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IBTEX No. 245 of 2022 — December 20, 2022

NEWS CLIPPINGS

Currency Watch	
USD	82.77
EUR	87.65
GBP	100.37
JPY	0.62

SAYING NO TO CHILD LABOUR

INTERNATIONAL NEWS

US' flash manufacturing PMI at 46.2 in Dec '22: S&P Global

US' flash manufacturing purchasing managers' index (PMI) is registered at 46.2 in December 2022, down from 47.7 in November, signalling a solid deterioration in operating conditions across the goods-producing sector, according to latest flash PMI data from S&P Global. The country's PMI composite output index stood at 44.6 in December 2022, a 4-month low.

The country's flash manufacturing output index was 46 in December, a 31-month low. The downturn was the fastest since the initial lockdown period in 2020 and driven by subdued demand and a faster fall in output. Manufacturers registered one of the sharpest declines in new orders since the 2008-9 financial crisis during December, as customer spending waned. The further acceleration in the pace of contraction in new business led to a steeper decrease in production levels, according to S&P Global.

On a more positive note, inflationary pressures subsided notably at the end of the fourth quarter. Another monthly improvement in supplier delivery times, alongside muted demand for inputs, led to the slowest rise in cost burdens since July 2020. Lower prices for fuel and metals, especially steel, were often mentioned by panellists. Customer demand weakness, however, and efforts to stay competitive, resulted in a moderation in the pace of output charge inflation during December. Selling prices rose at the softest pace since October 2020 as firms sought to pass through any cost savings made.

Sufficient stocks of inputs and a further reduction in new orders led to the sharpest contraction in purchasing activity in over two-and-a-half years.

The level of work-in-hand (but not yet completed) fell at one of the sharpest rates since 2009, as sales contracted and delayed material deliveries arrived. Lower levels of incomplete work and muted demand led to broadly unchanged employment during December. Finally, output expectations among manufacturing firms strengthened during December. The degree of optimism reached the highest for three months, but was notably still far weaker than the long-run series trend.

US' private sector firms signalled a further decline in output during December. The downturn gathered pace, as business activity fell at the joint-sharpest rate since May 2020. Manufacturers registered steeper decreases in output, as weaker demand conditions, inflation, and hikes in interest rates dampened activity levels, S&P Global's flash PMI data further suggested.

Pressure on purchasing power among customers and company balance sheets led to a strong decline in new orders, and one that was the fastest since May 2020. Weak demand conditions were broad-based, though manufacturing firms saw a steeper decrease in new orders compared to their service sector counterparts. While total new export orders contracted further in December, down for a seventh straight month, the rate of decline softened slightly.

Continuing the downward trend seen since June, average input prices increased at a notably softer pace in the final month of the year. Cost burdens rose at the slowest pace since October 2020 and at a rate that was broadly in line with the series' long-run average. Companies noted that reduced demand for inputs dampened supplier price hikes, with lower costs reported for fuel and metals in particular.

In an effort to drive sales and pass through any cost savings, private sector firms recorded a softer uptick in output charges during December. Easing to the slowest in over two years, the rate of selling price inflation was only marginally faster than the long-run series average. Moderations in output price hikes were most notable in the manufacturing sector.

Employment rose only marginally as manufacturers signalled broadly unchanged workforce numbers on the month. Weighing on total employment growth were a growing number of reports of lay-offs following weak demand. Meanwhile, backlogs of work declined for the third month running in December, albeit at a softer rate.

Private sector business confidence was weaker than the series trend again at the end of 2022. Although still anticipating higher output over the coming year, expectations were among the lowest in over two years.

Source: fibre2fashion.com- Dec 20, 2022

HOME

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USTR extends exclusions from China Section 301 Tariffs

The office of the US trade representative (USTR) recently announced a nine-month extension of 352 product exclusions in the China Section 301 Investigation that will expire at the end of this year. These exclusions were initially reinstated on March 28, 2022, and the extension will help align further consideration of these exclusions with the ongoing comprehensive four-year review.

USTR asked interested persons to submit comments on the tariff headings containing these exclusions through the USTR portal in the four-year review, which closes on January 17 next year.

The March 28 determination reinstated 352 of the 549 eligible exclusions. The reinstated product exclusions applied as of October 12, 2021, and were extended till December 31 this year.

The products include specific types of duffel bags made predominantly of man-made fibres and polyester; covers of leather designed for use with telecommunication device; silk fabrics containing 85 per cent or more by weight of silk or of silk waste other than noil silk; yarn of cashmere or camel hair, carded but not combed, not put up for retail sale; woven dyed fabrics of 100 per cent textured polyester filament yarn; woven fabric of 100 per cent textured polyester filaments; woven dupioni fabric; polyester filament tow; and polypropylene fibre tow.

These also include specific types of woven dyed fabrics wholly of spun polyester; non-woven fabrics of polyethylene terephthalate; rugs of hand-knotted pile of nylon and polypropylene; woven dyed embroidery fabrics; long pile knit fabrics of acrylic pile on polyester ground; and knitted or crocheted fabrics of artificial staple fibres.

Source: fibre2fashion.com- Dec 19, 2022

HOME

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EURATEX urges action to save Europe's textile industry at EUCO summit

The European textiles industry has expressed its concern regarding the drastic loss of Europe’s competitiveness and demanded urgent action to save the industry as well as tackle the energy crisis at the recent European Council (EUCO) summit. Recent trade data indicates that imports to the European Union (EU) have grown tremendously in 2022 (+35 per cent year-to-date).

The chain of factors determining the sharp decline in Europe’s competitiveness is twofold. First, the energy cost in Europe is more than six times higher than in the US, China, and neighbouring countries. This factor alone has almost erased the business case for producing in the EU, according to a joint press release by the European Apparel and Textile Confederation (EURATEX), European Silk Association (AIUFASS), European Man-made Fibres Association (CIRFS), European Disposables and Nonwovens Association (EDANA), European Federation of Cotton and Allied Textiles Industries (EUROCOTON), and the International Fur Federation (IFF).

At present, many textiles and clothing companies are producing at net loss or have shut down production. The industrial conditions have worsened in such a way that there is no business case to invest in Europe or buy products produced or processed in the EU.

Secondly, while the EU is passive and extremely slow in articulating a credible and effective response to the energy crisis, Europe’s main international competitors and trade partners (China, India, and the US respectively) have developed comprehensive state-aid frameworks for their domestic industry despite not being affected by this crisis at all. The latest example is the $369 billion scheme of the Inflation Reduction Act rolled out by the Biden administration.

It is also evident that the surge in imports goes in parallel with the surge of natural gas price. It is expected that energy prices will remain high and volatile, opening the door for imports to gain substantial market shares in the EU.

The chart indicates the development of the Title Transfer Facility (TTF) until September 2022 since Eurostat data for the four quarter (Q4) of 2022 has not been published yet. EURATEX is aware that the market situation has eased somewhat since in the past months, but the crisis remains because gas prices are still extremely high in comparison to last year.

This suggests that the current loss of competitiveness of the EU manufacturing will not be recovered even with lower energy prices, unless measures are taken to correct the unlevel playing field on which the EU industry has to operate in the international markets. Only with an ambitious and comprehensive relaunch plan at the EU level, Europe will be able to restore its credibility as a global manufacturing powerhouse and investments.

If the status quo is maintained, not only will the EU not be able to recover its competitive position on the global business stage, but it will also fail its plans to reach zero-net emissions and achieve circularity. It is evident that these ambitions—that Europe's industry is passionately supporting—need massive capital investments. However, in the current scenario one can only expect an investments diversion to markets where governments are actively supporting those investments and energy costs are much lower—regardless of their fossil- or non-fossil origin.

European textile industry members—the whole value chain, from fibres, nonwovens, to fabrics, clothing manufacturers—are facing unprecedented pressure deriving from the current geopolitical situation, the new macroeconomic conditions, and unfair competition from third states. The situation is going to worsen if no emergency action is taken, especially because a recession is expected in the coming months.

The main structural component of the EU manufacturing are small medium enterprises (SMEs). These are economic actors that are particularly exposed to the current crisis as they do not have the financial leverage to absorb the impact of energy prices for much longer. Urgent EU action is needed to ensure their survival.

EURATEX has called on EU political leaders in the European Commission, in the European Council, and in the national capitals to raise ambitions and adopt a comprehensive approach at the EU level. Energy, state-aid, and trade policy must be brought together in a single strategy with concrete emergency solutions and with a clear SME dimension.

A meaningful price cap must be adopted on natural gas wholesales, that should be ideally no higher than €80/MWh. In parallel, it should also be ensured that electricity prices are brought to a sustainable price level, added the release.

The European posture on state-aid needs a change even temporarily. An ambitious plan of investments and state-aid in green technologies to support the industrial transition should be rolled out.

Access to finance and markets must be safeguarded for all those actors who are capable and willing to invest in Europe, on the basis of reciprocity. In these challenging times for geopolitical stability, ensuring strong trade ties with Europe's traditional allies and partners is of utmost importance.

The roll-out of an investment and state aid plan should not interfere, but rather support, the dialogue with the US (and other partners) and the deepening of Europe's trade and investment partnership. Such a dialogue should be accelerated in the context of the Trade and Technology Council (TTC) as well as at World Trade Organisation (WTO) level.

Source: fibre2fashion.com- Dec 19, 2022

HOME

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Japan's clothing imports up 21.4% to 3,16,332 mn yen in Nov 2022

The imports of clothing and accessories by Japan increased by 21.4 per cent year-on-year to 3,16,332 million yen ($2327.08 million) in November 2022. They were 2.9 per cent of the total imports of 10,864,947 million yen during the period under review, according to the provisional trade statistics released by the Far Eastern country's ministry of finance.

The imports of textile yarn and fabric were valued at 1,19,093 million yen in November 2022, which was 22.2 per cent higher than the same period of last year. Yarn and fabric imports were 1.1 per cent of the total imports by Japan, as per the latest data.

Japan exported textile yarn and fabric worth 68,967 million yen during November 2022, an increase of 16.9 per cent year-on-year. The country's exports of textile machinery were valued at 30,163 million yen, which was 32.7 per cent higher than the exports in November 2021, contributing 0.3 per cent to the total exports.

Source: fibre2fashion.com- Dec 19, 2022

HOME

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Egypt's Ready-made Garment Chamber, IFC sign cooperation protocol

Ready-Made Garment & Textile Chamber of the Federation Of Egyptian Industries - FEI signed a cooperation protocol with the International Finance Corporation (IFC) of the World Bank.

The protocol aims to develop value chains in the technical and specialized textile industry in Egypt, as it is one of the most important markets that has a significant competitive advantage in this field.

The technical and specialized clothing industry is the most important emerging field, which enjoys a rapidly growing global market in light of the technological and informational developments and the entry of artificial intelligence and other fields that were able to combine the function of traditional textiles with more modern ones, such as sports textiles equipped with sensors capable of measuring heartbeat and oxygen levels, or others related to medical and safety textiles, and textiles for automobile feeding industries such as seats and airbags, automobile textiles, construction and infrastructure projects, and many other fields.

“The choice of the International Finance Corporation for Egypt, given that it is one of the promising markets in the manufacture of high-tech textiles and clothing,” Head of the Chamber, Mohamed Abdel-Salam, stated.

He added that the signed protocol aims to support the growth of this sector in Egypt, where the IFC will work in cooperation with the Chamber in rehabilitating factories and providing them with the technologies, technical expertise and studies required to master these industries, while providing vocational training to raise the capabilities of workers in those specialized fields.

According to Abdel-Salam, this comes with the aim of integrating Egypt within the global supply chains in that industry, especially since we possess the required raw materials and production inputs.

Head of the Chamber emphasized the importance of signing the protocol, which confirms the Chamber's keenness to keep abreast of global developments in this field, and to enter into various specialized fields of production to achieve added value and high export revenues compared to traditional fields, which is reflected in the numbers of Egyptian exports of ready-made clothes and textiles.

For his part, Oumar Sylla, IFC's Regional Director for North Africa and the Horn of Africa, said that Egypt has promising opportunities to expand value chains in the technical and specialized textiles industry in emerging markets regionally and internationally.

He explained that this program, in partnership with the Ready-Made Garments & Textiles Chamber, aims to attract foreign direct investments to Egypt amounting to $50 million by 2026, by supporting local companies to provide the growing demand for technical textile products.

“Some Egyptian factories have turned to manufacturing technical products, and we will work through the protocol to increase their manufacturing capabilities by providing studies and technical consultations, as well as attracting foreign investments so that Egypt will be a station for manufacturing these raw materials in the Arab region and surrounding areas,” Sylla said.

Source: egypttoday.com- Dec 19, 2022

HOME

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Japanese garment giants leave China for Cambodia

The garment sector in the Kingdom has received a boost as some big Japanese garment companies are making the move to shift their manufacturing and procurement bases from China to Cambodia and Vietnam due to rising costs and the Chinese government's zero Covid-19 policy.

This was revealed recently by Chea Vuthy, Deputy Secretary General of the Council for the Development of Cambodia (CDC), while attending an event to launch the Garment, Footwear and Travel (GFT) goods 'Sector Brief' in Phnom Penh.

Indications are that major apparel companies, such as Adastria, Aoyama Trading and suppliers of Uniqlo, will move some of their production bases from China to RCEP (Regional Comprehensive Economic Partnership) member countries in Southeast Asia such as Cambodia and Vietnam to take advantage of exemptions from textile import tariffs.

But there are even more compelling reasons behind the development, it is learnt. "Rising labour costs and the zero Covid-19 policy of the Chinese government have prompted the Japanese manufacturers to move to Southeast Asian countries such as Cambodia and Vietnam," said Vuthy.

According to the Japan External Trade Organization, the average monthly salary of a factory worker in Guangzhou, China, recently reached about $670, almost double that of an average worker in Cambodia.

Other factors such as depreciating yen and rising costs of raw materials in China have also been cited as reasons behind the decision of the Japanese garment manufacturers to move out. The RCEP that came into effect in January has given several companies a new lifeline, said reports.

Adastria, operating retail stores under 26 brands, for example, has already increased production in Cambodia and Vietnam this year. Moreover, the company also plans to expand production areas to include Indonesia, Bangladesh, and other countries, and increase production in Southeast Asia to 50 percent by 2026.

According to industry reports, out of Adastria's total clothing imports into Japan, the number of items produced in China fell to 59 percent in 2021, down from 81 percent a decade earlier.

Meanwhile, Aoyama Trading, a major menswear company, is reportedly expanding its product procurement from Indonesia and Vietnam.

Matsuoka Corporation, a contract manufacturer for Uniqlo subsidiary Fast Retailing, produced 50 percent of its clothing in China in the fiscal year ending in March 2022, but is reportedly planning to decrease that to 29 percent by 2025.

Over the same period, it will increase production in Bangladesh to 34 percent from 28 percent and in Vietnam to 28 percent from 16 percent.

Meanwhile, according to the GFT Sector Brief, launched jointly by European Chamber of Commerce in Cambodia (EuroCham), Textile, Apparel, Footwear & Travel Goods Association in Cambodia (TAFTAC), and Internal Labour Organization (ILO), the sector been the backbone of the Cambodian economy for more than two decades.

It is labour-intensive, and traditionally attracts a large number of female workers – 75.9 percent of the employed population in the sector are women.

In the decade of 2010-2019 (before the Covid-19 pandemic), the GFT sector represented an average of 10 percent of Cambodia's GDP annually. During this period, Cambodia's GDP grew at an average rate of seven percent per year and of that, roughly a quarter came from the GFT sector.

Source: khmertimeskh.com- Dec 20, 2022

HOME

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Pakistan: Slow cotton imports: dollars ain't the full story

Pakistan's monthly cotton yarn production crashed to just 210,150 metric tons in October 2022, according to Large Scale Manufacturing data released over the weekend. This would be the lowest monthly production of cotton yarn since June 2010, were it not for the Covid quarter of Mar – May 2020, when spinning factories came to a halt two years ago.

The snowball effect from the destruction of the cotton crop by monsoon floods in Aug-Sep seems to be finally showing up in the production figures of the downstream manufacturing value chain. Are Pakistan's textile exports in for a severe beating?

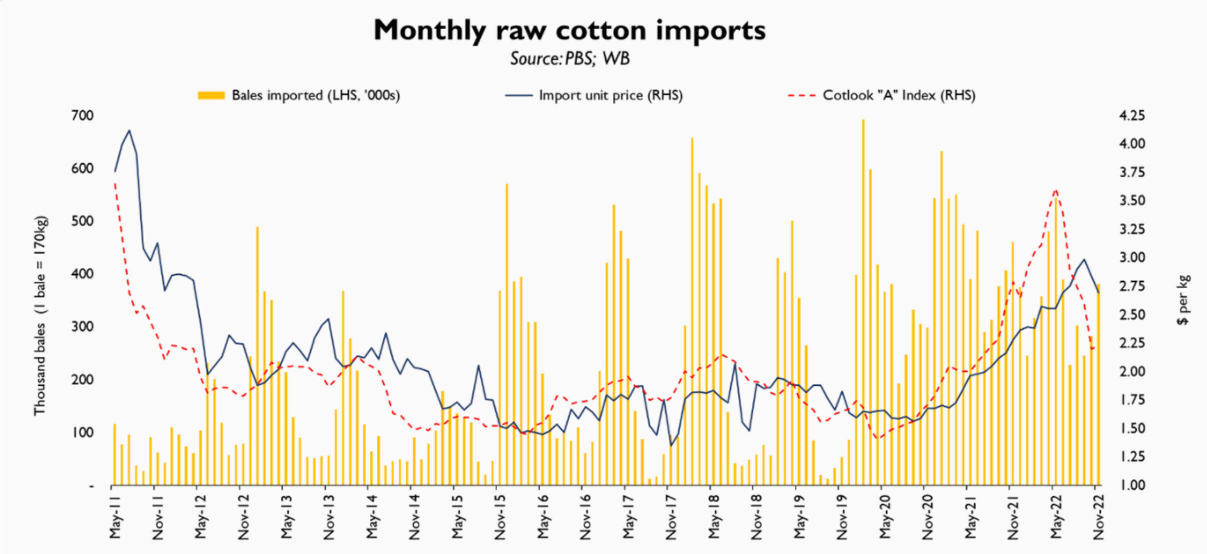
Despite clear signs of raw material shortage in the local market, raw cotton imports by the spinning industry haven't exactly picked up. As per PBS, raw cotton imports during 5M-FY23 were down 11 percent by volume compared to the same period last year.

In fact, H1-FY23 cotton imports are estimated at just 1.8 million bales (of 170kg), which is the lowest since the prohibitive tariff on fiber import during domestic picking months was waived three years ago.

Although a standard explanation of foreign exchange rationing is offered regarding the lackluster momentum in cotton imports, the reality may not be as cut and dry. According to USDA data, less than a quarter of total sales (volume) committed by Pakistani exporters during the current marketing year have been realized as actual exports.

Remarkably enough, nearly 90 percent of these sales contracts had been entered by September 2022, when the cotton price in the international market still hovered above 120 cents per lb.

Since then, world cotton prices have crashed below 90 cents, with sustained downward pressure as a forecast of global consumption continues to be adjusted on the lower side. In fact, USDA itself has reduced its forecast by nearly 10 million bales (of 170kg) since the beginning of the current marketing year, indicating a significant surplus in world fiber supply.



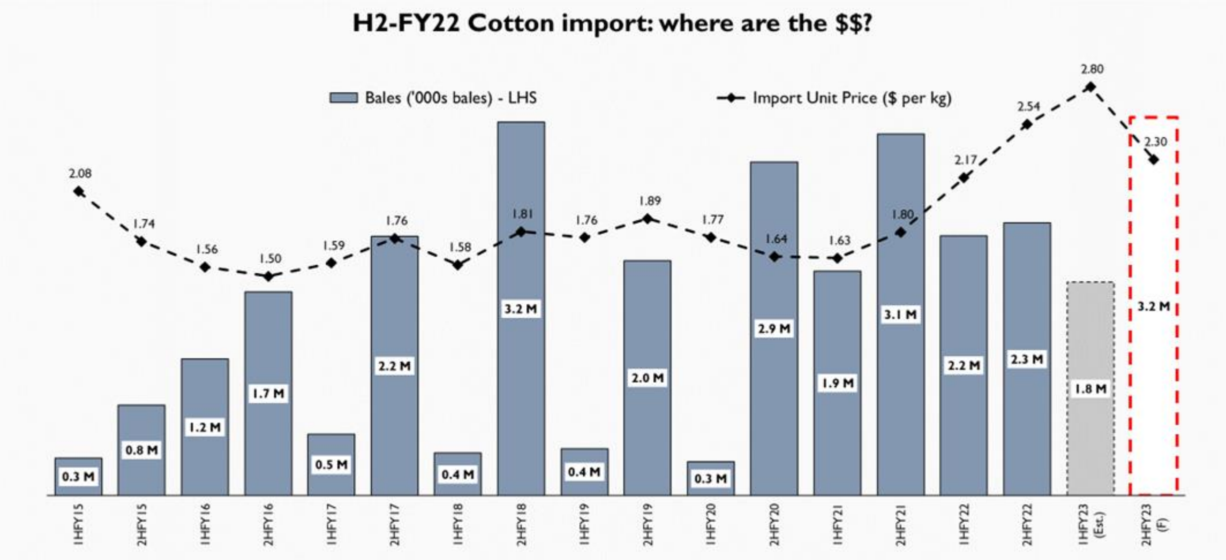
Thus, the lull in cotton import delivery to Pakistan may be as much about renegotiation of earlier higher-priced contracts, as much as it may be about the rationing of dollars in the local interbank market. Given domestic cotton arrivals have stopped short of 4.5 million bales (lowest since 1983-84), USDA still projects Pakistan's cotton imports during the 2022-23 marketing year at 6.4 million bales (of 170kg). That would take the local cotton supply back up to 13 million bales, which is the estimated annual consumption of the spinning industry.

BR Research cautiously disagrees. Pakistan has imported just 1.4 million bales during 5M-FY23, incurring an import bill of $0.7 billion, at an average unit price of $2.82 per kg.

In order for spinners to import an additional 5 million bales in the remainder 7 months (Dec 2022 – June 2023), the industry will have to cough up an additional $1.7 billion, even if the average unit price clocks in at $2 per kg for the rest of the year. That would take the annual cotton import bill to $2.4 billion, the highest ever and higher by 33 percent over FY22.

Unlikely? It sure has happened before. After local cotton production fell to 5.6 million bales during FY21 after similar crop devastation in Sindh during monsoon 2020, Pakistan's annual cotton imports breached 5 million bales mark for the first time. However, it was still peak Covid back then, with world cotton prices averaging below $1.75 per kg or 80 cents per lb for the full fiscal.

Industry dynamics have also changed slowly but surely since. Although raw material shortage is most certainly taking a toll on textile export receipts, the damage is concentrated in low to medium-value-adding segments. Just three years ago, share of low-to-medium value-adding segments in textile export earnings stood at 55 percent. As of 5M-FY23, this has dropped to just 39.5 percent.



This has been made possible by the phenomenal growth in export earnings in the high-value adding apparel segment (knitwear and RMG), where five-month earnings during the Jul-Nov period have grown from $2.5 billion to $3.6 billion, compared to the pre-Covid period.

That's because low to medium value-adding exporting segments such as yarn, denim fabric, bedding, and towel are far more cotton intensive, compared to apparel which utilizes a significantly higher share of polyester and synthetic fiber. In addition, export orders, especially from the bedwear and towel segments may be slowing down from their peak post-Covid levels, when bedwear share had gained over garments. More recently, export volumes from the knitted and woven garments segments have continued to grow during the current marketing year as well, despite the shortfall in cotton availability.

Imported cotton demand is also in some part driven by the local high fashion and lawn industry. Although the share of cotton consumption for made-up garments sold to local consumers is unknown, the significant inflationary pressures in the local economy dictate that there should be some slowdown in demand on that side as well.

Given domestic local cotton production at its lowest in 38 years and still elevated global cotton prices (compared to the long-term average), Pakistan's cotton import bill may very well be the highest ever during FY23.

But chances of monthly imports clocking over seven hundred thousand bales (of 170kg) over the remainder of the fiscal year appear unlikely. But forecasts have been wrong before; fingers crossed!

Source: brecorder.com- Dec 20, 2022

HOME

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NATIONAL NEWS

Exports to UAE get FTA boost

Six months after the India-UAE free trade agreement (FTA) came into force, India's merchandise exports to the West Asian economy rose 13.5% from a year earlier, outpacing a 10.3% increase in the country's overall goods despatches.

Between May and October this fiscal, exports to the UAE hit $15.39 billion, compared with $13.56 billion a year before, according to the latest official data. Meanwhile, goods imports from the UAE jumped 32.6% during this period to $27.44 billion, compared with a 34.6% jump in India's total imports.

Of course, these are early days and a comprehensive analysis of gains or losses from the FTA is possible only over the medium-to-long term. "(Nevertheless), the initial signs are encouraging. We have been expecting a positive result," an official source said.

The outcome of the India-UAE Comprehensive Economic Partnership Agreement (CEPA), which entered into force on May 1, assumes significance, as it was the first FTA that New Delhi had signed with any economy in a decade, shedding its inhibitions about the efficacy of trade deals.

According to an FE analysis earlier this year, five of India's six prominent FTAs, which came into force between 2006 and 2011, had exacerbated New Delhi's trade balance. After the agreement with the UAE, India hammered out an interim trade deal with Australia and is now engaged in talks for FTAs with the UK, the EU, Canada, and members of the Gulf Co-operation Council.

According to the official data, petroleum products and gems and jewellery made up close to a half of India's exports to the UAE, followed by certain capital goods and steel and iron and such products. Similarly, oil and gems and jewellery dominated India's purchases from the UAE, with an 80% share in imports.

The gems and jewellery segment has emerged as one of the biggest beneficiaries of the trade deal. Such exports to the UAE jumped 20.6% this fiscal, far exceeding just a 2.6% rise in overall despatches of these products.

According to the CEPA, the UAE will allow as many as 99% of Indian goods (in value term) at zero duty in five years from about 90% in the first year. Similarly, India will permit duty-free access to 80% of goods from the UAE now and it would go up to 90% in 10 years.

Indian labour-intensive sectors, such as gems & jewellery, textiles & garments, leather, footwear, sports goods, plastics, furniture, agricultural and wood products stand to gain from the FTA, along with other sectors like engineering products, pharmaceuticals, medical devices, and automobiles.

Indian service providers, too, will have greater access to around 111 sub-sectors from the 11 broad service categories. Bilateral trade (both goods and services) is targeted to touch $115 billion in five years from about $60 billion in the pre-pandemic year of FY20.

Source: financialexpress.com- Dec 20, 2022

HOME

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Domestic demand steadied the ship, but 2023 may still prove turbulent

If there is one big highlight of 2022 on the economic front, it is the way the Indian economy demonstrated resilience in navigating the storm of global headwinds emanating from the Russia-Ukraine conflict, the surge in commodity prices, and the impact of tightening global monetary policy cycle.

The strong macroeconomic fundamentals have placed it in good stead compared to other emerging market economies, but this is no time to let one's guard down and continued vigilance is required as adverse global developments in form of further tightening of interest rates, relatively higher commodity prices could persist in 2023 as well.

This resilience came largely from robust domestic demand coupled with some astute macroeconomic management by policymakers and the Reserve Bank of India. The rupee may have in calendar year 2022 seen depreciation against the US dollar from a low of ₹74 to about ₹83 now, but it has shown strength against other leading currencies.

Fading tailwind

The Indian economy will see a further slowdown in 2023-24 due to the challenging external environment, but the solid domestic demand scenario could well be the buffer against a deeper downturn and may help partly offset the impact of rate hikes, a slowing global economy, and the need to reduce the balance-of-payments deficit.

In 2023, though there is going to be no threat to India's status of being the fastest-growing large economy in the world, but there will be challenges like the need to create meaningful jobs, further boost consumption among the common man, and bring back animal spirits of the private sector. However, the Government's efforts of pump-priming the economy with a boost to public investment through a sharp increase in capital expenditure is expected to keep the growth momentum intact in 2023 as well.

Already Finance Minister Nirmala Sitharaman has dropped a hint that the upcoming Budget would keep the spirit of the earlier editions and was unlikely to reverse the reformist credentials of the current dispensation.

Andrew Wood, Director, Sovereign & International Public Finance Ratings, S&P Global Ratings, said that the sovereign is benefiting from a period of rapid nominal GDP growth and buoyant revenues. These dynamics are helping to stabilize key debt metrics including the debt-to-GDP ratio, and the Government's interest burden, albeit at still-elevated levels, he said. "While this tailwind will fade heading into FY24, we still expect India to achieve solid growth next year," Wood said.

Challenging external environment

"India bears some risks associated with the expected global slowdown, as well as higher interest rates and inflation, especially as tighter monetary policy continues to work its way through the system. However, we expect that its predominantly domestic-oriented economy and solid demand dynamics at home will act as a buffer against a deeper downturn," he said.

A challenging external environment will affect India's economic outlook through different channels. However, the economy is well positioned to ride on the large domestic market and is relatively less exposed to international trade flows. Given the strong foreign investor interest in India, the current account deficit is adequately financed by improving foreign direct investment inflows and a solid cushion of foreign exchange reserves.

Madan Sabnavis, Chief Economist, Bank of Baroda, however, had a different take on India's macroeconomic situation and resilience. He said that, numerically, India may grow 6 per cent plus in 2023-24, but it is not that the country is accelerating or doing very well. "Optically, we are doing better but fundamentals on the external side will get affected", he said.

Impact on export

There is an advantage that India is doing better but the fact is the overall amount of money flowing into India in terms of investible funds will come down and "this will affect us on the investment front. Exports will see further slowdown", he said.

"To say India may be in a sweet spot or in a bright spot may be an oversimplification. We are also going to get affected by slowing exports and lower quantum of investment flows— people will become cagey in making international investments if inflation worries persist amid global slowdown," Sabnavis said.

So far the impact of the global downturn in India has been less severe. The kind of buoyancy in tax revenues one saw in 2022 cannot be taken for granted in 2023 as persistent inflation has eaten up incomes and there is a lot of uncertainty on jobs.

The challenges on the domestic front in terms of reform agenda is going to be far more important for policymakers.

Source: thehindubusinessline.com- Dec 19, 2022

HOME

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Australia to negotiate hard for inclusion of 'sensitive sectors' in CECA talks with India

The Australian government is set to harden its position in the negotiations for the full-fledged India-Australia Comprehensive Economic Cooperation Agreement, which is likely to formally begin next month, with a large number of ``sensitive sectors", including dairy, wine, agriculture, digital trade, government procurement and services, on its demand list.

The Department of Foreign Affairs & Trade (DFAT), in a report presented to Australian Parliament by the Joint Standing Committee on Treaties last month, acknowledged that the Australia-India Economic Cooperation and Trade Agreement (ECTA) excluded many areas because of India's sensitivities and "assured" that in the CECA it would push for commitments in agriculture and other such areas.

"Australia will pursue further liberalisation for goods (such as dairy, grains, horticulture and certain non-ferrous metals) and services (such as education, professional services and environmental services).

CECA negotiations will also address areas not negotiated under AI-ECTA, including digital trade, government procurement and other…," the report noted.

The AI-ECTA, signed in April 2022 by both countries and approved recently by Australian Parliament, will be implemented from December 29. Australia has agreed to provide zero-duty market access for 96.4 per cent value of Indian exports on the first day of implementation of the interim ECTA, increasing it to 100 per cent subsequently. India will immediately eliminate duties on 85 per cent on items and high tariffs on a further 5 per cent of goods will be phased down.

Despite being ambitious in goods, there were a number of areas that were absent in AI-ECTA that were included in other free trade pacts signed by Australia, the Joint Standing Committee on Treaties report pointed out. The areas where no commitments have been made include digital trade, intellectual property, government procurement, competition policy, small and medium-sized enterprises, labour and state-owned enterprises and designated monopolies, it noted.

"Australia has made it clear that it would want to include many of the excluded sectors in the CECA. The negotiations will be tough for India as it has not taken commitments in the new areas in the FTAs it has already signed with some of its trading partners," the source said.

India's goods exports to Australia will reach $15 billion by 2025 from $6.9 billion in 2021 taking full advantage of ECTA, while services should move to $10 billion by 2025 from $3.9 billion, according to estimates made by exporters' body FIEO.

Visa quota

Australia has also promised an annual quota of visas for 1,800 yoga teachers and Indian chefs, post study work visas for Indian students, and work and holiday visa arrangement for young professionals. "More liberal visa rules are something that India could push for in the CECA negotiations that are likely to begin in January 2023," the official said.

Source: thehindubusinessline.com- Dec 19, 2022

HOME

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India's consumer good shipments to Russia rise for 2nd month in Oct: Govt

As sanctions-hit Russia increasingly relies on consumer products from India, outbound shipments to Russia have started picking up for the second consecutive month in October. This comes after it witnessed contraction for six consecutive months starting March, commerce and industry ministry data showed.

During October, India exported goods worth $280 million, up 3.7 per cent as compared to a year ago. It was led by demand for items such as vegetables, tea, coffee, chemicals as well as iron and steel products.

Similarly, in September, the growth was nearly 6 per cent, with India exporting goods worth $297.61 billion to Russia.

On a cumulative basis, exports to the country fell nearly 16 per cent year-on-year (YoY) to $1.57 billion during the first seven months of the current fiscal.

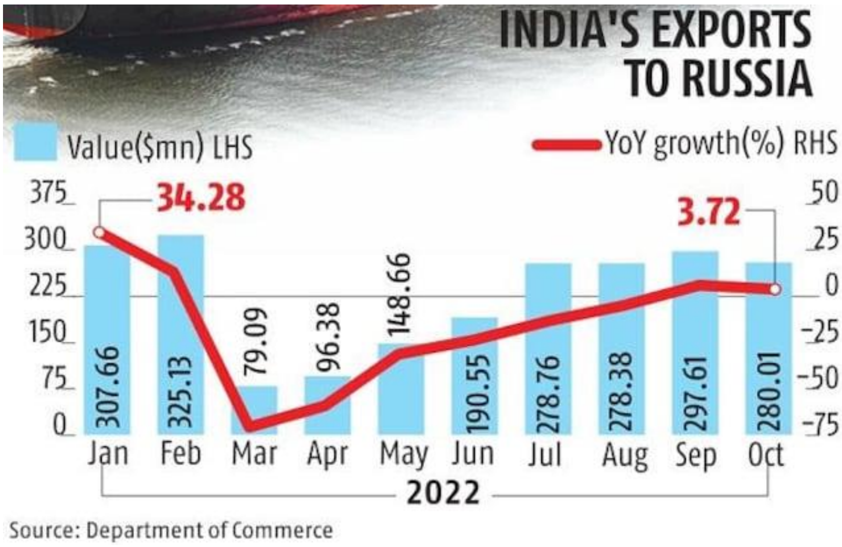
Exports to Russia started faltering soon after it invaded Ukraine on February 24. And, Western nations led by the United States (US) imposed economic sanctions to isolate Russia from global trade.

Going forward, traders expect exports to Russia to pick up as logistics-related challenges are improving. And also, implementation of rupee trade will facilitate easier trade with the nation.

Ajay Sahai, director-general (D-G) and chief executive office (CEO) of the Federation of Indian Exports Organisation (FIEO) said exports to Russia are expected to substantially pick up in 2023.

"The logistics-related challenges have started easing, and alternative shipping routes via Turkey are also being considered.

Besides, rupee trade is expected to start from this month as a special rupee vostro account has already been opened with Indian banks to facilitate payments. The situation is much better than what it used to be a few months ago," Sahai said. He added that exports to Russia are expected to gather pace in the next two-three months.



According to FIEO's estimate, India can add about $5 billion exports to Russia in a year's time.

Russia's prominence as India's trading partner has been growing since its conflict with Ukraine.

Russia is now India's fifth largest trading partner, with nearly 4 per cent of India's global trade during April-October.

This has, however, been driven by India's rising dependence on the country towards the supply of discounted crude oil.

The share of exports was 0.59 per cent, while that of imports was 5.74 per cent.

India imported goods worth $4.69 billion in October from Russia, up 6.6 times as compared to the same period last year, according to commerce and industry data.

The jump was led by a sustained demand for crude oil that accounted for 68 per cent of the total imports from Russia.

This has made the sanctions-hit nation India's third largest import partner of the commodity during the first seven months of FY23.

Source: business-standard- Dec 19, 2022

HOME

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Revisiting international trade's role in domestic development

Against a backdrop of rising trade protectionism, increasing bilateral trade agreements, and a growing body of evidence supporting trade's positive influence on economic development and job creation, India has an opportunity to revisit international trade policy consistent with its own domestic development agenda.

Specifically, revisiting policy with the potential to address the modern economic, social, and environmental dimensions of sustainable development. In this article, we explore why trade and economic development—especially poverty alleviation—has had mixed results, why we believe integrated trade and domestic policies could address some of the issues, and four tensions we must address to develop a more progressive and inclusive trade policy specific to India.

Importantly, this re-exploration addresses a 50-year-old convention and bias against international trade for developing countries for two reasons. First, that it prevents the poor from benefiting from trade with countries with higher productivity—a bias rooted in the idea that developing countries' exportation of primary products would largely exploit natural resources and limit higher-value job creation, given those economies were valued primarily for low-cost labour and mineral resources.

That, despite near-term gains from exports, in the long-run, such transnational trade benefits developed economies at the cost of developing ones. Second, the idea that imposing high import tariffs benefit developing countries through important substitution, inducing domestic production and higher-value job creation. This led to a belief that international trade worked well for already well-endowed developed countries but exacerbated domestic inequality for developing countries by displacing domestic economic activity.

This view on trade protectionism is dated. Unable to reflect the empirically positive experiences of other Asian and Latin American countries, India's own enhanced capacity, and an opportunity for India to participate in global value chains (GVCs) in an increasingly polarized geopolitical context (e.g. iPhones made in India).

Several Asian economies followed an export-led trade development path in the 1970's, including Taiwan, Korea, and Singapore. At this time, China remained focused on domestic capacity and India followed an import-substitution strategy. Recently, beyond China, we have seen the export-led rise of Bangladesh, Vietnam, and Malaysia over the past two decades. While these economies focused initially on competing in areas where low-wage and natural resources provided an advantage, they all migrated over time to higher-skill and higher-paying products and jobs.

This boosted jobs and wages among lower-income segments of the workforce, leading to greater economic growth. Unlike 50 years ago, however, the ill-effects of industrialization including air pollution, afforestation, water contamination, indigenous population dislocations, and degrading labour rights, are critical inputs to consider for any development path discussion today.

Since 1978, China followed a concurrent privatisation and trade liberalization program, opening state dominated industries to non-state entrepreneurs. Domestic policies focused on labour deepening, price reforms in agriculture, labour reallocation from agriculture to non-state industries with higher per-capita productivity, capital deepening and development of the coastal regions and SEZs with tax incentives to attract foreign investors.

More recently, as US tariff barriers and Chinese labour costs rose, China opened its domestic financial markets in a bid to shift its proposition to foreign companies from efficiency-seeking to market-seeking FDI. Having built a strong position as the preferred destination for global manufacturers, it is now opening its financial markets.

Recently, there have been compelling correlations published on the confluence of integrated trade policy with economic growth, job creation, and inequality reduction. We also believe much of these economic and social objectives can be achieved while keeping sustainability commitments on track.

Why past results have been mixed. We certainly have examples of successful export-led industries in a few industries in India: generic pharmaceuticals, chemicals, and IT Services among them. Yet, many of our past efforts have fallen short in seizing opportunities enabled by trade, domestic industrial policy, and labour policy.

Natural opportunities in job-rich areas such as textiles, auto components, and agriculture remain partly unrealized. There are structural issues that a revised trade policy can address.

First, in India's current trade context, and as past lessons from Latin America demonstrate acutely, high economic growth rates do not protect us from balance of payments pressures and do not deliver adequately sufficient employment gains. Also, GDP growth rates that don't benefit from trade often requires funding growth through borrowings instead of growth through earnings.

Even as India remains a favoured destination for FDI, a disproportionate amount goes into the services sector, not into manufacturing. To put this into perspective, average FDI from FY15-FY21 into manufacturing was $8.6B compared to $25B into services. Under this model, higher-paying white-collar jobs will continue to outgrow blue-collar jobs which are necessary to address increasing inequality among semi-skilled workers. This will need to change if India wants to achieve its goal of becoming a $5T economy and reduce poverty at the same time.

Second, the positive impact of trade liberalization on GDP growth is understood, but its impact on income distribution and therefore poverty is not well understood, as seen for example in an IMF study by Dr. Topalova.

With large vulnerable populations, where income inequality is already pronounced, the idea that increases in growth could exacerbate inequality, comes at significant social and political costs. However, this research focusing on within-country variations, instead of cross-country comparisons (which suffer myriad comparison issues), may be more relevant to India's context.

This study demonstrates that geographical and inter-sectoral labour mobility, and industry concentration are critical factors that explain the relative progress, or its lack, in poverty alleviation for rural Indian districts in particular. In a regression framework, Topalova establishes how district poverty and inequality are related to district-specific trade policy shocks. Further, they demonstrates that major tariff adjustments made in the past were uncorrelated to the industry's perceived productivity potential.

Finally, in many developing economies, the benefits of tariff and trade protected industries flowed mostly to a politically connected elite, exacerbating domestic inequality. Acknowledging that policies have not adequately accounted for market mechanisms and institutions that work for the poor.

As Abhijit Banerjee and Esther Duflo explain, policy makers have a natural bias towards seeking big change for big results despite an increasing body of evidence that suggests a series of small adaptations and shifts drives bottom-of-the-pyramid impact and its rewards. This is a bias that exists on all sides of the political spectrum.

In Poor Economics, they describe a quest for ‘big interventions that reallocate or invest large sums to remake the poor all at once’ and achieve progress through ideas that scale-up rapidly, without an adequate understanding of how the poor make decisions about important factors like mobility and investment.

Revisiting trade policy will require us to openly address some natural tensions and trade-offs, have greater confidence in our competitiveness, and embrace the current geo-political context. We believe there are at least four tensions we must resolve in order to explore more open trade policies:

Tension 1: That trade-enabled economic development does not trickle-down to the poor, leading to increased economic and social inequality. The primary question here is whether trade policy and domestic poverty reduction methods can go hand-in-hand. We believe they can.

Tension 2: Acknowledging a coherent solution requires Trade policy and industrial policy to go hand-in-hand. This requires harmonizing tariff liberalization, investment liberalization and trade facilitation implementation, even as these are often influenced by competing priorities.

The primary goal here is to develop an integrated framework that gets all three right in the context of specific opportunities and trading partners. While independently these levers have been shown to have a positive impact, an integrated liberalization approach magnifies both economic development and reductions in inequality.

Tension 3: Participation in global value chains (GVCs) and free trade agreements (FTAs) with important trading partners presents a significant opportunity, while balancing geo-political considerations. India can present a more confident face and drive the narrative as a more mature economy by securing a larger share of GVCs before demanding local value addition.

The primary question here is one of preparedness and timeliness, and whether long-pending domestic economic reforms can be accelerated by trade, and not a bottleneck to participate in GVCs and well-crafted FTAs. Can reforms and trade be mutually symbiotic and reinforcing?

Tension 4: That multilateral trading policies and systems may be inadequate for the new normal in trade relations where free trade agreements (FTAs) are gaining rapid acceptance, and speed matters. Further, finalizing these FTAs in a timely manner with countries where we share a complimentary trade relationship requires speed and adopting a proactive instead of passive or defensive stance.

In conclusion, the evidence required to build confidence in economically and socially progressive trade—one that enhances India's share of global and regional trade with an integrated and more liberal trade policy for India—should be an urgent priority. Unlocking trade-enabled economic development alongside tenets of development including such as gender equity, income inequality, education, infrastructure, and other SDGs is not only possible, but with the right frameworks in place, within reach.

Source: business-standard- Dec 19, 2022

HOME

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The trade balance

One of the big economic policy challenges this year has been the management of the external sector. Higher than expected monetary tightening by the US Federal Reserve led to a sharp appreciation in the US dollar, and, as a result, most currencies, including the rupee, came under pressure. Besides, the slowdown in the global economy affected exports. Although imports have also softened, they are likely to remain elevated because of both relatively high commodity prices and India's growth prospects.

Consequently, the current account deficit is expected to increase, which could lead to financing pressures and affect the value of the rupee. The September edition of the Reserve Bank of India's Monetary Policy Report showed that professional forecasters expected the current account deficit to be at 3.4 per cent of gross domestic product this fiscal year. As things stand today, the management of the external sector would continue to pose challenges even next year.

In order to reduce pressure on the current account, the government is reportedly contemplating curbing imports of "non-essential items" by increasing tariffs in the upcoming Budget. The government is said to be preparing to contain imports of goods that have enough production capacity in the country.

This certainly is not the right approach to address the external account because of a variety of reasons. It would be extremely difficult for officials to determine what is essential and what is not. The exercise will only increase overall tariffs in the economy and make it less productive. India tried and tested such measures in the pre-liberalisation era and regularly ended up facing external-sector problems. Further, such selective interventions open up the possibility of lobbying and affect the overall business environment.

Additionally, such a measure would be contrary to the government's recent position on negotiating and signing trade agreements.

In fact, it appears that there are different views in the government on trade. At a recent event, for instance, one of the top policymakers noted the government could reduce Customs duty in the upcoming Budget. According to the World Trade Organization, India's most-favoured-nation import tariffs are the highest among major economies. This has clearly not helped. If the government intends to reduce the pressure on the current account in a sustainable way, it should focus on pushing exports rather than containing imports. The government must accept the nature of global trade and adapt accordingly. To push exports, Indian firms will need to get into global value chains, which is not possible at the scale required in a high-tariff economy.

Increasing trade barriers at this juncture could be particularly damaging for India as global firms are looking to diversify out of China. Multinational corporations would always prefer jurisdictions where goods can move in and out seamlessly, which is not possible in a high-tariff economy. Further, to improve the position on trade, Indian policymakers need to review how the currency is managed. A strong currency in real terms will not help the tradable sector.

Despite all the volatility in the currency market, the rupee has appreciated in real terms this fiscal year. It should be allowed to adjust to avoid imbalances on the external front. Since currency adjustment is non-discriminatory, it is a far better tool for managing the external account than selective import controls.

Source: business-standard- Dec 19, 2022

HOME

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What trade data show

Latest trade data released by the Ministry of Commerce and Industry show India exported goods worth almost $32 billion in November 2022 while its imports were valued at almost $56 billion. Exports grew by 0.6 per cent over November 2021 while imports grew by 5.4 per cent over the same month last year.

In terms of growth rate, India's exports did better than in October when they had contracted by over 12 per cent (over October 2021).

For the period April to November in the current financial year (2022-23 or FY23), India's merchandise exports stood at $295 billion as against $266 billion during April-November 2021. India's merchandise imports for the period April-November 2022 were $494 billion as against $381 billion during April-November 2021.

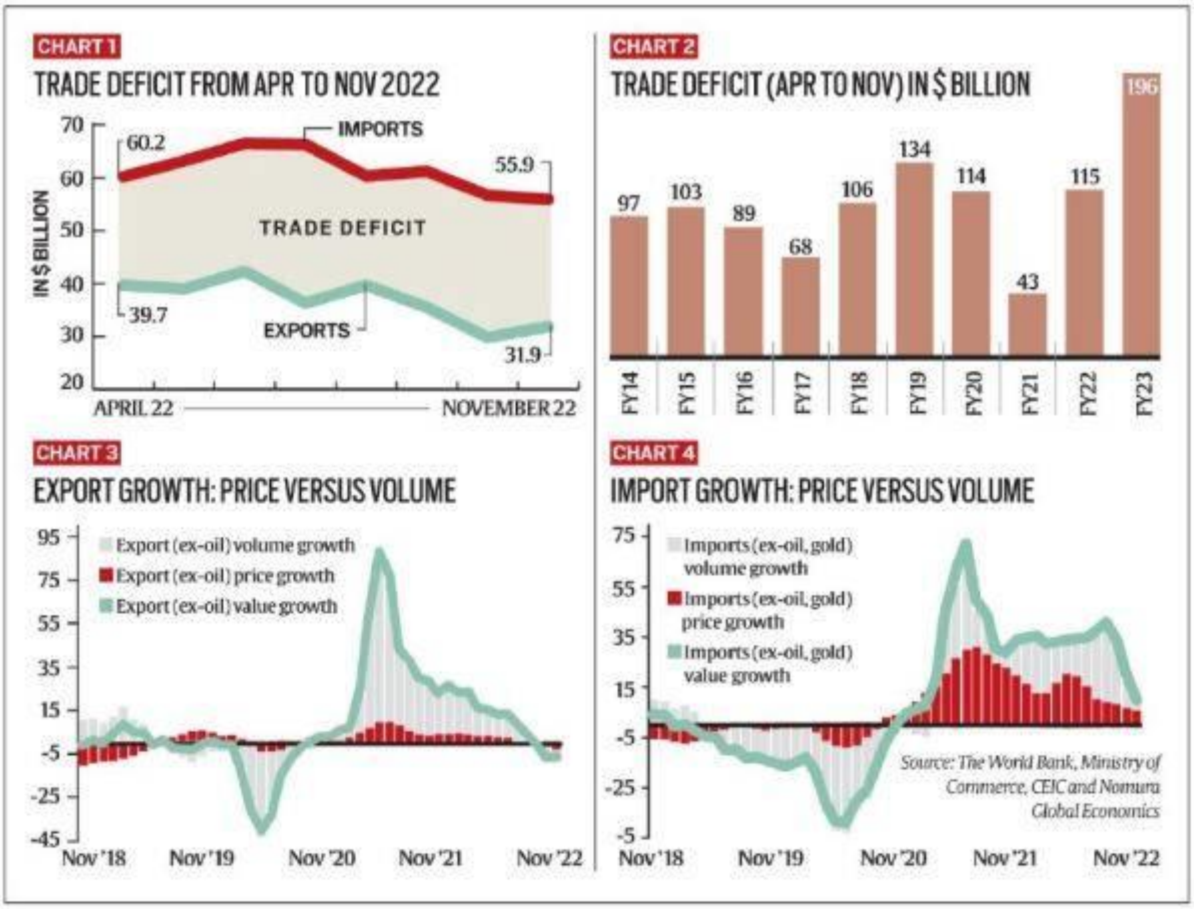
What to look for in trade data?

There are three main variables — exports, imports and the trade deficit. The deficit is nothing but the difference between exports and imports. Typically, India tends to have a trade deficit every year because it imports far more (in terms of value, measured in $) than it exports.

A trade deficit implies that Indians need dollars more than the rest of the world needs rupees for the trades to settle. As such, a trade deficit puts pressure on the rupee's exchange rate against the dollar (presuming that all imports require payment in US dollars). Persistently high trade deficits tend to weaken the rupee's exchange rate.

Within the exports and imports trend, apart from knowing whether exports (and imports) are growing or contracting, it also matters whether the growth (or contraction) is happening more on account of a change in the total volume of goods traded or because the prices of the goods traded are changing.

For instance, it is possible that India's exports of a particular commodity, say bananas, doubles in value terms ($ terms) not because India exports more bananas, but because the price of bananas in the international market has doubled. Similarly, it is possible to double the volume of bananas exported without registering any growth in exports in value terms because the price of bananas has halved.



Have exports rebounded from the October contraction?

Most observers believe that India's export momentum remains weak. For one, the growth in November is just 0.6 per cent. This is lower than even the growth in recent months such as 5 per cent in September and 11 per cent in August.

Moreover, as pointed out in a recent research note by economists at Nomura research, "Export growth improved in November, but the rebound largely reflects the reversal of the effects of fewer working days (owing to Diwali in October this year vs November last year)".

Simply put, since growth rate is calculated year-on-year or by comparing the performance over the same month last year, this November's performance appears better because last year, Diwali was in November and that resulted in fewer working days and, as a result, lesser exports. It is over that smaller base that exports have grown by less than a percentage point.

That is why the rebound in exports is not a robust one. For instance, if one calculates the average export growth over October and November this year and compares it to what it was in the same two months last year, then exports register a contraction of almost 6 per cent.

What is causing the decline in exports growth?

The chart, sourced from Nomura Research, shows not just the trajectory of exports growth rate but also breaks it down by volume and price components. It removes the exports of oil to get a better understanding of the underlying trend of India's exports.

The analysis shows that the bulk of the decline in India's growth rate is being contributed by the fall in volumes exported. This is understandable to the extent that across the world, economies — especially those of India's biggest trading partners such the US and European countries — are either in recession or struggling to grow. This, in turn, implies a fall in demand for Indian goods that reflects in weaker exports growth.

What about India's imports?

As the similar chart on imports shows, the decline in imports growth has been more a balanced effect of declines in volume and prices. Overall, imports grew by just 5.4 per cent in November and import growth fell sharply over the past few months. In August, imports grew by almost 42 per cent; since then they have decelerated to 15 per cent in September, 10 per cent in October, and 5.4 per cent in November.

The fall in imports growth suggests that India's domestic demand is weakening as the effect of a tighter monetary policy — that is, the higher interest rates and their drag on overall consumption and investment demand.

What about the trade deficit?

The gap between the exports and imports line in the chart shows the fluctuation in trade deficit every month since the start of the current financial year in April.

On the face of it, the trade deficit narrowed in November. But as the data show, this narrowing has happened because the loss of momentum was more in India's imports than in India's exports. The more desirable way to bridge the trade deficit is for exports to grow relatively faster than imports. India's trade deficit during April to November stood at $196 billion. As the chart shows, this is considerably higher than the trade deficit in the same period in any of the last 10 years. It is more important to compare the FY23 performance with that in FY22 and FY20 because they are recent and more comparable years; FY21 was a clear aberration as a result of the breakdown of global trade in the wake of the pandemic.

Higher trade deficit will not only push up India's current account deficit (which includes the trade in goods as well as services) but also create pressure on the rupee's exchange rate to weaken further.

Source: indianexpress.com- Dec 20, 2022

HOME

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Is trade fragmentation a cause for concern?

The International Monetary Fund in its Regional Economic Outlook released recently has predicted trade fragmentation as a serious challenge that may have a huge implication on global trade, especially for emerging economies. Trade uncertainty has been witnessed over the last few years since the US-China trade restriction episode started in 2018. The Ukraine war has further exacerbated the situation with uncertainty over trade relations between countries, which may in turn change the trade episodes globally. The possible implications highlighted especially for Asian economies are sluggish investment, and an increase in unemployment affecting the labour market seriously.

Possible tools of trade fragmentation

The traditional trade policy tools may find their space again among trade relations in a different form, targeting those trade partners who are in an unfavourable group. This includes tariff, where the Government collects revenues from imported goods, export subsidies, where the payment to a firm or individual that ships goods abroad by origin country, import quotas, where only certain firms are allowed to import a certain amount of goods, export credit subsidies, which provide subsidised loans to aid exports, national procurement where the government or strongly regulated firms purchase domestically produced goods even if they are more expensive than imports and finally red-tape barriers which twist inter alia normal health, safety, and customs procedures to raise obstacles in trade. These tools may be reintroduced as “old wine in a new bottle”.

An analysis of possible implications

Economic theory validates the fact that free trade improves social welfare, makes exports cheaper, provides easier entry into export markets, ensures business stability and utilises a country’s comparative advantage through specialisation. Any distortion in the free trade scenario may have an effect on social welfare. At the same time, the price elasticity of demand and supply of goods and services may also have a key role in the context of trade fragmentation. The centrality and strategic importance of the particular industry from which goods are exported is indeed another key component. The key aspect is how intensive is a trade-related industry connected with other industries and what is the contribution of such an industry to domestic economic growth. The small and big economies' impact due to trade fragmentation is another major area for investigation. The key aspect thus to be considered is would policy affects goods' price, which feeds back onto the trade scenario. It indeed is interdependent on bargaining power in a trade agreement and what could a jurisdiction offer to foreign countries to lower your cost of trade with them. However, if there is a negative impact due to trade fragmentation, the social welfare and inequality aspect comes into the picture raising fiscal and public debt concerns.

How is India placed?

India has comprehensively embraced the strategy of Atmanirbhar Bharat with a key focus on improved productivity with leading firms across the world producing goods in India. India is also placed in a good geopolitical environment wherein it is open to all its trade partners in a favourable trade environment. The size of the Indian economy especially the economies of scale it enjoys in key items which are exported adds to its advantages. This is evident from India's exports of merchandise and services performing robustly, overcoming to a great extent its widening trade deficit and an increase in net investment income payments over the last few years.

The latest trend of exports from India specifically in August 2022 are mostly to the United States ($6.72 billion), United Arab Emirates ($2.82 billion), Netherlands ($1.34 billion), Brazil ($1.12 billion), and Turkey ($914 million). India imported mostly from China ($9.42 billion), United States ($4.74 billion), Saudi Arabia ($4.34 billion), Russia ($4.32 billion), and United Arab Emirates ($3.91 billion) according to OEC.world.

The products exported were mostly petroleum products followed by pearl, precious and semiprecious stones, drug formulations, biologicals, gold and other precious metal jewellery, and iron and steel, in which India has a comparative advantage over other countries in processing and manufacturing of these commodities.

The automotive sector which witnessed high growth over the years shall continue its economies of scale in its operation which may add to India securing comparative advantage over other economies in its export sector and so is its textile sector.

The recent phenomena of trade emerging in the form of ‘value chain trade’, which significantly differs from conventional cloth-for-win trade; may have a vital role to play in future global trade strategy. India is slowly emerging as a key destination of this value chain strategy that cannot be undermined. The proposed trade fragmentation may have an insignificant impact on global value chain (GVC) strategy as India’s contribution is necessarily required for manufacturing competitive products. India’s competitiveness in its service sectors adds to its advantage. However, the impact of trade fragmentation on small Asian economies needs detailed examination for a plausible conclusion on the same.

Another noteworthy fact is that pursuant to Covid 19 and Ukraine war, the fiscal scene of jurisdictions across the world has worsened due to expansionary fiscal policies coupled with high inflation due to the rise in oil prices. The trade fragmentation practices may further fuel this scenario to rise in prices of goods due to a shortage of competitive goods. Thus, the jurisdictions may necessarily have a second thoughts before devising fragmentation policies and the need of the hour should essentially be to enhance international competitiveness, expand market access and protect investment security across jurisdictions. The World Trade Organisation and other joint platforms like the G20 forum have thus a key role to play to address divergence of issues if any, among nations.

Source: financialexpress.com- Dec 19, 2022

HOME

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Excellent news on the exports front, pace of growth in imports moderating

Merchandise exports were resilient in November, recovering from a dip in the previous month. The broad-based recovery is reassuring with half the principal sectors posting year-on-year growth. The October contraction had raised fears of exports plunging, as high inflation in destination markets affects demand and interest rate tightening squeezes inventories.

Yet, the underlying factors persist, and exports are on course to meeting the full-year target on spectacular showing earlier in the year when pandemic restrictions had diverted consumption from services to manufacturing. Resumption of contact-intensive services has reversed the trend, affecting merchandise exports, and imminent recession in major economies is affecting the growth outlook for technology services.

The pace of growth in imports also continued to moderate in November with energy prices and decelerating domestic growth. This has a positive bearing on inflation control and interest rate management. Import demand is strong against the global scenario with 19 out of 30 principal categories posting growth during the month.

The import picture improves when energy and jewellery are excluded, providing a pointer to economic momentum. Support for imports is also emerging in accelerated infrastructure build-up as well as India's pivot to manufacturing exports. These themes could counteract any deceleration in domestic demand due to a global rise in borrowing costs.

Recovery in the merchandise trade balance eases pressure on services to close the gap. Deterioration in the current account balance is within manageable limits in respect to India's forex reserves. Given GoI's record in managing its post-Covid fiscal slippage, India can mitigate higher credit costs with public debt in line with the average for emerging economies. The rupee's guided descent can play into India's emergence as a manufacturing export hub as the world rejigs its supply chains. Enhanced trade facilitation has shown encouraging results. Further gains await through focused bilateral trade agreements.

Source: economictimes.com- Dec 19, 2022

HOME

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GSTN can resolve MSME payment woes

Inter-firm or trade credit (TC) payment delays and defaults remain an endemic and intractable problem. It has assumed systemic proportions specially for non-corporate businesses, including MSMEs, in the recent years. A research report by Dun & Bradstreet and Global Alliance for Mass Entrepreneurship (May 2022) estimated that ₹10.7-lakh-crore is annually struck in delayed payments to MSMEs — 80 per cent of this related to micro and small units.

Further, median debtor days beyond the 45-day regulatory payment period was 195 days for micro units and 68 days for small units in FY2021. D&B data show that the trade receivables scenario for micro and small companies has deteriorated, following demonetisation and GST.

The RBI's annual study of select public limited companies shows the receivables-to-sales ratio of companies with turnover of ₹1-25 crore surged from 36 per cent in FY 2019 to 40 per cent in FY 2020 and further to 60 per cent in FY 2021. Transmission effects of unanticipated delays/defaults in TC repayments are felt across the payment system.
Government measures

The government has taken multiple legal, regulatory and promotional measures since 1993 to overcome the payment problem. These measures include prompt payment laws, promotion of bills discounting, factoring, TReDS, and Samadhan platform.

However, extraordinary lengthening of payment period, large backlog of receivables and rising cases of strategic defaults in recent years indicate that these measures have serious limitations.

History shows that the repayment behaviour, business trust and liquidity conditions can change dramatically during times like demonetisation, GST, and Covid-waves, seriously impacting the TC ecosystem. The integrity of payment practices, business conventions, and credit discipline are affected.

A pre-Covid survey of payment practices by Atradius finds a three-fold increase in write-offs of uncollectable debts and doubling in average value of long-overdue invoices. The Covid-waves greatly aggravated these. In the absence of self-correcting mechanisms, repayment morality in TC network is on the decline.

Power asymmetry between small suppliers and large purchasers and fear of losing business in case of late payment complaint enable large firms to manipulate date schedules relating to chalan, invoice, purchase order, or goods acceptance. Despite the best efforts of the government, these problems continue. However, a system driven digital platform can overcome these.

Fortunately, we have GSTN which is also now recognised by the RBI as an accounts aggregator network (a financial data-sharing system). We can use GSTN digital platform by incorporating new input fields and triggers for monitoring and system driven action against delayed payments and defaults in B2B dealings.

The input fields and action triggers include:

Due date of repayment and payment receipt date;

Automatic raising of red flag in GST account of TC debtor after a 10 days overdue, and if repayment amount is less than 90 per cent [to take care of discounts etc.]

Raising of second red flag if account remains overdue for 20 days; third red flag on 30th day with the provision of digital reporting of late payment to borrower's bank, CIBIL, Ministry of Corporate Affairs (corporate cases) and stock exchanges (listed companies); fourth red flag after 60 days and suspension of GST account or imposition of monetary penalties if overdue persist above 90 days

Designing of rating system in GSTN for TC operations of firms

Linking of bank payment system to update payment receipts in GSTN system. Till this linking is done, the payee may update the payment date and seller may validate it in the system

In case of dispute, a government-accredited industry forum representing trade and industry associations/chambers may solve/arbitrage the dispute in a time-bound manner. During this time, the red-flagging process will remain suspended.

To begin with we may restrict this to firms with annual turnover of ₹100 crore or ₹500 crore and above. Initially, we may take a lenient view of the delays as TC and its repayment flows may take sometime to stabilise. For large corporates, it may not be a problem as, on an average, their working capital utilisation is about 50 per cent of their sanctioned limit.

These are just broad contours. They need to be validated and fine-tuned by a committee comprising representatives of trade and industry, GSTN, government, RBI, and legal experts. Necessary changes may be made to the model based on the committee's recommendations.

This is an inclusive approach and not confined to MSMEs. Bank credit risk is interconnected with B2B payment flows. Presently, CIBIL's credit risk analysis is confined to banks' and NBFCs' dealings. This partial analysis suffers from unknown risk arising from TC operation of a firm.

With the integration of TC operations, the credit analysis becomes inclusive. Banks also get to know the cash flow matrix of their clients. This will facilitate cash-flow based lending, better monitoring of account and stock financing.

Higher speed of payment cycle enhances liquidity distribution. It will also encourage greater formalisation of business dealings which is both revenue and growth positive.

Source: thehindubusinessline.com- Dec 19, 2022

HOME

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Centre, Punjab split over textile scheme

A Punjab government official said the state wants an assurance that it would get the park before it starts acquiring 1,000 acres, a key criterion under the ₹4,445 crore Mega Integrated Textile Region and Apparel (PM MITRA).

The AAP state government had planned the park near Mattewara forest in Ludhiana, but scrapped it later

New Delhi: Punjab is unlikely to get a mega textile park under a central scheme to bring scale and efficiency in textile manufacturing, with the state and Centre yet to agree on making land available for the scheme.

The Aam Aadmi Party (AAP) state government had planned the park near Mattewara forest in Ludhiana, but scrapped it later. A central government official said the state is yet to propose an alternative area.

A Punjab government official said the state wants an assurance that it would get the park before it starts acquiring 1,000 acres, a key criterion under the ₹4,445 crore Mega Integrated Textile Region and Apparel (PM MITRA).

“Punjab is yet to propose an alternative land parcel for a textile park. About 13 states have sent 18 proposals. Some states have proposed multiple land parcels and we will soon finalize seven parks," a central government official said.

Among states that have shown interest are Andhra Pradesh, Assam, Gujarat, Madhya Pradesh, Odisha, Rajasthan, Tamil Nadu and Telangana. Commerce minister Piyush Goyal recently indicated that the Centre may announce the names of seven parks after the winter session of parliament. “We have communicated our willingness to offer 1,000 acres of land for the textile park, but will they (central government) give us the textile park? We have given 2-3 options," an official with Punjab’s Department of Industries & Commerce said.

“We had communicated to the central government that we will provide an alternative land parcel from the earlier one," he said.

“What if we acquire 1,000 acres for the textile park and we are not given the park? We will be at a loss. The central government has to take a call if they will give us the textile park".

Queries sent to the Union textile ministry and Punjab’s Department of Industries & Commerce remained unanswered till press time.

Meanwhile, environmental activists in Punjab are opposed to textile industry over fears of pollution and potential impact on water resources crucial to its agriculture. Punjab is the largest contributor of wheat and rice in the central pool.

“Successive governments have failed to limit the pollution from the dying industry in Ludhiana. Water resources in Punjab are already under stress. A substantial portion of surface and river water in Punjab is allocated to other states. Punjab is perhaps the only area where paddy plantation happens though groundwater," Parmjeet Singh, a campaigner of Punjab-based Agriculture and Environment Awareness Centre said.

Earlier this year, over 50 non-government organizations had protested against the plan to set up the park in Mattewara on grounds that the site was eco-sensitive and is located in the flood plain that is crucial to prevent depleting groundwater further.

Singh argued that rather than pushing for a textile park, the government should help set up a food processing industry which is better suited to the needs and strengths of the state.

“There is an environmental concern because the textile industry causes pollution wherever it is set up. Punjab needs an industry that is suitable to the state. Punjab is an agriculture state where a food processing industry can be set up. Discussions around the same have been ongoing since the 1970s but the central government never cooperated, be it the BJP government or the Congress government," Singh added.

Source: livemint.com- Dec 19, 2022

HOME

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India expects cotton exports of 40 L bales in 22-23; disparity hovers

India expects to export 40 lakh bales of cotton during the current season 2022-23 (October-September). However, actual shipment will depend on the availability of surplus stocks and price parity during the entire season. Currently, Indian cotton is facing a disparity due to high prices in the domestic market. It is about 15 per cent costlier than ICE cotton.

"The export of cotton is expected to be 40 lakh bales during the current season. But the same may increase or decrease depending on the availability of surplus cotton in the country, overseas demand, and price parity," Union minister of state for textiles Darshana Jardosh informed in a written reply to a question in Lok Sabha last week.

She said that Gujarat, Maharashtra, and Telangana are the major cotton producing states which produce about 65 per cent of the country's cotton.

An analysis of current prices of cotton shows that Indian cotton is facing a disparity as it is around 15 per cent costlier than global cotton. ICE cotton March 2023 was traded at US cent 81.73 per pound or ₹150 per kg, while Indian cotton was valued at ₹175 per kg. In the current market scenario, India cannot export large quantities of cotton.

India exported cotton worth $11.710 million in October 2022 which was lower than the export of $12.837 million in September and $13.573 million in August 2022, according to Fibre2Fashion's market insight tool TexPro.

Source: fibre2fashion.com- Dec 19, 2022

HOME

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Cotton prices fall, mills record spike in demand in Gujarat

AHMEDABAD: After more than six months, spinning mills in Gujarat are working at 70% capacity. The Indian cotton output is projected to be about 3.44 crore bales this year and cotton prices are expected to come down as new crops arrive. Cotton yarn prices are about Rs 260 per kg and mills are incurring a loss of approximately Rs 10 per kg but they believe the loss will be minimal at the time of delivery for January orders. The industry expects a revival because Indian cotton prices are becoming competitive and cotton yarn export orders have begun to trickle in.

Ripple Patel, vice-president of Spinners' Association of Gujarat (SAG), said: "We believe cotton prices will continue to weaken and there will be parity in prices by January, which will be encouraging for the entire value chain." The Cotton Association of India (CAI) has stuck with its cotton crop estimate for the 2022-23 season at 3.44 crore bales of 170kg each; the figure was 3.07 crore bales in the 2021-22 season. Gujarat's cotton crop production will increase by about 17 lakh bales to 93.50 lakh bales over the last season.

Last year, India's cotton production remained lower than projected and created a situation in which cotton shortage was visible and prices touched Rs 1.10 lakh per candy in May this year. Most Gujarat mills were running at less than 30% capacity and many even stopped working because they were dealing with a loss of Rs 35 per kg.

Rahul Shah, co-chairman of Gujarat Chamber of Commerce and Industry (GCCI) textile task force, said: "Cotton prices are now declining. Currently, the cotton price is about Rs 64,000 per candy (356kg) and spinning mills are operating at 70% capacity."

Shah added: "There is a revival in the cotton yarn demand. Some export orders have come in because our cotton yarn prices are competitive. China is also placing orders after almost eight months. " He went on to say: "The domestic demand is expected to rise from January because the inventory is almost zero and favourable cotton prices will push the demand."

Source: timesofindia.com- Dec 20, 2022

HOME

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At 17.79L bales, estimated cotton yield up 35% this year

The cotton production in the state this year is estimated to be around 35 per cent more than the last year. Against the production of around 13.16 lakh cotton bales last year, the production this year is estimated to be around 17.79 lakh bales.

The lint yield has also improved as compared to last year. Around 451 kg per hectare lint has been produced this year against 352 kg per hectare last year, government sources claim.

The improvement in cotton yield this year comes despite the fact that neighbouring Punjab recorded its lowest-ever production this year. This is being attributed to normal rainfall during the plucking season in Sirsa district, which has the highest area under cotton, and low impact of pink bollworm. Sirsa alone accounts for more than half of the area under cotton cultivation in the state.

According to officials at the Central Institute of Cotton Research and the Haryana Agriculture Department, cotton growers in the state suffered the worst setback in 2021 since 2015-16. Last year, the state produced 13.16 lakh bales on 6.35 lakh hectares.

The cotton prices had spiralled last year due to low production, which attracted more farmers this year and thus the area under cotton increased marginally from 6.35 lakh hectares to 6.49 lakh hectares, officials said.

Dr Surender K Verma, Director of the Central Institute of Cotton Research (CICR), Sirsa, said the impact of whitefly and pink bollworm was lower in Haryana as compared to Punjab.

Only certain pockets were affected in Haryana, while Punjab’s Bathinda and other parts witnessed damage on a larger scale. The unauthorised sale of cotton seeds by private firms/agents based in Gujarat also impacted the quality of cotton in Punjab, sources added.

The IMD showed that normal rainfall (36.4 mm) was recorded in Sirsa, Jind and Bhiwani districts in September although cotton crop in Hisar and Fatehabad suffered damage due to excessive rain in that month.

Cotton Corporation of India (CCI) official Mohit Sharma said the prices were around Rs 8,200-8,500 per quintal, which is much above the MSP, so the CCI did not intervene in the market to buy cotton.

Source: tribuneindia.com- Dec 19, 2022

HOME

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Retail sales top pre-Covid levels in November by 15% led by footwear, jewellery

Retailers posted a 15 per cent growth in sales in November over pre-pandemic levels. According to the latest edition of Retail Business Survey released by the Retailers' Association of India (RAI), this growth was led by segments such as footwear, sports goods and jewellery. The industry body, however, pointed out that the impact of inflationary challenges on the discretionary segment was visible. In terms of region-wise analysis, retailers in eastern and western regions garnered a growth of 17 per cent each compared to November 2019. In the Northern and Southern regions, sales were up 13 per cent each.

Kumar Rajagopalan, CEO, RAI, said, "October and November witnessed a 17 per cent growth, which is welcome but can't be termed as spectacular. Inflation-led worries have dampened the ability of some customers to purchase discretionary products. However, with the wedding season ringing in, we have seen an increase in purchases in jewellery, footwear, and garments."

While footwear segment witnessed a growth of 29 per cent in November this year over pre-pandemic levels (November 2019), sales of sports goods were up nearly 24 per cent. The industry body pointed out that sales of sporting goods and footwear got a boost due to consumers purchasing merchandise for the FIFA World Cup to support their favourite teams as well as the marathon season.

The wedding season helped the jewellery sales garner a growth of 23 per cent over pre-pandemic levels in November. Furniture and furnishing sales were up 18 per cent, while that of apparel and clothing segment was up 14 per cent. Food and grocery sales grew by 13 per cent in November over pre-pandemic levels, the industry body's monthly survey said. Consumer durables and electronics sales were up about 4 per cent compared to pre-pandemic levels due to the key festival season being in October this year. Overall retail sales growth in November this year compared to November 2021 was pegged at about 6 per cent, the RAI's survey stated.

Source: thehindubusinessline.com- Dec 19, 2022

HOME

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