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INTERNATIONAL NEWS

USA: Consumers starting to pare spending on home

A new survey from Coresight Research finds that home is a top discretionary category where consumers have pulled back on spending.

The July 29 survey of U.S. consumers is the latest in series tracking the impact of the COVID-19 pandemic on their behaviors and expectations, with a focus on implications for retailers.

A key takeaway: the proportion of respondents who are currently buying less of any categories jumped by nine percentage points.

One-third are currently spending less on apparel, up six percentage points from 27% the previous week. Beauty is the second most-cut category, with a little over one-fifth currently buying less. Some 19% of respondents are buying less in home categories.

In addition, the proportion of consumers switching their spending to e-commerce slid to the lowest level since late May. Some 69% of consumers stated that they were buying more online last week – a seven-percentage-point fall from the peak of 76% in the week of June 24.

While the declining trend might suggest that consumers are gradually switching some of their spending back to stores, the survey also found a significant wariness about going into public spaces.

Eighty-four percent of respondents said they are avoiding public areas. While that was lower than the 84% who said the same a week earlier, the avoidance rate has jumped by five percentage points since the beginning of July, reflecting consumers' increasing concerns over rising coronavirus cases in several states.

Other findings:

- The proportion of respondents that are currently avoiding shopping centers/malls went down slightly after increases for two consecutive weeks before. Some 64% said they are currently avoiding these places, versus two-thirds from the prior week.

- Food-service locations are the second-most-avoided public places, with more than six in 10 respondents currently avoiding them, broadly level with the proportion from the previous week.
- Grooming service providers, including barbers and salons, saw the highest decline in avoidance, of four percentage points.

Source: hometextilestoday.com – Aug 03, 2020

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USA: New Sanctions and Cotton Supply Chains

The Office of Foreign Assets Control placed China's Xinjiang Production and Construction Corporation on its Specially Designated Nationals List on July 31. XPCC's placement on this list means that all U.S. entities or non-U.S. entities subject to U.S. jurisdiction (covered persons) are now banned from engaging, directly or indirectly, with XPCC without a license from OFAC.

OFAC states that XPCC was added to the SDN List for serious rights abuses against ethnic minorities in China's Xinjiang Uyghur Autonomous Region. XPCC engages in cotton farming and sales in XUAR for certain types of cotton. China accounts for 20 percent of all the cotton in the world and XUAR accounts for 80 percent of China's cotton. This production represents 50 percent of global spinning capacity.

OFAC may consider any transaction by a covered person that directly or indirectly benefits XPCC as a violation of these sanctions, including apparel-related transactions made anywhere in the world that contain XPCC cotton.

A general license is available through Sept. 30 for companies to wind down their supply chains to exclude XPCC. However, details regarding any transactions or activities necessary to the wind down of transactions involving XPCC subsidiaries that are authorized under the general license, including the names and addresses of the parties involved, the type and scope of activities conducted, and the dates on which the activities occurred, must be reported to OFAC by Oct. 14.

Source: strtrade.com– Aug 04, 2020

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China Rules the Cotton Market…Again

The 2019-20 cotton marketing year can now be retired to the history books. Six months into the year, we felt like that the news reels would discuss this season in terms of world record consumption, U.S. exports of 17.5 million bales and much stronger U.S. mill consumption. For sure, the U.S. was looking at potentially a record share of the world export market – and even growers were expecting to expand 2020 planted acres.

A funny thing happened on the way…

COVID-19 wreaked havoc on the world cotton industry in particular, but of course on the U.S. and world. Cotton prices fell to 48 cents, but quickly recovered to the mid to upper 50s. Then the June plantings report surprised the industry and set prices back into the 60s.

Yet, since the last week in February, we knew major problems were on the horizon. Our early February forecast of challenging the mid 70-cent level was instantly dashed. Mill consumption collapsed, export sales and shipments slowed and consumer demand – the life blood of healthy cotton prices – disappeared.

Now, as the 2020-21 cotton marketing year begins, the price forecast is hopeful for a 66-67 cent trade, basis the December futures contract. However, we well know that prices have met very stiff resistance on any approach to 65 cents. The market is inundated with near record world stocks and excessively large U.S. stocks. Further, cotton stocks outside of China are also very excessive.

Put another way, the U.S. – the world's leading exporter of cotton – is facing more competition than it has ever faced. This is a bearish situation that begs futures prices to slip back into the mid to high 50s.

But also along the way…

Mother Nature has worked to lower the U.S. crop. The pre-plant harvest was guessed to be some 19-20 million bales by most in the industry. USDA's July estimate was 17.5 million bales. Various conditions in the Southwest, Southeast and Mid-South have combined to place the crop between 16 and 17 million bales.

Yet, July was exceedingly great for the areas that had localized moisture. Those crops may have had the best fruit set ever. Moisture has become even more important. Actually, if the current hurricane in the Gulf is reasonably mild, then the associated moisture will be welcomed. Yet, who wants to bet on that?

USDA representatives are currently surveying fields and will report a new estimate in its August 12 world supply demand report. We will release our expectations regarding that report next week. Nevertheless, both U.S. and world production for 2020 are supporting the market, as China is seeing a very mixed bag with crop conditions in southern Xinjiang much improved over conditions in the north. The Indian crop has progressed better than expected and is slighter larger than USDA's July estimate.

The Phase One trade deal with China has been beneficial for the U.S. Repeating ourselves from last month, China has purchased U.S. cotton over the past four months to the tune of over one billion dollars. As discussed last month, this is cotton China does not need except to enlarge its already 36 million bale stock level. Thus, China has a full year of its cotton consumption needs before 2020 picking even begins.

China has shown itself to be a savvy market participant and has expertly bought U.S. cotton on principal price dips below 62 cents, with its more active buying between 55 and 59 cents. Sales over the past four months exceed 2.4 million bales. For the 2019/20 season, China has purchased 3.7 million bales with 8 more reporting days remaining in the year. As of July 23, some 1.3 million bales of this total were yet to be shipped. Thus, China has switched from a minor U.S. cotton trade partner to one of the top three markets for U.S. cotton.

This week's export report was the best in two months. For the week ended July 23, net sales were 137,800 bales (upland 127,800/Pima 10,000). Cancelations were 23,500 bales, with none from China. The biggest cancellation was 10,500 bales with Indonesia, which was a big cancellation coming from there. Shipments were 328,600 bales (upland 320,800/Pima 7,800), thus putting shipments within reach of USDA's U.S. export estimate of 15.2 million bales.

Remember, USDA will use Census data in its final export report. Thus, we can be sure 2019-20 season shipments will exceed USDA's target of 15.2 million bales.

As stated last week – and as Billy Dunavant and Dr. Willard Sparks often reminded us – some 60-80% percent in the variation of world cotton prices can be traced to China. Thus, the Phase One trade deal can be a blessing to U.S. cotton and other commodities.

Despite U.S. growers having, by far, the best seed genetics in the world, I remain a "small crop" guy this year. Hopefully, I will be wrong. Growers are encouraged to use put options when and if December futures return to the 63-cent level. Expect the market to continue within its 57.50 to 65 cent range.

Source: cottongrower.com– Aug 03, 2020

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Favourable labor market helps Asia to remain leading clothing manufacturer

Asia will remain a leading player in clothing production in the next decade, according to the latest study by analytics firm Fitch Solutions, as China decreases clothing production and increases the value chain. The report says that the lack of conducive business conditions may result in India and Indonesia losing out.

It notes that many Asian states will benefit from favorable conditions on the labor market such as logistical links sufficiently stable to meet international trade, free trade agreements that guarantee preferences in major markets for customers and geographical proximity to Chinese and Indian raw material producers.

Vietnam is the most beneficial nation by drawing further investments. Therefore, in the coming years in Bangladesh, Cambodia and Myanmar, the costs will increase as well.

The study identifies India and Indonesia as potential beneficiaries in terms of global costume exports of manufacturing shifts and development. However, the annual growth rates of both countries will be less impressive than the four other countries, including Vietnam, Bangladesh, Cambodia and Myanmar.

The study noted that the lack of preferential trade access and higher labor costs to the US and EU markets is a major obstacle to both. The report estimates a high potential for growth in textile production, backed by large and increasing active populations and low cost of labour, in neighboring countries such as Cambodia, Myanmar, Bangladesh and Vietnam.

Source: textilefocus.com– Aug 02, 2020

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COVID-19 Pandemic Expected to Weigh on Cotton Prices into 2020/21 Season

Executive Summary

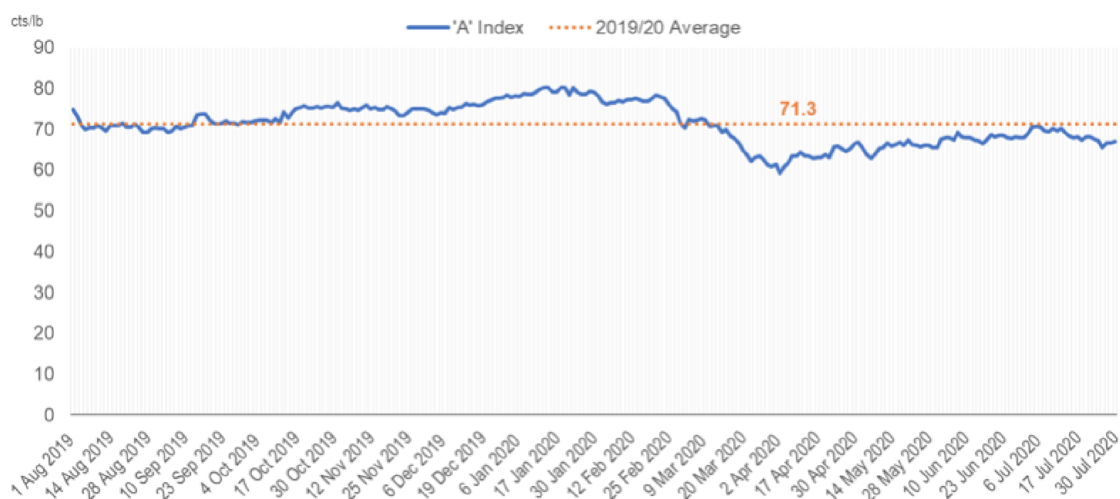
Highlights from the August 2020 Cotton This Month include:

- After reaching a high in January 2020, international cotton prices fell through February and March
- This month, the price projection for the year-end 2020/21 average of the A Index is 62.8 cents per pound
- Cotton consumption for the 2019/20 season is expected to decline 12% to 23 million tonnes
- Cotton consumption should improve in 2020/21 if there's a global economic recovery but price competition from synthetics continues

Even plummeting prices aren't enough to offset COVID-19's impact on global cotton consumption — but the situation could improve quickly, assuming the world gets the pandemic under control. The price projection for the year-end 2020/21 average of the A Index is 62.8 cents per pound this month.

The current 2020/21 cotton consumption forecast is 23.9 million tonnes, representing a 5% increase from the previous season.

Cotton production for 2020/21, on the other hand, is projected to move in the opposite direction, posting a 5% decrease to 24.8 million tonnes largely due to 2 million hectare decrease in global area.



Cotton consumption is expected to recover in 2020/21 if global economic growth recovers as consumer demand increases, but as always it will continue to face stiff competition from synthetic fibres.

Source: icac.org– Aug 03, 2020

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China's manufacturing improves in July, exports strengthen

China's manufacturing activity edged up in July and export orders strengthened despite weak U.S. and European demand, a survey showed Friday, in fresh signs the world's second-largest economy is gradually recovering from the coronavirus pandemic.

The monthly purchasing managers' index issued by the Chinese statistics bureau and an industry group rose to 51.1 from June's 50.9 on a 100-point scale. Numbers above 50 show activity increasing.

A measure of new orders improved to 51.4 from 51.7, according to the National Bureau of Statistics and the China Federation of Logistics & Purchasing. New export orders rose 5.8 points to 48.4.

The results suggest "China's economy continues to maintain a rebound trend," the federation said in a statement.

China, where the pandemic began in December, was the first economy to shut down to fight the virus and the first to try to revive business after the ruling Communist Party declared victory over the disease in March.

The economy grew by an unexpectedly strong 3.2% over a year earlier in the three months ending in June, rebounding from a 6.8% contraction the previous quarter.

Manufacturing is close to normal activity but retailing, restaurants and other service industries are struggling.

Forecasters warn exports are likely to dip again later in the year once demand for masks, surgical gloves and other medical supplies eases. That will increase the burden on Chinese consumers and government stimulus spending to keep a recovery on track.

Source: whio.com– Jul 31, 2020

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Asia's factory pain eases as China's activity jumps

Asia's factory pain continued to ease in July with contraction slowing in big export-reliant nations, adding to hopes the region is steadily emerging from the devastating hit of the coronavirus pandemic.

Manufacturing activity in China expanded at the fastest pace in nearly a decade as domestic demand improved, a private sector survey showed on Monday, suggesting the world's second-largest economy will help cushion the pandemic's blow to world growth.

But worries about a second wave of infections may weigh on global demand and business sentiment, keeping any rebound in Asia's factory output feeble, some analysts say.

Japan, for one, will enjoy only a "very gradual and protracted recovery" as concerns about a resurgence in COVID-19 cases will weigh on domestic and overseas spending, said Stefan Angrick, senior economist at Oxford Economics.

"With the pace of recovery slowing in some of Japan's key trading partners, exports and business spending are likely to continue to struggle," he said.

China's Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) rose to 52.8 last month from June's 51.2, marking the sector's third consecutive month of growth and the biggest jump since January 2011.

The upbeat findings echoed an official survey on Friday, adding to evidence the world's second-largest economy is getting back on its feet faster than expected.

Japan and South Korea saw factory activity shrink at a much slower pace, a sign that pressures on manufacturers were easing and raising hopes the worst impact from the pandemic was over. Taiwan's manufacturing activity also rose above the 50-mark separating growth from contraction, suggesting that increased demand for work-from-home equipment is underpinning chip sales.

But factory activity in the Philippines and Vietnam slid in July, underscoring the patchy nature of the recovery. India's factory slump also deepened as renewed lockdown measures to contain surging virus cases weighed on demand and output.

"While the broad steadying of the PMI prints across the region point towards further stabilisation in the regional manufacturing sector after the April-May malaise, the path ahead remains a rocky one, as evidenced by the more uncertain tone in the latest reading for some economies," said Wellian Wiranto, an economist at OCBC Bank.

Japan's final au Jibun Bank Flash Manufacturing PMI rose to a seasonally adjusted 45.2 in July from 40.1 in June, marking the slowest pace of contraction in five months.

South Korea's IHS Markit PMI rose to 46.9 in July from 43.4 in June, the highest reading since January, reflecting easing pressure on output and new orders. A gauge of expectations for South Korea's manufacturing output over the next 12 months jumped, though exports – which account for nearly 40% of the economy – remained a concern.

"Manufacturers maintained a bias towards price discounting and continued to take a cautious view on their staffing numbers," said IHS Markit economist Joe Hayes.

The hit from lockdowns and social distancing policies to contain the virus has pushed many Asian economies into recession including Japan, South Korea, Thailand and Singapore.

While some countries have eased restrictions, a renewed spike in infections has cast a shadow over the recovery prospects in Japan.

Source: financialexpress.com– Aug 03, 2020

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All eyes on world's fastest-growing cotton exporter Brazil ahead of record harvest

The global cotton market has emerged as one of the main agricultural casualties of COVID-19, with all eyes now on the expected record harvest in Brazil, an emerging export competitor for Australia's cotton industry.

Speaking in a recent podcast Stress in the cotton supply chain: Issues growers face in both Australia and Brazil, Rabobank's Brazil-based senior grains and oilseeds analyst Victor Ikeda said Brazil, the world's fastest-growing cotton exporter and the fourth-largest producer of the commodity, was expected to harvest a record 13 million bales this season.

However, Mr Ikeda said, COVID-19-related pressures – including demand declines and potential supply chain interruptions – were presenting challenges for Brazil's cotton sector.

Rabobank Australian cotton analyst Charles Clack said with Brazil having increased its cotton exports by 91.9 per cent from 2015 to 2019 to stand as the fifth-largest exporter by value, it loomed as a major player on global markets, competing with Australian cotton into key Asian markets.

"The COVID-19 pandemic is set to shrink cotton demand globally in 2020 and a crowded export market means Australian cotton will need to compete more aggressively in future against other major exporters, including Brazil," Mr Clack said.

Mr Ikeda said forward exports for Brazilian cotton had declined 10 per cent for August 2020 to July 2021, down to 7.9 million bales, reflecting decreased demand for textiles due to COVID-19.

Typical of other cotton-producing countries, he said, stocks would now build in Brazil, adding additional pressure to the local and global market.

Australia was, however, the only remaining country spared stockpiling pressure due to its drought-limited 2020 production.

Brazilian exports remained strong prior to, and during, the onset of COVID-19. From September 2019 to April 2020, the country reached monthly records for export volumes, culminating in a record 1.4 million bales exported during January 2020.

While Brazil's export volumes have dropped significantly since May, Mr Ikeda said declines were normal at this stage in the season, although were currently exacerbated by decreased demand due to COVID-19.

China

In recent years China had emerged as the main destination for Brazilian cotton exports – accounting for approximately 30 per cent of its market – and remains a significant buyer of Brazilian cotton, despite market volatility.

Over the past 12 months, Mr Ikeda said, 2.6 million bales of cotton had been exported to the Chinese market, approximately 30 per cent greater than during the same period last year.

Mr Clack said while the Australian cotton industry had also historically benefited from strong Chinese demand – to the tune of 65 per cent of its export market – in contrast to Brazil, local cotton exports to China had now slowed considerably.

This, he said, was primarily due to a drought-induced multi-year low in domestic production – although rising Australia–China tensions remained unhelpful.

Supply chain stress

Mr Ikeda said limited infrastructure and logistics challenges pose further risks to Brazil's cotton sector – with 97 per cent of the country's exports concentrated through the Port of Santos, he said any disruptions could create significant bottlenecks.

"The Port of Santos remained extremely resilient processing last year's record export of 8.7 million bales, however COVID-19 presents a very different set of challenges – having just one port leaves Brazil very exposed," he said.

Of greater concern however, was the potential disruption for labour availability ahead of ginning.

"Much of Brazil's cotton processing is undertaken in country areas, and the fact the number of COVID-19 cases continues to increase in the regions is a definite risk to the pace of processing, with delays a possibility if infection spreads," Mr Ikeda said.

Another major implication of COVID-19 to cotton farmers on the ground in Brazil has been the strong devaluation of the local currency, the Brazilian real, and a resulting lack of liquidity for new sales in the physical market.

"This low currency rate partially offset the pressured international cotton prices, with commodity prices in Brazilian real during the first half of 2020 only five per cent lower than in the same period last year – as opposed to the significant declines prices experienced in the international market," he said.

Forward sales for the 2019/20 season rose from 74 per cent in February 2020 to 79 per cent in July 2020 – the particularly slow five percentage point shift over six months signalling the lack of liquidity in the market.

Mr Clack said in Australia, liquidity also remained a risk for growers struggling to move cotton, with falling local premiums and a notable reduction in bids for 2020 crop sales.

Brazil's future cotton production

For Brazil's 2020/21 season, to be planted by the end of this year, Mr Ikeda expected a decline in acreage – down 16 per cent year-on-year to 1.4 million hectares.

"It's unlikely those opportunistic growers, who in the past were motivated by strong cotton prices and good margins, will plant as much, if any, cotton this year," he said, "However the traditional, large-scale growers heavily invested in the industry won't have the option to change their cropping system."

Long term however, Mr Ikeda said, Brazil's outstanding weather conditions supporting rain-fed fields, coupled with the low Brazilian real, would ensure the country remained a competitive cotton producer. "Despite the current short-term decline in acreage, during the next decade we maintain that Brazil's cotton production area will reach two million hectares and that exports will surpass 13 million bales in 2028/2029," Mr Ikeda said.

"We expect Brazil to establish itself as a competitive producer, and one that Australian growers should watch and consider when building balance sheets and making pricing decisions."

Source: miragenews.com– Aug 03, 2020

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Cambodia proposes 5-year plan for garment-textile, footwear sectors

Cambodia is preparing a five-year (2020-2025) development strategy for the garment, footwear and travel bags sectors from to promote their competiveness, according to the ministry of economy and finance (MEF). The sectors are now facing some challenges that require more development and competitiveness by the end of 2025, said Aun Pornmoniroth

This strategy will set out a vision to transform Cambodia's garment, footwear and bag industry into a high-value, supportive, diversified and more competitive industry.It will continue to strengthen human resources, increase productivity and create business lines for workers.

It will as well as continue to improve working conditions and the welfare of workers, promote direct domestic and international investment in value-added products, attract investment in industries that support the sector and promote export market diversification, according to the brief draft.

The strategy aims to set common development directions, increase independence, strengthen the appraisal and stability of the garment, footwear and bags sector to further promote the sector's sustainability and environment.

Source: fashionatingworld.com– Aug 03, 2020

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EU-Vietnam Trade Deal Enters Into Force

EU exports to Vietnam will be taxed less as of August 1. This is the immediate effect of the entry into force of the EU-Vietnam trade agreement that will ultimately scrap duties on 99% of all goods traded between the two sides.

Doing business in Vietnam will also become easier for European companies: they will now be able to invest and pitch for government contracts with equal chances to their local competitors. Under the new agreement, the economic benefits go hand in hand with guarantees of respect for labour rights, environment protection and the Paris Agreement on climate, through strong, legally binding and enforceable provisions on sustainable development.

President of the European Commission, Ursula von der Leyen, said: "The European economy needs now every opportunity to restore its strength after the crisis triggered by the coronavirus. Trade agreements, such as the one becoming effective with Vietnam today, offer our companies a chance to access new emerging markets and create jobs for Europeans. I strongly believe this agreement will also become an opportunity for people of Vietnam to enjoy a more prosperous economy and witness a positive change and stronger rights as workers and citizens in their home country."

Vietnam is the EU's second largest trading partner in the Association of Southeast Asian Nations (ASEAN) after Singapore, with trade in goods worth €45.5 billion in 2019 and trade in services of some €4 billion (2018).

The EU's main exports to Vietnam are high-tech products, including electrical machinery and equipment, aircrafts, vehicles, and pharmaceutical products. Vietnam's main exports to the EU are electronic products, footwear, textiles and clothing, as well as coffee, rice, seafood, and furniture.

With a total foreign direct investment stock of €7.4 billion (2018), the EU is one of the largest foreign investors in Vietnam. Most EU investments are in industrial processing and manufacturing.

Commissioner for Trade, Phil Hogan, commented: "Vietnam is now part of a club of 77 countries doing trade with the EU under bilaterally agreed preferential conditions. The agreement strengthens EU economic links with the dynamic region of South-East Asia and has an important economic

potential that will contribute to the recovery after the coronavirus crisis. But it also shows how trade policy can be a force for good. Vietnam has already made a lot of effort to improve its labour rights record thanks to our trade talks and, I trust, will continue its most needed reforms."

The EU-Vietnam agreement is the most comprehensive trade agreement the EU has concluded with a developing country. It takes fully into account Vietnam's development needs by giving Vietnam a longer, 10-year period to eliminate its duties on EU imports. However, many important EU export products, such as pharmaceuticals, chemicals or machinery will already enjoy duty free import conditions as of entry into force. Agri-food products like beef or olive oil will face no tariffs in three years, while dairy, fruit and vegetables in maximum five years.

Comprehensive provisions on sanitary and phytosanitary cooperation will allow for improving market access for EU firms via more transparent and quick procedures. It also contains specific provisions to address regulatory barriers for EU car exports and grants protection from imitation for 169 traditional European food and drink products (like Roquefort cheese, Porto and Jerez wines, Irish Cream spirit or Prosciutto di Parma ham) recognised as Geographical Indications.

At the same time, the trade agreement expresses a strong commitment of both sides to environment and social rights. It sets high standards of labour, environmental and consumer protection and ensures that there is no 'race to the bottom' to promote trade or attract investment.

Under the agreement, the two parties have committed to ratify and implement the eight fundamental Conventions of International Labour Organization (ILO), and respect, promote and effectively implement the principles of the ILO concerning fundamental rights at work; implement the Paris Agreement, as well as other international environmental agreements, and act in favour of the conservation and sustainable management of wildlife, biodiversity, forestry and fisheries; and involve independent civil society in monitoring the implementation of these commitments by both sides.

Vietnam has already made progress on these commitments by ratifying in June 2019 ILO Convention 98 on collective bargaining and in June 2020 ILO Convention 105 on forced labour. It also adopted a revised Labour Code in November 2019 and confirmed that it would ratify the one remaining fundamental ILO Convention on forced labour by 2023.

The trade agreement also includes an institutional and legal link to the EU-Vietnam Partnership and Cooperation Agreement, allowing appropriate action in the case of serious breaches of human rights.

The entry into force of the trade agreement has been preceded by its approval by EU Member States in the Council and its signature in June 2019, and the European Parliament's approval in February 2020.

Source: eurasiareview.com– Jul 31, 2020

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Vietnamese exports stable despite Covid-19

Amid the retraction of international trade due to the Covid-19 pandemic, Vietnamese exports grew 0.2 percent in the first months of the year, the General Statistics Office (GSO) reported on Monday.

Foreign sales touched 146 billion US dollars from January to the end of July, more than in the same period of 2019, when the international market was not affected by the epidemic.

As a sign of the trend of exports to recovery, the GSO specified that they reached 23 billion dollars in July, 1.9 percent more than in the previous month.

Twenty-two exporting entities made shipments exceeding one billion dollars in each case in the period and made more than 86 percent of total invoices. Among these, four made exports for more than 10 billion dollars.

Such were the cases of mobile phones and spare parts for them; electronic articles, computers and components; clothing and textiles and machinery, equipment and spare parts.

By country, the United States was confirmed as Vietnam's largest buyer (almost 38 billion dollars, an increase of 15 percent year-on-year), followed by China (23.5 billion, 18.4 percent more)

The European Union remained in third place, but in its case, acquisitions fell by 5.9 percent to 19.5 billion.

Source: plenglish.com– Aug 03, 2020

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Businesses slow in applying for preferential tariffs in Vietnam-EU free trade agreement

Experts have raised concerns that Vietnamese businesses are slow in preparing conditions to enjoy preferential tariffs in the Vietnam-EU Free Trade Agreement (EVFTA).

Nguyen Hai Minh, EuroCham vice chairman, said the EVFTA has taken effect from Aug 1, but only 2 per cent of 8,600 local enterprises know the details of this FTA and about 20 per cent of them know about the agreement at all. The important thing is that they must really understand the content of this agreement and its conditions.

Minh said some textile enterprises are choosing whether or not to meet the rules of origin to enjoy preferential tariffs in this FTA. At present, the main import material of Vietnamese textile enterprises is still from China, so if they do not change suppliers their products cannot satisfy the origin requirements in the EVFTA.

“Some businesses say that if they buy the materials from eligible suppliers with higher prices to enjoy tariff preferences, it still won't be as profitable as buying materials from China to enjoy the tariffs according to the EU's Generalised scheme of preferences (GSP) at present.

“However, Vietnamese businesses need to know that right after the EVFTA comes into effect, the GSP tariffs would end, ” Minh told the Dau Tu (Investment) newspaper. In addition, the EVFTA's rules on origin are quite complicated. The complexity is the reason that many Vietnamese face mask manufacturers are ineligible to export to the EU, even if they already have customers, because they do not have the required medical certificates.

Vietnamese businesses also do not understand clearly about food hygiene and safety conditions when working with European partners, Minh said.

Another problem is the material region. He said, at the beginning of this year, when EU enterprises announced they would stop using plastic

packaging, instead of recyclable materials, many Vietnamese businesses have immediately changed to use paper and bamboo packaging.

However, when the EU businesses required information about material region for producing the packaging, Vietnamese enterprises could not identify eligible material regions. The planning of raw material regions for Vietnam's many export products is challenging for businesses and also the Government, Minh said.

Truong Van Cam, deputy chairman of the Vietnam Textile and Apparel Association, said the association continues to request the Ministry of Industry and Trade to complete the Textile and Apparel Development Plan until 2035, which must clarify requirements for the construction of concentrated industrial parks for textiles and clothing, including waste water treatment.

Therefore, the textile and garment industry could have large dyeing and textile projects with products meeting the EVFTA's origin requirements and also CPTPP requirements, Cam said. The country expects to surpass Bangladesh to become the second largest textile and garment exporter to the world market after the EVFTA comes into effect.

It could be difficulty reaching this goal if the domestic textile and garment sector does not have a supporting industry, Deputy Minister of Industry and Trade Tran Quoc Khanh said. Vu Tien Loc, chairman of Vietnam Chamber of Commerce and Industry (VCCI), also agreed with this proposal and said that it is an important issue that needs attention from ministries and sectors.

Vietnam could not promote textile and garment exports if the country does not create favourable conditions to develop the auxiliary industry for the textile and garment sector as well as call on investment to this industry.

VCCI has proposed the National Assembly to formulate the Law on Auxiliary Industry for receiving a new wave of foreign direct investment, Loc said. The State also needs institutional reforms, complete the legal framework, and improve investment and business environment to meet the EVFTA requirements, he said.

Source: thestar.com.my– Aug 04, 2020

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NATIONAL NEWS

How India can rejig its industrial policy

India needs to craft a strategy on how to reverse the lockdown-induced severe industrial slowdown. We need new policy instruments that steer market forces to deliver desired outcomes of creating jobs and achieving self-reliance in our open market economy. Understanding global as well as our own experiences would be of help in designing the right approaches.

The experiences of Korea followed by China, both of whoich emulated Japan's post-War recovery strategy, are relevant as they are leading industrial powers. Korea supported its national conglomerates by keeping its domestic market initially closed for both imports of finished goods and investments. This meant easy import of capital goods and technology tie-ups, and minimal imports of finished goods such as cars and consumer appliances. It also artificially depreciated its currency. In political economy terms, the producer had precedence over the consumer.

China kept its currency depreciated. It pursued foreign investments, especially in labour-intensive industries, in its new special zones. Its state-owned enterprises were transformed to compete in a globalised market economy. It learnt from Russia's experience. In spite of having had cutting-edge frontier technologies, Russia is yet to recover industrially from the 'shock therapy' of market reforms, including immediate privatisation of state-owned enterprises undertaken in the early 1990s.

The Chinese supported its state enterprises, nurtured the newly emerging private ones, and invited foreign investments. It also insisted on joint ventures with global firms using the lure of its large market. It had no compunctions about reverse engineering and appropriating intellectual property.

So, for every major global firm, like Apple or GE, China had the national goal of creating Chinese firms which in due course would become competitors first in the domestic market and then in the global market. The state financed the technical education of thousands of Chinese in the US and Europe and got them to return to work in China. China and India have usually the same number of students in US universities, with the major difference being that most Chinese go back and work for China whereas most Indians stay back and work for the US.

The education of these Chinese individuals has created the human capital that gives China the confidence that it can challenge and overtake the West technologically. Huawei's 5G capability is a good example.

Where we fell short

India, till the economic reforms of 1991, pursued self-reliance through infant industry protection, a strategy not very different from that of East Asian nations. One material difference which led to such disappointing results was that industrial licensing reduced competition in the domestic market.

The East Asian nations, on the other hand, created competitive industry structures. The other material difference was the push to firms to export to Western markets. Success in global markets needed competitive prices and acceptable quality. The state-controlled financial system funded such growth with far greater leverage than normal banking norms and prudence would permit.

India, on the other hand, took the view that being a large sub-continental economy, it could avoid integration into the global economy. The result was that by 1990, we had a broad-based but technologically obsolete industrial capacity, like that of the Soviet Union.

Post 1991, we embraced the policy paradigm of the Washington Consensus; openness to trade and investment and reduction of the role of the state in the economy. The state would try and take care of physical and social infrastructure and be a facilitator to improve the ease of doing business. The rest would be left to market forces. On public sector enterprises, there has been ambivalence.

Aggressive privatisation was what reformers have wanted, but the political leadership has been cautious. Strengthening these enterprises has not been seriously attempted. Gradually, these have been declining. Some are so sick that by now asset sale is the only viable option.

Further, faith in growth based on market forces did not translate into a policy of lowering the cost of production and doing business. These costs had been raised in the earlier closed economy to generate resources through higher taxes and cross-subsidies.

Not lowering costs after liberalisation has prevented India from having the fundamental prerequisite for global competitiveness. Continuing real exchange rate appreciation, high real interest rates, an asset price bubble in land, higher energy costs, regulatory risk and uncertainty, and an unskilled workforce with labour market rigidities have all been contributing to the lack of competitiveness. These weaknesses need to be rectified first and with urgency. The transition to giving primacy to the producer has to take place. Society needs to bear these costs.

Revamping policy

Designing policy packages for a few key industries would be challenging. Labour-intensive sectors must get priority. Recent experience has shown the limitations of simple traditional approaches. Interventions need to have a critical mass.

Providing an interest subsidy to the textile industry is a good example where results have been below expectation. Capital subsidies given to ship-building have had, similarly, a modest impact. Raising import duties for many items is now under consideration.

Concessional rates for leasing land, provision of cheaper energy, and public investment for common facilities of training, testing and waste management should all be options on the table. Selective government equity investments in areas where the risk perception is too high, as in the case of chip manufacturing, may be the only way to get such investment.

Spending scarce fiscal resources or getting the consumer to pay more would be worthwhile only if a major breakthrough is the target. A sub-optimal effort is avoidable. This needs better closed-door and transparent dialogue with industry to put together an attractive package that should trigger private investment.

An end date for the support package also needs to be settled at the outset so that after success, scarce resources can move on to some other sectors. Packages need to be tailor-made for identified sectors. Electronics, toys, solar power, batteries for cars and grid storage are good candidates for industrial policy packages.

Source: thehindubusinessline.com– Aug 03, 2020

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Textile exporters waiting for govt. to release incentive funds

'Unable to tap opportunities in international markets'

With export incentives getting delayed under various schemes, textile and clothing exporters say they are unable to tap opportunities in the international markets, and revival is taking time.

According to industry sources here, the Central government offered incentives under two major schemes last year — the Rebate of State Levies (ROSL) Scheme and the Merchandise Exports from India Scheme (MEIS).

In mid-2019, the government replaced ROSL and MEIS with the Rebate of State and Central Taxes and Levies (ROSCTL) Scheme. It also offered an ad hoc, one-time special incentive of 1% till December.

With sluggishness in textile and clothing exports and yarn and fabric exports not covered under the new scheme, exporters sought the continuation of MEIS and ROSCTL. The government allocated ₹9,000 crore for ROSCTL. However, reportedly owing to inadequate funds, the portal does not accept applications under the ROSCTL Scheme since April this year, say sources.

Recently, the government introduced a new scheme called, Remission of Duties and Taxes on Export Products (RODTEP). This is supposed to be a comprehensive scheme for exporters. But rates are yet to be fixed.

Currently, the industry gets only the duty drawback benefit. It should allocate adequate funds for ROSCTL or launch RODTEP at the earliest, says Raja M. Shanmugham, president of Tiruppur Exporters' Association. The industry has been facing several hardships. Without the export incentives, revival takes time and the exporters are unable to tap into the opportunities, he adds.

Ashwin Chandran, Chairman of Southern India Mills' Association, says the export benefits should be extended to yarn.

Pollachi Member of Parliament K. Shanmuga Sundaram said in a release that the government should immediately allocate funds for ROSCTL and continue the ad hoc, one-time incentive.

"Textile industry is facing an acute financial crunch owing to the COVID-19 effect. Thereby the industry was forced to diversify its operations and also retain the garment manufacturing operation. The industry requires support from the Central government," he said.

Source: thehindu.com– Aug 01, 2020

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Cotton textile exports to China crash by 74% in Q1

In a sign of troubled trade relations with China, India's export of cotton textile products to China has seen a whopping 74% decline to touch $90 million during the April-June quarter this year.

China's share in India's total exports of cotton textile products has also halved to 6.9% during the quarter as against 14% in the corresponding quarter last fiscal.

During Q1 last year, India's export of cotton textiles to China stood at $346 million, according to data available with The Cotton Textiles Export Promotion Council (TEXPROCIL).

"Recently, Indian and Chinese governments carried out reciprocal measures like detailed shipment inspections at ports, delaying clearing of goods, thereby also contributing to decline in exports," K V Srinivasan, managing director, Premier Mills Pvt Ltd told DH.

Substitution of textile imports from China as well as contemplation of anti-dumping duties on certain Chinese products may have an impact on exports of Indian cotton textiles, he said.

China is a leading importer of raw cotton and cotton yarn from India and also the largest exporter in the world. "Exports to China during the first quarter declined drastically as compared to the corresponding quarter the previous year," Kirti Shah, managing director, Textiles World said.

Overall, cotton textile exports during the first quarter declined 47% to $1.29 billion against $2.42 billion in the same quarter last year.

One of the main reasons for the decline was supply chain disruptions. “Delays in documentation, especially Certificates of Origin in countries like China, Vietnam, Thailand and Malaysia also delayed deliveries, hitting exports,” Dr. Siddhartha Rajagopal, Executive Director, TEXPROCIL said. Delays at ports owing to Covid protocols quarantine also led to the decline, he said.

Source: deccanherald.com– Aug 04, 2020

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Exporters want govt to curtail MEIS benefits

On July 23, the Directorate General of Foreign Trade (DGFT), without any notice, blocked the facility of electronically filing the applications for duty credit scrips under the Merchandise Exports from India Scheme (MEIS) for exports made from April 1 this year. The applicants got a message: “ The online module would be accepting MEIS applications for shipping bills with Let Export Date from 01.04.2020 after adequate funds are available”.

The exporters were taken by surprise and now face uncertainty regarding continuation of the scheme. In April 2015, the MEIS replaced five different better targeted but messy schemes such as Focus Product Scheme, Focus Market Scheme etc. Under MEIS, transferable duty credits are given to exporters at notified percentage of FOB value of exports.

The duty credits can be utilised to pay the customs duties on imported goods. The stated objective of MEIS is to help exporters offset infrastructural inefficiencies and associated costs but through an opaque process, the DGFT was giving more benefits arbitrarily to a number of products.

For example, exporters of dairy products earn duty credit at 20 per cent of FOB value of exports. The number of export products earning MEIS duty credits went up from 4,914 items to 8,015 in the past five years.

The Finance Ministry is irked that the outlay under MEIS has steadily gone up to about ₹ 45,000 crore in 201920 but the exports have rem -ained stagnant at $310 billion since 201415. It has capped the allocations under MEIS to ₹ 9,000 crore for the current year and wants the commerce

ministry to make the MEIS more focussed, sector specific, and performance linked.

Last year, a panel at the World Trade Organisation (WTO) asked India to withdraw the MEIS as it amounted to prohibited export subsidy. India´s appeal against the panel ruling is pending before a dysfunctional appellate forum at the WTO.

Last July, the government announced that the MEIS scheme would be withdrawn and replaced with a new Refund of Duties and Taxes on Export Products (RoDTEP) scheme. That has not happened so far.

Many exporters have factored in the MEIS and other export incentives in their prices. Nonreceipt of the benefits or inordinate delay in receipt of the benefits can hurt their profitability as well as cash flow. The commerce ministry has asked the finance ministry to hike the allocations under MEIS and stop registering the already issued MEIS duty credit scrips at the Customs.

At some Customs stations, the field formations have started delaying the registration of MEIS duty credits scrips. Given the uncertainty, few are ready to buy the duty credit scrips from exporters.

That has hurt the cash flow of the exporters. There are also reports of delays in disbursement of duty drawback and refunds of goods and services tax (GST).

The commerce minister has assured the exporters that the sudden suspension of facility to claim duty credits under MEIS is only a temporary cash flow issue that will be resolved soon.

Many exporters hope that will happen but few are betting on that. They understand the financial constraints of the government and expect the Commerce Ministry to severely curtail the benefits under the MEIS.

So, many have stopped factoring the MEIS benefits in their prices, even if it means losing some orders.

Source: business-standard.com– Aug 03, 2020

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FM Sitharaman says banks can't refuse loans to MSMEs under emergency credit facility; warns action if reported

Credit and Finance for MSMEs: Finance Minister Nirmala Sitharaman today said that banks cannot refuse credit to MSMEs covered under the emergency credit facility. Nirmala Sitharaman added that if the banks refuse such credit, it must be reported and she will look into it.

Speaking at FICCI's National Executive Committee Meeting, she further said that every step which is being announced and taken to deal with the current situation is being done after exhaustive consultation with the stakeholders and industry experts. FM Sitharaman also assured that the focus is on restructuring and the Finance Ministry is actively engaged with RBI on this.

Addressing the concerns of the hospitality sector which is severely hit due to the coronavirus pandemic, she said that the government fully understands the sector's requirements on the moratorium extension or restructuring and it is working with the RBI on this. On the infrastructure front, the FM underlined that the work is going on the Development finance institution, however, what shape it will take will be known shortly.

As international trade faces headwinds from the global lockdown and other restrictions, the minister said that reciprocal arrangements are being asked with the countries with which India has opened up its markets. She added that reciprocity is a very critical point in India's trade negotiations.

Meanwhile, earlier this week, FM Sitharaman had said that the government is working on completing the stake sale process of about 23 PSU companies whose divestment has already been cleared by the Cabinet. She had also assured that she would soon meet small finance firms and non-banking finance companies (NBFCs) to review the credit being extended by them to businesses.

Encouraging the Atma Nirbhar Bharat mission and highlighting the government's step to open up all sectors for private firms, Nirmala Sitharaman had said that the final call as to which are the strategic sectors is not made yet.

Source: financialexpress.com– Jul 31, 2020

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Upcoming changes in GSTN and its impact on the present GST return filing system

It has been over three years since the introduction of GST, and it's been a roller coaster ride for all the stakeholders. There continues to be several areas of inconsistency between the GST law and the GST portal. To name a few, GSTN portal does not have a functionality to link multiple invoices with a single credit note, non-availability of date of filing of the GST returns by the vendor, no possibility to track the amendment of any invoices, inability to provide negative values in GSTR 3B, and the list is long. However, GST policy makers have been very proactive in taking cognizance of the hardships faced by the industry and are committed to bring about requisite amendments from time to time.

The huge compliance burden posed under GST has been a matter of huge concern for India Inc. Recently, senior officials from the GSTN and GST policy wing, with a view to remedy the hardships faced by the taxpayers, announced certain steps that are proposed to be taken to improve the overall compliance framework. The key proposal is scrapping of new returns format proposed last year and streamlining the existing GSTR-1 and GSTR-3B returns. This is a welcome move given that the industry is well settled with the existing return formats.

A series of other changes have been proposed to the GSTN infrastructure and return formats. Key changes include:

- Enhancement of the capacity of the GSTN common portal to handle 3 lakh taxpayers at any single point of time (increased from 1.5 lakh currently).
- Facility to create vendor/ customer master for the taxpayer on the portal dashboard.
- A matching tool for taxpayers on the GST portal to match the details of purchase register and GSTR 2A.
- A communication channel between buyer and supplier, to communicate with vendor for the missing invoices.
- Showing the status of registration and refund application on the portal dashboard.
- Compilation of common errors encountered by taxpayers on the portal and the solutions thereof, along with videos.

- Option to download GSTR 2A for up to 500 transactions immediately as opposed to the current practice where taxpayers are required to raise a request for generation of Form GSTR 2A in excel form.
- Additional columns in Form GSTR 2A to include date of filing of GSTR 1 and GSTR 3B of the vendor.
- In case of amended invoices, Form GSTR 2A shall show both amendment date and original return filing date which shall help in keeping track of the amended invoices.
- IGST paid on import of goods to be directly flown to the GST portal from ICEGATE (Indian Customs Electronic Gateway) and displayed on the dashboard of the GST portal.
- Auto-calculation of liability in GSTR 3B based on the data furnished in GSTR 1 in order to reduce the chances of difference between GSTR 1 and GSTR 3B.
- Linking of Form GSTR 2A and ICEGATE to GSTR 3B for auto-flow of ITC with the facility to edit the amount at the user's end.
- Delinking of original invoice details with credit and debit notes as well as amendments to credit/debit notes so that the taxpayers are not required to report the original invoice details while filing GSTR 1 and GSTR 6.

It is imperative to note that the relevant notifications and updated APIs to give effect to the above changes is expected to be released soon. Needless to say, these measures would contribute a great deal in easing the compliance burden and will provide much-needed relief to taxpayers.

Slowly and steadily, the government is moving towards its vision of creating a fully automated tax ecosystem, and augmenting trust and transparency among all stakeholders.

Source: economictimes.com– Aug 01, 2020

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Textile units welcome changes in ECLGS

'Many of the medium-sized units will get much needed liquidity support'

Textile units in the region have welcomed the Central government announcement raising the ceiling of outstanding loan limit and turnover for companies to avail of the benefits under the Emergency Credit Line Guarantee Scheme (ECLGS).

Chairman of Apparel Export Promotion Council A. Sakthivel said, "We welcome the decision of the government to increase the outstanding loan limit from ₹ 25 crore to ₹ 50 crore and for raising the turnover criteria from ₹ 100 crore to ₹ 250 crore for availing ECLGS."

Mr. Sakthivel added that, "While more than half of the targeted additional funding is yet to be sanctioned, there are many medium scale industrialists who are bereft of the special financial assistance. The need of the hour is to expand the outstanding loan limit to ₹ 100 crore and there should be no turnover criteria for exporters."

He said that while the turnover of garment exporters may seem large due to foreign exchange rate fluctuations, the thin margin on which they and the seasonal nature of the products make these exporters vulnerable to changes in export orders and delay in shipment, which is clearly evident during the ongoing crisis. They should be able to benefit from the scheme, he said.

According to Prabhu Dhamodharan, convener of the Indian Texpreneurs Federation, it had appealed last month for this much needed change in the scheme.

"With this calibrated intervention, many of the medium-sized units in textile sector will get much needed liquidity support. Being a capital intensive industry , many of our spinning sector companies will be covered under the ECLGS scheme," he said.

Source: thehindu.com– Aug 02, 2020

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'68% of 40K firms at high risk of pay cuts, freezes & lay offs'

What has been the impact of the pandemic and lockdowns on corporate India?

Our study of the top 800 companies (by revenue) from 30 sectors shows their revenue could drop 1517 per cent and Ebitda by 2530 per cent in 202021 (FY21) the sharpest fall in a decade.

The worst revenue decline prior to this has been in the range of 1 2 per cent in FY16 and then in FY20.

However, the lockdown and slow recovery will hurt revenues in the next financial year, too. Utilisation levels, which were low in FY20, will drop anew, leading to amplification of fixed costs.

That would offset the impact of lower raw material prices.

Several companies across airlines, hotels, and commercial vehicle industry may clock operating losses in FY21.

For India Inc, it is urban consumption that will hurt more.

We analysed 40,000 companies in over 55 sectors, with a wage bill totalling ₹ 12 trillion.

The vulnerability assessment using revenue decline from decadal average and key credit matrices indicates 68 per cent of the companies accounting for 52 per cent of the wage bill mentioned are at high risk of pay cuts, recruitment freezes, or layoffs. That´s the kind of risk the pandemic poses.

Sectors like aviation, hospitality, multiplexes, tourism, retail, and real estate, are among the most impacted. How do you expect things to play out for these? What support will they need from the government and banking sector?

CRISIL studied over 100 sectors and subsectors to assess deviation in growth rates from decadal averages and default risks.

It indicates many sectors will see their highest revenue declines compared with the decadal average.

Aviation, hotels, real estate, and media multiplexes are in the highrisk zone.

Commercial vehicles, cars, and auto components firms are also seeing a sharp decline in revenue, but their relatively better credit profiles reduce some risk. Most stakeholders here are expecting some government support over the medium term.

Transport operators may need a onetime restructuring of loans after the moratorium ends to ensure their lower utilisation levels do not translate into defaults.

Realtors may need sops such as developer loan restructuring along with incentives to revive demand.

Till demand recovers, developer loanbook worries will continue.

Airlines would seek excise relief on aviation turbine fuel (currently at 11 per cent) and deferment in navigation and landing fees to improve their shortterm cash flows.

What is the trend on the ratings front? How many companies have become vulnerable?

Our credit ratio in the second half of FY20 was 0.77, meaning downgrades outnumbered upgrades.

The June quarter of FY21 shows material impact of the pandemic with the credit ratio dropping further with far lower upgrades than downgrades.

Timely initiatives taken by policymakers, such as the loan moratorium and change in default recognition, helped.

Firms in sectors such as airlines, gems and jewellery, auto dealers and real estate because of the discretionary nature of their goods and services and weak balance sheets could face considerable credit pressure.

Pharmaceuticals, fertilisers, oil refineries, power, and gas distribution and transmission, because of their essential nature and government support, will continue to be resilient.

From here, three things are critical: demand recovery, regularisation of working capital cycle, and sustained improvement of cash flows and liquidity.

There is much debate on the quantum of contraction in Indian economy in FY21, with some estimates suggesting a decline of over 10 per cent. What is your assessment?

We expect gross domestic product (GDP) to contract by at least 5 per cent this fiscal, and 25 per cent in the June quarter, versus last year. This calculation factors in an additional 1 per cent fiscal support, beyond what has been announced so far.

We will reassess our projections next month, once there is more information on the path of the Covid19 affliction curve and monsoon.

While there is some chatter on recovery, highfrequency data such as Google mobility indicators show that grocery and pharma have recovered the fastest, while retail and recreation haven´t even looked up.

Every sector is still below their corresponding prepandemic levels January February).

Many others as power consumption, eway bill and freight movement below their preCovid or even yearlevels, indicating continuing contraction.

With afflictions continuing to rise, economic activity will remain curbed.

The September quarter would also see one year before a mild recovery begin in the second half of FY21.

Many banks, especially the big private ones, have raised or are raising funds despite having decent amount of capital. Is it an indication that they are preparing for a huge wave of bad loans?

We do expect nonperforming asset (NPA) levels to rise in FY21, especially after the moratorium ends on August 31.

Banks will have to prepare for additional provisioning.

But growth capital won´t be needed much this fiscal.

The capital adequacy ratio of the banking system as of March 2020 was at 14.8 per cent, which is not exactly low. We expect bad loans to rise to 11.5 per cent, compared with 8.5 per cent as of March 2020.

If measures such as onetime restructuring are announced, that will further cushion the rise in NPAs.

Any bright spots and downside risks you see, which the markets or industry may not be prepared for?

Given the demand stress, credit outlook for FY21 is negative with downgrades likely to significantly outnumber upgrades.

Credit quality will be particularly impacted in sectors facing suppressed/subdued demand on account of tightening of discretionary spends.

Some of the critical downside risks can emerge from second wave of spread of the coronavirus.

Even as a few highfrequency data points to some recovery, ASHU SUYASH, MD & CEO, CRISIL, says with afflictions continuing to rise, economic activity will remain curbed.

In an interview to Vishal Chhabria, she says the second quarter would also see yearonyear degrowth before a mild recovery in the second half of this fiscal.

Edited excerpts:

"From here, three things are critical: demand recovery, regularisation of working capital cycle, and sustained improvement of cash flows and liquidity"

Source: business-standard.com– Aug 03, 2020

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Lockdowns bring down Manufacturing PMI to 46 in July

Local lockdowns affected industrial activities as Manufacturing Purchasing Managers' Index (PMI) slipped to 46 in July from 47.2 in June.

Manufacturing has a share of around 15 per cent in India's Gross Domestic Products (GDP). Despite low share, it is considered to be giving maximum employment— directly or indirectly.

The health of the manufacturing sector declined at slightly quicker pace, says IHS Markit. One of reasons could be businesses facing lockdown extension in some parts of the country. IHS Markit tabulates PMI on the basis of responses from purchasing managers associated with around 400 manufacturers.

The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

Commenting on the latest survey results, Eliot Kerr, Economist at IHS Markit, said that this data shed more light on the state of economic conditions in one of the countries, worst affected by the Covid-19 pandemic. The survey results showed the pace of declines picking up in the key indices of output and new orders, undermining the trend towards stabilisation seen over the past two months.

"Anecdotal evidence indicated that firms were struggling to obtain work, with some of their clients remaining in lockdown, suggesting that we won't see a pick-up in activity until infection rates are quelled and restrictions can be further removed. However, on a more positive note, firms remained optimistic, with confidence towards future activity continuing to strengthen during July," he said.

According to the survey results, output contracted at a slightly faster pace than in June, as demand conditions remained subdued with some businesses still closed amid lockdown extensions. Firms responded by cutting both staff numbers and purchasing activity. However, despite the

ongoing negative impact of the coronavirus disease 2019, sentiment towards future activity improved for the second month running.

The survey pointed out that the downturn was partially driven by a further contraction in output. Although far softer than recorded in April and May, the rate of reduction accelerated from June and was sharp overall. Anecdotal evidence indicated that firms pared down production in line with weaker demand conditions.

Subdued demand was evidenced by another marked decrease in new orders placed with manufacturers during July. Similar to the trend for output, the pace of decline accelerated from June, but remained slower than at the height of the current crisis.

Source: thehindubusinessline.com– Aug 03, 2020

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Shortfall in GST collections, transfers to States can turn into a federal crisis

The impact of the virus and lockdown on the economy can be clearly seen in the GST collections, with the first-quarter revenues down 41 per cent over last year, despite signs of an improvement in June, when the lockdown was eased. This has impacted the Centre's revenues as well as GST transfers to the States, which have fallen below the mandated 14 per cent annual growth rate as promised under the GST law for five years, or till 2021-22 (taking 2015-16 revenues of States as the base year).

The States' combined annual expenditure can be expected to be higher than the Centre at ₹35-40 lakh crore, with the size of the Union Budget 2020-21 placed at ₹30.4 lakh crore. Additional health and relief spending by the States amid the revenue crunch has led to the States increasingly getting restive about their share of GST revenues.

The States get nearly half their revenues of over ₹30 lakh crore from SGST (20 per cent) and Central tax transfers (27 per cent), according to assessments made by experts as well as the RBI and India Ratings. If a growth rate of 4 per cent in 2019-20 put paid to a 14 per cent increase in tax revenues, slowing down collections and transfers, the pandemic has created a situation where an absolute drop in collections cannot be ruled out.

Last month, the Centre transferred GST dues for the November 2019-February 2020 period amounting to ₹36,400 crore, leaving the States woefully short of funds amidst the crisis induced by the pandemic. Tax calculations need to be reworked, for which the GST Council must convene at the earliest, with the 15th Finance panel members joining in the discussions.

So far, the Centre and RBI have taken bold reform steps as well as liquidity measures for MSMEs, besides raising the borrowing limits for the States under the ways and means advances window. Now, the Centre must grasp the nettle by squarely addressing the issue of revenue shortfall and its federal implications.

Its bid to impose conditionalities on States for additional borrowings seems contrary to 'cooperative federalism'. The States need fiscal room, as a deep cutback in expenditure can derail growth.

However, it is important for States to accept that the growth assumptions underlying the 14 per cent annual increase in revenues, built into the law, simply do not hold now. They should settle for a lower nominal increase with an extension of the compensation period by a few years.

Instead of a 50:50 sharing of GST revenues, the SGST component can be raised for a few years till the economy overcomes the crisis. A push for infrastructure, with the Centre and States sharing costs and benefits, should act as the driving force for creating a consensus around tax sharing.

Source: thehindubusinessline.com– Aug 03, 2020

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More flexibility for Surat diamond, textile markets but with conditions

Textile markets and diamond units in Gujarat's Surat have been allowed greater flexibility to operate from Saturday on the condition that they will adhere to a set of norms that include mandatory Covid-19 tests for traders and staff, officials said.

Restrictions were imposed on the functioning of the two sectors last month as Surat witnessed a sharp increase in Covid-19 cases over the past few weeks.

As on Friday, Surat has 13,663 coronavirus positive cases.

"As per the SOP till July 31 declared by Surat Municipal Commissioner BN Pani, diamond units in Mahidharpura, Mini Bazar and Choksi Bazar localities could open between 2 pm-6 pm, and only one worker was allowed on a polishing mill," said Dinesh Nevadiya, regional chairman, Gem and Jewellery Export Promotion Council (GJEPC).

From August 1, the markets are allowed to open from 12 noon to 6 pm, and an additional worker is allowed to sit on a polishing mill provided he tests negative in a rapid antigen test conducted at the expense of the diamond units, or has recovered from the infection, Nevadiya said.

Textile markets have been allowed to remain open from 10 am to 6 pm from Monday and Saturday, while they had to follow an odd-even shop number formula with timings set from 10am to 5pm all through July, a Federation of Surat Textile Traders Association (FOSTTA) functionary said.

"The Surat Municipal Corporation has asked all traders and market staff to compulsorily get themselves tested for Covid-19. Markets also have to set up camps for antigen tests at discounted rates," said FOSTTA general secretary Champalal Bothra.

All traders and workers will have to download the Aarogya Setu app, and follow norms like wearing face masks etc, he added.

There are 65,000 textile shops in 185 markets in Surat, employing around 3.5 lakh workers, but hardly 20 per cent shops are currently open as 70 per

cent of labourers have not returned after leaving for their home states during the lockdown, Bothra said.

"Many power looms and textile processing units are also closed for want of labourers," he added.

Source: business-standard.com– Aug 01, 2020

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India's forex reserves at new record high of $523 billion

Forex reserves continued to hit record high levels as they rose by $4.993 billion for the week ended July 24 to $522.63 billion, according to the latest data put out by the Reserve Bank of India (RBI).

Foreign currency assets (FCA), which form a key component of reserves, rose by $3.602 billion to $480.482 billion. FCAs are maintained in major currencies like the US dollar, euro, pound sterling and Japanese yen. Movement in the FCA occurs mainly on account of purchase or sale of foreign exchange by the RBI, income arising out of the deployment of foreign exchange reserves, external aid receipts of the government and revaluation of assets.

Gold rose by $1.357 billion to $36.10 billion. Special drawing rights (SDR) from the IMF increased by $9 million to $1.464 billion while the reserve position in the IMF increased by $25 million to $4.585 billion.

Source: financialexpress.com– Aug 01, 2020

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Cotton season may end with high inventory

The 2019-2020 cotton season is expected to end in September with huge stocks, both with traders and the industry.

Ashwin Chandran, chairman of Southern India Mills' Association, said the country has never had such a high inventory at the end of the season in the recent past. Consumption by textile mills should 80 lakh bales to 100 lakh bales less than the estimate because of the lockdown and fall in demand after that.

The association estimates the closing stock to be 125 lakh-150 lakh bales. The government should come out with special package to incentivise yarn and fabric exports. Only then will demand pick up and cotton consumption increase, he said.

J. Thulasidharan, chairman of Indian Cotton Federation, added that though cotton was a high-risk crop, farmers had increasingly gone in for it in the recent years because of its profitability. With good monsoon this year, cotton production in the next season (October 2020 to September 2021) will also be higher.

The current price of cotton is lower than the MSP for several varieties and the Cotton Corporation of India had purchased substantial quantities. The global prices would be subdued next season as availability globally would also be high.

In such a situation, the coming cotton year would be challenging to stakeholders in the sector. The government should come out with a different system to support farmers and the prices should move according to market demand, he said.

He expects the closing stock to be close to 200 lakh bales.

The Cotton Association of India said in a press release that the carry-over stock at the end of the season would be 55.5 lakh bales. The arrivals from last October to June this year is 327 lakh bales. The association expects that production this season would be nearly 335 lakh bales.

Source: thehindu.com– Jul 31, 2020

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