has a much lower impact on India, compared to other emerging economies.

"We have no concerns about India's debt sustainability at this stage," World Bank economist Dhruv Sharma said, adding that public debt had declined.

The report sees average retail inflation at 7.1 per cent this year and warns that the fall in commodity prices could dampen inflationary pressures.

India's annual retail inflation eased to a three-month low of 6.77 per cent in October, but some economists believe it could take up to two years before the rate eased to 4 per cent — the middle level of the Reserve Bank of India's target.

Source: thehindubusinessline.com- Dec 06, 2022

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BOP pressure may ease, but exports need a fillip

India's external account has been under tremendous pressure since the last quarter of 2021, due to spike in commodity prices, depreciation in rupee and foreign portfolio outflows. The Reserve Bank of India's Monetary Policy Committee (MPC) has had its work cut out this year, having to rein inflation as well as stop the rupee from declining sharply.

With the situation worsening due to the Russia-Ukraine conflict, current account deficit (CAD) for the June 2022 quarter expanded to 2.8 per cent of GDP; the highest since the taper tantrum in 2013. CAD in the September quarter is also likely to be quite high with the imports for the period (₹12.16 lakh crore) registering a growth of 25 per cent over last year, while export growth was relatively muted.

There are however reasons to hope that the pressures on external balance will ease in the second half of 2022-23, providing some reprieve to the rupee and to the MPC. The dollar which had appreciated sharply until September 2022, following the US Federal Reserve's aggressive rate hikes and surging US bond yields, has cooled down of late, on hopes that the pace of Fed's rate hikes could slacken.

The dollar index has declined 6 per cent from its September peak. Not only does this ease the pressure on the rupee, it also reduces the price of imports denominated in dollars. Two, global commodity prices have receded from the June 2022 peak, with price of Brent crude oil declining 66 per cent since then.

Besides, India has been procuring crude oil from Russia at a very deep discount of up to 40 per cent of international prices since September, according to media reports.

Despite the G7 imposing a cap on the price of Russian oil from this month, India has said it will continue to import the cheaper oil supplied by Russia. Another fillip for India's balance of payments comes from the fact that foreign portfolio investors, who had pulled out around ₹1,70,000 crore between January and October this year have pumped in around ₹40,000 crore in equity and debt markets since November. This will help mitigate the impact of the trade deficit, somewhat.

That said, while the intense pressure on external account could ease, surge in volume of imports due to rising domestic demand will continue to be a challenge for policymakers.

Many of the top imports are closely linked with economic growth and could continue to increase, expanding the trade deficit. While the Centre has tried to address the deficit though higher duties on gold imports the impact has been limited.

A better way to narrow the trade deficit would be to focus on increasing exports, especially to fill the gap left by falling Chinese exports, by incentivising companies to manufacture for overseas market. The PLI scheme can be expanded and exporters need to be nudged to move up the value chain.

Source: thehindubusinessline.com- Dec 06, 2022

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Nothing so great about free trade with Great Britain

India-UK FTA will increase our exports modestly but severely impact digital and climate sectors

Nothing So Great About Free Trade With Great Britain

India-UK FTA will increase our exports modestly but severely impact digital and climate sectors

Jayant Dasgupta and Abhijit Das

After the recent phone call between Prime Ministers Modi and Sunak, prospects for an India-UK free trade agreement appear to have brightened. It is likely to include commitments in traditional areas, such as trade in goods and services. It could also have provisions on issues that India has traditionally resisted in trade agreements – labour, environment, gender and intellectual property rights. Further, as India has taken commitments on digital trade and government procurement in its FTA with UAE, these issues are also likely to figure in the FTA with the UK. What could be the eventual impact of the India-UK FTA on India's economy?

- On the trade front, we can expect a modest increase in India's exports of goods and services to the UK.
- With the UK's customs duties already low in most sectors, India's exports could make gains in just a few sectors, such as garments, leather products, gems and jewellery.
- We could also see some increase in India's exports of IT services.

On the other hand, India is unlikely to garner economic gains from provisions related to labour, environment, digital trade, IPRs etc. A study by the UK's department of international trade is sobering. Even in the most optimistic scenario, it predicts that the India-UK FTA could increase India's bilateral exports to the UK by £10.6 bn, and that of the UK by £16.7 bn. As these increases are likely to happen gradually and only by 2035, hoping that the India-UK FTA would be a significant contributor to India's export growth appears misplaced. What about the costs for India of the FTA?

- Job losses appear inevitable in those sectors where imports from the UK would displace domestically produced goods and services in India.
- This would arise from reduction/elimination of customs duties by India and opening of some services sectors, particularly financial services.
- Costs could also arise from FTA provisions that would curtail the ability of government to use policy instruments to boost the domestic production of goods and services.

Providing favourable treatment to Indian manufacturers and service suppliers in purchases by government is one of the limited policy tools still available to government to boost domestic producers. Having agreed in the India-UAE FTA to provide non-discriminatory treatment to UAE producers, India would find it extremely difficult to resist similar demands from the UK.

It is also relevant to point out that despite the large size of government procurement in the UK, a back of the envelope calculation suggests that less than £20 bn might be procured from sources outside the UK. Given the intense competition from other countries, including the EU and US, for this small pie, it is unlikely that Indian exporters will make any significant gains in the UK government procurement market.

- Let us turn to two sectors of huge economic potential for the future, digital sector and climate-friendly products.
- New products and technologies in both these sectors are likely to be created in the developed countries.
- If India does not want to become overwhelmingly dependent on imports, it would have to implement innovative policies for catching up with the first movers in these sectors.
- It is apprehended that the FTA could contain environment-related obligations that could hinder government's efforts aimed at transition to a low-carbon economy being driven predominantly by domestic players.
- And to appreciate the magnitude of economic gains that could be garnered by India through catch-up policies in the digital sector, consider that Rajeev Chandrasekhar, MoS in India's IT ministry, has been quoted as saying that data sets that represent India's consumers present "an estimated opportunity of more than $200-500 billion, if leveraged properly".
- It would be a huge economic cost to the nation, if FTA provisions constrain India from leveraging its data advantage.

In conclusion, a meagre increase in India's exports of £10.6 bn, that too spread over a decade, does not justify taking onerous commitments that could inflict multiple blows to the country's economic prospects. After all, India has not shied away from taking difficult, but correct, decisions on trade agreements in the past – walking away from RCEP negotiations being one such example.

For the sake of the country's robust economic future, a detailed and objective assessment of the likely economic benefits and costs of India-UK FTA is needed – especially of the provisions relating to labour, environment, digital trade and IPRs – before moving forward in the negotiations.

Dasgupta is India's former ambassador to WTO. Das is an international trade expert. Views are personal

Beware of Brits bearing 'gifts'

Source: timesofindia.com- Dec 05, 2022

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Monetary policy. RBI hikes benchmark lending rate by 35 basis points

The Monetary Policy Committee (MPC) voted by a majority of 5-1 to up the policy repo rate by 35 basis points to 6.25 per cent from 5.90 per cent even as 4 out of the 6 committee members decided to persist with the monetary policy stance of "withdrawal of accommodation'.

The MPC's decision comes in the wake of retail inflation continuing to rule above its upper tolerance limit of 6 per cent and slowing growth.

RBI Governor Shaktikanta Das emphasised that market expectations and the decision of MPC are by and large aligned.

He noted that further calibrated action by the MPC may be warranted even as the battle against inflation is not over.

The RBI revised the GDP growth projection for FY23 to 6.8 per cent (with risks evenly balanced) against 7 per cent earlier.

Das said even after the downward revision in GDP growth projection, India will still be among the fastest growing major economies globally.

The retail inflation projection for FY23 has been left unchanged at 6.7 per cent.

Source: thehindubusinessline.com- Dec 07, 2022

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Textile units, traders differ over credit

The business relations between textile processors and traders have become a cause of concern for both the sides as they hold different opinions over payment terms. While the processors want that the payment should be made within a month of delivery of goods, the textile traders want a longer credit limit.

Currently, the traders are paying as and when they receive payment from their customers. Based on early payment they also get a discount on the total bill. However, at a recently held meeting, the processors decided to give credit for 30 days only. Following the new arrangement, textile traders are opposing the move.

“The tight payment terms are not acceptable to most of the traders as we are already facing a drop in business. Further, payment terms are a matter between two parties and there is no need for a common rule for the entire industry,” said Narendra Saboo, president of Surat Mercantile Association (SMA).

To discuss the issues, SMA held a meeting with Jitu Vakharia, president of South Gujarat Textile Processors Association. “With the sudden change in payment terms, it is not possible for traders to adjust to the situation. Traders face various payment issues, hence it is not possible to meet the requirements of the processors,” said Champalal Bothra , general secretary of FOSTTA.

Source: timesofindia.com- Dec 07, 2022

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Global headwinds. Fitch retains India growth forecast at 7% for this fiscal, cuts projections for next 2 years

Fitch Ratings on Tuesday retained India's economic growth forecast at 7 per cent for the current fiscal, saying India could be one of the fastest-growing emerging markets this year.

It, however, cut the projections for the next two financial years, stating that even though the country is shielded to some extent from global economic shocks but is not impervious to global developments.

In its December edition of the Global Economic Outlook, Fitch projected India's GDP to grow at 7 per cent in the current fiscal and slow to 6.2 per cent in 2023-24 and 6.9 per cent in 2024-25.

In September, Fitch had projected 7 per cent growth for the current fiscal, followed by 6.7 per cent in 2023-24 and 7.1 per cent growth in 2024-25.

Given the stronger-than-expected outturn, Fitch forecasts growth at 7 per cent in the financial year ending March 2023 (FY23).

"India is expected to record one of the fastest growth rates among emerging markets in our Fitch20 coverage this year," it said.

India is shielded to some extent from global economic shocks given the domestically focused nature of its economy, with consumption and investment making up the bulk of the country's GDP.

"However, India is not impervious to global developments. The worldwide economic slowdown is expected to reduce demand for Indian exports," Fitch said.

Source: thehindubusinessline.com- Dec 06, 2022

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Trade settlement in rupee: Govt, RBI devise country-specific plan

The central government and the Reserve Bank of India have devised a country-specific plan towards implementation of overseas trade in rupee, people aware of the matter said.

To start with, a small number of banks will be allowed to manage cross-border transactions in domestic currency with a particular country.

"Small countries that are dollar-deficient have shown interest in doing trade in rupee. There were discussions regarding making the rupee trade (mechanism) bank and country-specific. UCO Bank and IndusInd Bank may deal with Russia. Similarly, Punjab National Bank may lead in the case of trade with Myanmar. Other banks can also join later, once the system kicks in. More banks can seek RBI's approval once the system stabilises," one of the persons cited above said.

Emails sent to UCO Bank, IndusInd Bank, and Punjab National Bank remained unanswered till press time.

As on Monday, the Reserve Bank of India (RBI) has allowed the opening of 18 special vostro accounts and majority of these accounts have been opened to facilitate trade with Russia. These accounts have been opened with five Indian lenders — UCO Bank, IndusInd Bank, Union Bank of India, HDFC Bank, Canara Bank — and two Russian banks — VTB and Sberbank.

The matter was discussed at the meeting between the finance and commerce ministries, RBI, export promotion councils, and industry associations on Monday.

While the central bank had announced the rupee trade mechanism nearly five months ago, not even a single rupee-trade transaction has taken place till now, as exporters and banks continue to struggle teething procedural hurdles.

Exporters said even as the RBI's rupee-trade mechanism is open for all nations, it will enable trade especially with sanction-hit nations such as Russia and countries staring at forex shortages.

However, it is now clear that the government is not insisting on large banks that have banking assets overseas to handle such transactions. Banks are concerned that facilitation of such a trade would cause problems to their overseas banking operations in the future due to the fear of economic sanctions by the West. These banks include State Bank of India, Bank of Baroda, Bank of India, among other banks.

"As a result, mostly smaller banks or banks that don't have enough international exposure have gone ahead with getting necessary approvals towards cross-border payments in rupee," the official said.

During the meeting on Monday, the finance ministry and the RBI also discussed ways to simplify procedures towards expediting international trade transactions in local currency.

The RBI has informed banks that exporters may not have to open a new account in banks that have been allowed to open special vostro accounts for cross border payments in rupee. This means that an exporter can continue to deal with the existing bank, such as SBI, but for these transactions, the payment will be routed through banks such as IndusInd and UCO. The procedure will be similar to what happened in the case of facilitating transactions with Iran, another official said.

Source: business-standard.com- Dec 06, 2022

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Transactions in CBDC pilots gather pace, all minor glitches fixed swiftly

Transactions gained momentum in the pilots for the central bank digital currency (CBDC), with the wholesale segment (CBDC-W) averaging Rs 325 crore worth of deals per day in November, while in the retail segment (CBDC-R), the Reserve Bank of India (RBI) created Rs 3-crore digital currencies in the first two days of the pilot.

The wholesale pilot for the CBDC was started on October 1 with eight banks, and the retail pilot on November 1 with four banks, along with merchants and customers in four cities in a closed-user group.

“In terms of bilateral security transactions, the CBDC-W-based settlement has shown impressive performance,” said a person aware of the developments.

“The average value of trades through bilateral security transactions using CBDC-W as the funding asset amounted to around Rs 325 crores per day during the one month of the pilot,” said the person.

Sources said throughout the pilot, the system did not face major issues and all minor glitches were resolved immediately.

The initial response to the retail pilot has been enthusiastic, with a total of around Rs 3 crore digital currencies across denominations issued to the four participating banks in the first two days.

Currently, specific use cases of person-to-person and person-to-merchant transactions are being tested in the retail pilot. The digital rupee is facilitating individuals to hold and transact risk-free central bank money in digital form. Akin to cash, it is not carrying any interest but provides the option of recoverability in the case of loss of the digital rupee.

In terms of technological architecture, the digital rupee is leveraging the strengths of both the decentralised ledger technology (tech) and the centralised systems.

The retail CBDC is expected to test the offline functionality for enhanced financial inclusion and to provide cash-like experience in areas where internet connectivity is fuzzy.

Sources said the programmability feature will also be tested for directed benefits.

The subsequent pilots of the retail segment will also test various design choices and tech architecture. After gaining experience from the retail pilot, the RBI may launch the digital rupee for the entire country.

“Based on experiences gleaned from multiple pilots, a robust and efficient tech architecture will be designed, and appropriate design choices crystallised to enable launching the digital rupee for the entire country in due course,” informed sources.

On the wholesale side, the use cases will extend to such market segments where central counterparties do not exist. Corporate bonds, commercial papers, and certificates of deposit are some instruments which are bilaterally settled.

The central bank is also thinking of extending the use case of CBDC to cross-border transactions, both at the institutional and individual levels. This will allow reaping the most potential benefits of dealing in central bank money by bringing time/cost efficiencies.

Gaining currency

- Rs 3-crore digital currencies issued to banks by RBI in the first two days of the retail pilot
- Systems did not face any significant issues and all minor glitches were resolved immediately
- DC-W-based settlement has shown impressive performance
- Retail CBDC (CBDC-R) to test offline functionality
- CBDC may be extended to cross-border transaction at the institutional and individual levels

Source: business-standard.com- Dec 06, 2022

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$4-trillion: The world faces an economic loss the size of Germany, but can India absorb the impact

The world economy has been taking continuous hits for a while and India has been feeling the pain. With experts estimating a $4-trillion loss in economic output between now and 2026, how much should India worry?

Experts agree on one point: When there is a global slowdown, the Indian economy will also be affected. But they say the country is in a safer place or better placed when compared with other countries.

Given that the share of the Indian economy is 7.5% of the world economy in purchasing power parity, the domestic industry cannot escape a global disruption, says Rajan Ratna Sudesh, Deputy Head and Senior Economic Affairs Officer, United Nations Economic and Social Commission for Asia and the Pacific (South and South West Asia Office). “India’s exports of goods and services constitute 18-19% of its GDP. So, when there is a global slowdown, India’s exports would also be affected. This is expected as global demand for many products will decline,” he says.

However, the negative impact on India would not be as bad as in other countries because of its large market. Many industries in India still supply to the domestic market more than exporting. Besides, various government policies have led to a greater degree of creation of domestic value chains and backward-forward linkages of industries, say experts.

More and more economic experts now agree that the global economic outlook is turning bleak and recession is imminent. In October, the International Monetary Fund's Managing Director Kristalina Georgieva said the world could lose $4 trillion in economic output between now and 2026. "We estimate that countries accounting for about one-third of the world economy will experience at least two consecutive quarters of contraction this or next year," she said during an address. "This is the size of the German economy, a massive setback for the world economy."

The Paris-based Organization for Economic Cooperation and Development (OECD) also has a grim forecast. It said the world economy would grow just 3.1% this year, down from 5.9% in 2021. The OECD pegged the global economy to expand 2.2% next year. These estimates, and those by other global agencies, suggest that the already fragile global trading environment is going to face another devastating blow.

More pressure on exports

While economists are not willing to put an estimate on the impact of this problem on India, they claim to have some clarity on how it would affect the country. In a closely connected world, a $4-trillion hit — the size of Germany's economy — would affect exports the most.

Outbound trade of goods has already seen a turbulent phase largely due to these upheavals. This is also evident from the government's numbers published in October that showed exports contracted for the first time in two years. Outbound trade declined 16.65% YoY in October to $29.78 billion. Share of exports of goods and services in GDP increased to 21.4% in 2021-22 from 18.7% in 2020-21. The overall share of goods exports in GDP increased to 13.3% in 2021-22 from 10.9% in 2020-21.

Ajay Sahai, Director General and CEO of the Federation of Indian Export Organisations (FIEO), says while any contraction in global GDP will have an impact on trade, the country will not be at the mercy of this fall. "The contraction will have much more significance for export-centric countries, those that have a large share in global trade. India's exports have a 1.8% share in global imports." Sahai reassures the stakeholders that these are cyclic trends and businesses always factor these into their strategy.

Though India has been aligning its exports with global demand, he points out that the focus has been on technology and sunrise sectors such as electrical and electronics, machinery, automobiles and auto components, pharma and technical textiles. The demand for these products is likely to only go up, says the FIEO chief.

“We are also increasingly integrating ourselves in global value chains, which even after the pandemic, account for over 60% of the trade. These value chains are less susceptible to headwinds in global trade. It is important to entrench ourselves in global and regional value chains with shorter linkages. These have become more preferred after Covid and geopolitical uncertainties,” Sahai adds.

Moreover, stakeholders still can take steps to cushion any blow if they consider these as early warning signs.
Diversification as a solution

The latest official export data reveals commodity groups such as engineering goods, readymade garments and textiles are already seeing a dip. Pradeep Mehta, Secretary General of think tank CUTS International, says: “As the developed world grapples with record high inflation, energy crises, depressed consumer demand, high interest rates and industrial downturns, there will be subdued demand for developing country’s exports, both in consumer and intermediate goods. Forecasts of a so-called technical recession are dampening investments as well.” He also points out that domestic policy priorities — such as concerns over food security and inflation — can impact the export performance.

There are several obstacles that can cause some problems and these should not be ignored. The European Union could feel a higher impact and Indian industries focussed on such markets should be prepared.

Labour-intensive sectors such as apparel and textiles, agriculture and low value-added manufacturing face more problems because an impact will directly hit employees. These segments are also among India’s highest foreign exchange earners. “Therefore, it becomes imperative that adequate attention is paid to the diversification of export markets, instead of relying only on demand rebounds in existing ones,” Mehta says.

Diversification will help them offset the loss in one market with the trade in another, Sahai says. "They should figure out a diversification strategy. Moreover, focussing on brand building can help, as branded goods are generally insulated from such contractions."

Rising in the Global South

UNESCAP's Sudesh says a greater decline may be seen in some non-essential products and white goods. Iron and steel, non-ferrous metals, industrial machinery and automobiles are on his watch list.

He also sees a possible decline in savings repatriation as Indians working abroad would have to deal with a slowing economy and rising inflation, as well as a slowdown in foreign investments as multinational companies will also be hit.

The saving grace could be market diversification. "India is not only trading with the Global North, but it has also integrated well with the Global South. So, a dip in demand in developed countries may give some cushion if it continues to export to developing countries. This is especially true of labour-intensive sectors," Sudesh adds.

The country's traditional strengths have been its large consumer base and a large workforce. While these ensure businesses get a daily stable market even during global disruptions, experts point out that some of the country's inherent advantages can be a booster for exports too.

"India is on good terms with most other countries out there. So, the geopolitical risk assessment associated with India is very less," says Ravi Srivastava, Senior Partner and Director (supply chain practices), Boston Consulting Group.

This buttresses the country's standing as it expands its trade to the growing markets in the Global South. Besides, companies across the world are restructuring supplier networks, trying out nearshoring. This trend also gives India a big opportunity, says Srivastava. "Our attractiveness as a manufacturing location is improving. We already have the advantage of a fairly strong pool of talent. In many categories, we have a very large domestic market. So as manufacturing comes in, it can serve the domestic market, gain scale and also can serve markets outside," he says.

Services cushion, but...

Though the focus has been on merchandise exports, we should not forget that the country has a big cushion in services exports, which has softened economic blows earlier also.

Abhay Sinha, Director-General of the Services Export Promotion Council, says the segment might see a grim outlook but is on an expansion mode. Trade in services registered a YoY growth of 43.9% in October. In April-October 2022, the YoY growth was 31%. “If this momentum is maintained, services exports can help offset the problems caused by merchandise trade. It can offer some cushion on the trade deficit and the current account deficit fronts.”

The country’s breakup of merchandise and services exports is 60:40. The economic contribution of services to GDP growth is 54%.

Sinha identifies two more factors that can boost India: Economies around the world have opened up after Covid and the country has taken over the presidency of G20. “We expect more activity in travel & tourism, medical value travel and transport industries.” Besides, India has a vantage point now in reshaping global trade. “This can help us increase exports.”

That can provide some relief for now. But experts argue that the distinction between goods and services trade will blur. It cannot be a question of either-or both segments have to grow and need to be grown, they say.

“Services is indeed a strength, but we need to do well on both fronts,” says Mehta of CUTS. “There is increasing servicification of manufacturing (use of services as value chain inputs.” For example, the research, marketing and logistics process in manufacturing is getting outsourced to service providers.

“So manufacturing is now increasingly dependent on services. It helps to improve productivity, efficiency, and global competitiveness. Manufacturing firms are outsourcing most of these activities in the value chain, increasing the demand for service providers. So, a bleaker investment climate bodes ill for the services sector also in the longer run,” he says.

Mehta advocates tapping new frontiers in services exports to spread the market risks. The same developed markets are mostly the biggest destinations for India's services and merchandise exports. So, there is a need to penetrate new markets. "We also need to move beyond what we have traditionally considered to be our edge in services," he adds.

Experts agree the Indian economy has shown remarkable resilience in the face of the global crisis. It has been called "a shining star" because of its inherent strengths. But navigating through this period of high uncertainty in the global economy will require frequent course corrections based on our strengths and opportunities.

Source: economictimes.com- Dec 06, 2022

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Is RBI's much-touted retail digital rupee really a 'game changer'?

A host of experts have claimed that RBI's retail central bank digital currency (CBDC) is a digital game-changer, which could positively affect the future of financial access, acceptance and resilience. RBI's own bald notification - which stated that the digital rupee could be stored in mobile wallets and used to pay individuals, and merchants via QR codes at participating locations - said much about the 'what', but little of the 'how' or 'why'. Certain aspects of this claim are worth exploring.

Some think that retail CBDC is revolutionary because, unlike currency, it will remain on RBI's balance sheet. This comes from the mistaken belief that commercial banks execute real currency payments and loans. The truth is that commercial banks hold bank tokens in bank accounts (in lieu of actual currency deposits) and only convert those bank tokens into rupees on demand, at a branch or ATM.

In fact, CBDC already exists, as 'reserves' available to commercial banks, to settle transactions between them. Now, however, CBDC has been made available to the retail consumer as legal tender. But while RBI will oversee issuance and redemption of these digital rupees, distribution continues to reside with commercial banks. Moreover, CBDCs may be exchanged for physical rupees and converted into bank deposits - preserving the status quo for banks.

Does this really present a new payment system? In truth, until a comprehensive rulebook clearly outlines roles, responsibilities, governance, instruments, incentives and the means of funds transfer and redemption, the CBDC's role in enhancing payment options will remain unclear.

Financial inclusion may not be a natural by-product of the digital rupee either. Today, digital rupees may only be transacted through a bank wallet, linked to a bank account. And if UPI is anything to go by, an overwhelming acceptance did not automatically result in a greater transmission of cash or credit to the unbanked.

A more reasonable expectation is that a CBDC will provide greater legitimacy, security and acceptability, while enabling interoperability with other payment systems. By way of example, the digital rupee could reduce some of the friction that currently exists in cross-border payments. And, yet, it is hardly conceivable that the major roadblocks to speedy payment settlement - consistent oversight, uniform technical standards, anti-money laundering and terrorism financing laws - would be entirely averted.

Similarly, CBDC may not be enough to resolve some of the problems that increasingly plague the use of cash at physical point-of-sale and delivery, despite allowing instant settlement. For instance, how would one change a high-denomination digital rupee if a merchant does not have smaller denomination digital rupees to transfer to the buyer? The retail CBDC infrastructure would need to include the ability to request an optimised set of digital rupees in real time to deal with this issue.

Finally, there's the much-touted benefit of cash-like anonymity for all digital rupee transactions. This is wishful thinking. An anonymous solution would exist if RBI had created pseudonymous wallets on behalf of individual customers. But this would be an operational nightmare for RBI, which is ill-equipped to deal with issues like account opening and maintenance, and customer service.

As things stand, commercial banks will continue to manage KYC and digital wallets, making every transaction traceable. Even though RBI has instructed banks not to report transactions less than ₹50,000 in value, those transactions are still under the purview of regulatory oversight.

If the digital rupee does not augment payment diversity, transmission efficiency or transaction privacy, what is RBI's real motivation? Greater financial stability? A CBDC could help to avoid bank runs and restore faith during an economic crisis. But since the digital rupee cannot 'earn any interest' - it would need to be converted into a bank deposit to grow - this motive may be set aside.

Another could be the need to defend against the volatility of cryptocurrencies. But India's monetary regime is not dependent, weak or small enough to be so easily overwhelmed.

A more likely explanation could lie at the confluence of internal pressure and external paranoia. On the one hand, because of UPI's meteoric rise, RBI may need to feed India's endless hunger for digital miracles. But since RBI has chosen to rely on commercial banking infrastructure, and banks have proven to be reluctant digital payment champions in the absence of financial incentives - UPI is a prime example where fintech wallets dominate - this may be a tall order.

On the other hand, China's geopolitical ambitions for its digital yuan may have amplified the urgency for a home-grown alternative that can hold its own. But this requires a sustained level of commitment and investment in overseas ventures that RBI has never undertaken.

In the end, if the digital rupee can improve payment security, transaction privacy and financial inclusion, it will be much more than a simple game-changer. If, however, it only adds another option to a crowded and profit-constrained digital payments landscape, it is likely to be far greater than a common failure.

Source: economictimes.com- Dec 06, 2022

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Why India-Australia FTA is significant: Job growth, international precedence and more

India and Australia enjoy excellent historical bilateral relations which have further matured into a friendly partnership. This partnership is also fortified by shared values of a pluralistic society, parliamentary democracies, and commonwealth traditions.

To strengthen this relationship, open different and newer avenues for trade, and bolster business across this corridor, both countries have signed a Free Trade Agreement that is scheduled to come into force on 29 December 2022. As per the Ministry of Commerce and Industry, India currently has 13 FTAs with multiple countries across the globe; and the latest one with Australia added to the list will further enable India to maintain an active nexus of economic co-operation across the globe.

Currently, as per the Ministry of Commerce and Industry, Australia is the 17th largest trading partner of India and India is the 9th largest trading partner of Australia. India-Australia's bilateral trade for both merchandise and service trade was valued at US$ 27.5 billion in 2021.

A path towards progress

With the ratification of the India-Australia Economic Cooperation and Trade Agreement ('ECTA'), the bilateral trade in goods and services for both countries is expected to rise from the existing US$ 27.5 billion to US$ 45 billion in five years. This FTA creates a channel of reciprocal trade benefits for both countries, wherein they gain economic precedence in each other's markets, supporting several sectors and services.

Australia will provide zero-duty access to India for 100% of its tariff lines (98.3% tariff lines from day one and the remaining 1.7% in a phased manner). The ECTA ensures an institutional mechanism to encourage business growth between the two countries.

This is extremely helpful, especially for labour-intensive sectors such as engineering, textiles and apparel, gems and jewellery, leather and footwear, which otherwise are subject to a 4-5% duty in Australia.

India, on the other hand, will provide zero-duty access to Australia for 70.3% of its tariff lines (40.3% tariff lines from day one and the remaining 30% in a phased manner). Around 96% of Australia's exports to India are raw materials and intermediate products, therefore the tariff concessions offered by India will allow local/domestic industries to get cheaper raw materials and enhance their competitiveness. This FTA is also going to generate employment for over a million people, as estimated, over the next five to seven years.

In the future, this FTA will also encourage vertical movement in the value chain with an increased presence of higher-value technological products, such as electronics, pharmaceuticals, medical devices, and more in the trading portfolios.

Future outlook

In the long-term, this move is expected to enhance not just the fiscal relationship between the two countries, but also improve living standards and the general welfare of the people in the two nations. Cementing the strategic partnership between India and Australia is a key milestone to dismantle geographical borders and deepen collaboration.

This also opens up the participating economies for mutual investment and furthers the cause of an interconnected world. The passage of the Australia-India FTA in the Australian Parliament, after more than a decade of negotiations, is a significant milestone in India's aim to achieve the $2 trillion export target by 2030.

Source: economictimes.com- Dec 06, 2022

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Weak global demand affecting India's merchandise exports and imports, says RBI Governor Das

"The external sector has been affected by strong global headwinds. Slowing global demand is weighing on our merchandise exports. The growth of merchandise imports is also decelerating," Das said.

After a successful run for many quarters merchandise exports contracted by a massive 16.7 per cent to USD29.8 billion in October-- the first contraction in 19 months. Merchandise imports also lost steam, clipping at just 5.7 per cent in October and all the available indicators show that exports will continue to face more headwinds.

Governor Das said that it is also important to take cognizance of India's innate buffers. "The growth of services exports, mainly contributed by software, business and travel services remained robust at 29.1 per cent in April-October 2022," he said.

According to the latest update of the World Bank, India's remittances are estimated to grow by around 12 per cent to US$ 100 billion in 2022 from US$ 89.4 billion in 2021. Remittances to India rose by 22.6 per cent year-on-year in the first quarter of the ongoing fiscal.

"The net balance under services and remittances remains in large surplus, partly offsetting the trade deficit. Consequently, even if the current account deficit is higher than 2021-22, it is eminently manageable and within the parameters of viability," Das added.

Source: economictimes.com- Dec 07, 2022

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India, Belarus to explore trade settlement in Indian rupees

India will explore with Belarus, a close ally of Russia, the option of replicating the deal it has struck with Moscow for settling international trade in rupees. Indian bankers are expected to meet a team of officials from Belarusian financial institutions this month to discuss the possibility, a person familiar with the matter told ET.

Belarus is grappling with sanctions from the US and the EU for supporting Russia's attack on Ukraine. "Since India imports fertiliser from Belarus, a rupee settlement could help. It could be exactly like the rupee trade with the Russian parties. Many Russian banks have opened Vostro accounts with us though some of the Indian oil refiners are paying hard currency to buy oil from Russia," said a banker.

The industry body, the Indian Banks' Association (IBA), reached out to banks last week on the proposed meeting. "The IBA may have been asked by the RBI or the government to pursue this. We expect the meeting to happen sometime this month or early January," said another banker.

The trade settlement arrangement, finalised by the RBI in July, entails Indian importers depositing rupees in special accounts that overseas banks open with lenders in India and clearing the dues of Indian exporters from surplus balances in these rupee accounts. Though it was announced in the wake of sanctions on Russia following the invasion of Ukraine, the scheme can be used to settle trade with any country.

Last week, the RBI clarified that the rupee balances lying in the special Vostro accounts can be hedged -- thus enabling Russian companies to avoid losses due to fluctuations foreign exchange and a possible dip in the rupee against other currencies. In an FAQ issued a few days ago, the central bank also said that the balance of one 'special rupee Vostro account' (SRVA) can be transferred to the SRVA of another bank of the same country only.

The scheme permits investment of surplus funds lying in special Vostro accounts in Indian treasury bills and bonds.

India's imports from Belarus was $366.1 million last year, of which as much as $307 million was fertiliser; exports to the East European country was $71 million with pharmaceuticals and cereals accounting for $21 million and $11.4 million, respectively.

According to the RBI, trade settlement in rupees would reduce dependency on hard (or freely convertible) currencies like the dollar, euro and yen. The present mechanism involving the use of special Vostro accounts followed months of discussions between Indian and Russia after several Russian institutions were barred from using the international messaging system provided by the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT).

"The government is in touch with banks to find out whether the new trade settlement mechanism is catching on. Quite a few banks have opened Vostro accounts though at least one of the Indian banks, which has US presence, is reluctant to do this business," said an industry source.

Source: economictimes.com- Dec 07, 2022

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How the RBI's digital currency can help economy

Readers of a certain age group might remember Ramon Bonus Stamps. It was a hugely successful loyalty programme in the late 1960s. You got some stamps on every purchase from participating retailers, and could redeem them for a gift after accumulating a certain quantity. Some people sneakily exchanged them for real cash too. At its peak, it is said that more of these bonus stamps were printed than by the postal department. Its success spawned enterprising businesses that started printing these stamps for circulation, which then threatened to become a parallel currency.

A deluge of fakes soon led to the scheme shutting down. Of course, subsequent technologies like holograms and later QR-code-based authentication could deter counterfeiters. Not surprisingly, loyalty programmes have not only survived, but flourished. You can earn and accumulate points on purchases of almost everything, and then redeem these points for more merchandise or donate them to designated charities.

The loyalty of the customer is now earned not only on brands or products, but even on baskets of goods or aggregate purchases by the reward of points. These points are sometimes transferable, even exchangeable between big retailers. Typically, you store these loyalty points in digital wallets and can also top up your balance with 'real money'. Everyone from Amazon and Airtel to Ola and Uber offers a wallet. But what is in this wallet cannot become a parallel currency, like the Ramon Bonus Stamps of yore. This is because it would be deemed illegal, as it has no official state authorization (or fiat). Even otherwise, its acceptability is going to be limited.

Imagine different currencies competing for dominance in usage without any sovereign backing. Such a free market for competing currencies exists only in technical papers and in Utopia. Recently, even the megacorp Meta (owner of Facebook) gave up its project to privately issue a currency called Diem. So far in the modern world, only sovereign-backed fiat currencies have universal acceptability. Such a currency can be debased by irresponsible monetary or fiscal policy and inflation, or abruptly shut off by actions like demonetization. The emergence of distributed ledger technology (called blockchain) led to the creation of Bitcoin, which aims to be a currency that is not controlled by a central authority, with no risk of being debased. Can it become an alternate currency, if not replace fiat money?

The function of money as a medium of exchange is based on its general acceptance by all, sort of like a positive feedback loop. As in language, more people speak English because more people speak English. But mostly, the universal usage and acceptance of a national currency is imposed by fiat, and by making alternatives illegal. Will Bitcoin become so popular that everyone will switch over to it? Will it face a backlash from sovereign powers? Bitcoin rebels hope to establish a medium of exchange, become popular, and get the better of currencies issued by sovereigns.

That is a pipe dream. Because sovereigns, if threatened, will go to any length to suppress cryptography-based currencies. In the meantime, blockchain-based tokens (or assets) have had a field day as candidates for speculation. This asset class also led to the proliferation of crypto exchanges, which assured traders protection from counterparty risk. That protection turned out to be fragile and the FTX meltdown has served as a cautionary tale. However, the underlying promise of the technology of distributed ledger-based authentication remains alive and kicking. Bitcoin as a concept is still something that central banks have to reckon with.

That is the background to why many central banks are wading into cyberspace to issue blockchain-based tokens, also called central bank digital currencies (CBDCs). The Bank for International Settlements reports that more than 50 central banks are planning to issue CBDCs worldwide, and in three years, nearly 20% of all currency could be digital cash.

This is different from payments interfaces like India’s UPI, which are just mechanisms that instantly move money among bank accounts. This is digital cash that will reside directly in an account with the central bank. India is among the early starters, having started pilot trials of digital cash for wholesale and retail usage in limited geographies.

Unlike Bitcoin, the CBDC ledger is centralized, so it offers no anonymity, although for small-value transactions the Reserve Bank of India says that no central records will be maintained. RBI’s digital tokens can be exchanged using smartphones and QR-code scans. Centralized ledgers will keep track of transfers and maintain a digital trail. Like paper cash, these tokens represent a liability of the central bank, but cannot be used namelessly.

If a CBDC becomes a significant proportion of all money, it can make monetary policy more effective with better transmission and the use of zero or negative interest rates. A CBDC also allows governments to target their spending and put purchasing power in selected wallets, making fiscal policy more effective. Tax collection also improves, since all transactions are 'visible' in real time.

Trade payments are faster and international transaction costs are lower. And, of course, much paper is saved. But not only is anonymity lost, closer alignment of the central bank and government can erode monetary policy autonomy. Into this brave new world, India takes a baby step.

Source: livemint.com- Dec 02, 2022

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MSME-powered startup, Lal10, records Rs 200 cr revenue run rate

On its way to digitising Indian textile based MSMEs for global B2B wholesale, Lal10, has announced rapid growth, achieving a revenue run rate of over Rs 200 crore. The company's DNA of understanding manufacturing from the bottom-up for a few years has helped them tap unheard of margins in cross border trade.

It grew over 12x in the past nine months alone and is progressing towards rapid growth in the next few quarters. This run rate comes on the heels of its expanding number of mid-to-large format buyers in countries like the US, UK, Japan and the Middle East. Lal10 has also launched seven satellite offices in cities/towns which are at the ground zero of manufacturing to cater to the rising demand. They are eyeing a $100 million run-rate within the next 12 months. They claim to have over 80% buyer retention owing to better serviceability led by technology tools and stellar leadership team providing a transparent supply chain to global buyers.

Along with the increase in revenue, the company has digitised and given a globally relevant makeover to over 2200 Indian MSMEs with an aim to onboard another 12,500 MSMEs over the next three years. The onboarding will help Lal10 further consolidate its supplier base and digitally activate their supply chains to be able to play in the global markets at scale.

The end-to-end design- to delivery technology ecosystem has translated into increasingly captive manufacturing units which allows Lal10 to customise and innovate at a fast pace for global brands. Today, Lal10 is the largest vertical wholesale marketplace for creative goods based MSMEs from semi-urban and rural towns in India. They are current day market leaders in taking sustainable and artisan led textiles from India to the world.

In a statement, Maneet Gohil, co-Founder and CEO of Lal10, said, "We never realised the goldmine we were sitting on until we started utilising the recently raised capital in setting up cross-border operations for sales and marketing. Today we work with some of the largest marquee brands in the US, UK and Japan.

The hero for us has become our differentiated textile products that are craft based and sustainable. The buyers have never had access to these fabrics at this scale before and according to their contemporary design tastes which has created a strong hook for them. The teams are moving swiftly to grab more buyers in these countries. Our next goal is to become the prominent and largest supplier for some of the marquee brands and retain them with exemplary service levels aided through technology."

This IMSME-centric startup has used technology as a pillar to remove systemic inequalities present in archaic indian supply chains which has allowed them to upgrade these manufacturing units as per global design trends, making it a key player in taking up space in global marketplaces on the heels of the slowdown of Chinese exports.

Recently, Lal10 had raised $5.5 million in its pre-Series A round with participation from Xander Group, Spiral Ventures, Singularity Ventures and Beyond Capital Ventures along with notable angels like Nitish Mittersain, Amit Ranjan, Mekin Maheshwari, Notion India Head to name a few. They are using capital to grow inorganically in markets such as the US, UK and the Middle East aggressively. It has also expanded its operations and teams in Japan and created a Japan-dedicated platform for the buyers, japan.lal10.com, to source ethically made artisanal textiles from verified Indian creative manufacturing MSMEs.

Spinners in south India looking to clear stocks despite low prices

Spinning mills in central and south India are desperately looking to clear their stocks amid poor buying. They were willing to offer discounts to traders and buyers purchasing in large quantities. Cotton yarn prices weakened further for some varieties and counts in Mumbai. Cotton yarn buying will improve only if demand from downstream industry improves.

Mumbai market witnessed a decrease of ₹2-5 per kg for some of the counts and varieties of cotton yarn. Demand remained weak from the weaving industry because they are unsure if buying will improve. "Spinning mills were calling brokers and traders to buy their stock. They insisted on offering discounts on purchases and negotiating prices. But meagre discounts cannot boost market sentiments." a trader from Mumbai told Fibre2Fashion. However, improved buying or price cuts in raw materials can strengthen market sentiments.

In Mumbai, 60 count carded cotton yarn of warp and weft varieties were traded at ₹1,700-1,750 and ₹1,610-1,630 per 5 kg (GST extra), respectively. 60 count combed warp was priced at ₹360-365 per kg.

80 carded (weft) cotton yarn was sold at ₹1,530-1,570 per 4.5 kg. 44/46 count carded cotton yarn (warp) was priced at ₹313-318 per kg. 40/41 count carded cotton yarn (warp) was sold at ₹300-305 per kg and 40/41 count combed yarn (warp) was priced at ₹315-320 per kg, according to Fibre2Fashion's market insight tool TexPro.

Tiruppur's cotton yarn market remained bearish. Traders said that smaller spinning mills were desperate to sell their cotton yarn. They are offering heavy discounts, although they did not decrease the prices of yarn in the beginning of this month. There is a lack of confidence regarding future buying from the downstream industry.

Today, 30 count combed cotton yarn was traded at ₹300-305 per kg (GST extra), 34 count combed at ₹315-320 per kg and 40 count combed at ₹320-325 per kg in the Tiruppur market. Cotton yarn of 30 count carded was sold at ₹270-275 per kg, 34 count carded at ₹275-280 per kg and 40 count carded at ₹285-290 per kg, as per TexPro.

In Gujarat, cotton was traded at ₹66,700-67,200 per candy of 356 kg. The prices decreased by around ₹2,000 per candy since last Friday. Spinning mills were not interested in buying at higher prices.

According to the traders, yarn prices are facing poor demand from the weaving industry, therefore, spinners have cut down on buying at higher prices. Price disparity is discouraging consumer industry from buying.

Source: fibre2fashion.com- Dec 06, 2022

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