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The Cotton Textiles Export Promotion Council (TEXPROCIL)
Engineering Centre, 5th Floor, 9, Mathew Road, Mumbai 400004. Maharashtra State. INDIA
W. www.texprocil.org E. ibtex@texprocil.org T. +91-22-23632910 to 12 F. +91-22-23632914

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NEWS CLIPPINGS

INTERNATIONAL NEWS

No deal Brexit may prove to be the final nail in the coffin for European fashion

COVID-19 outbreak and a no-deal Brexit may prove to be a double whammy for the UK fashion industry as domestic brands will face burdensome intellectual property laws and labeling requirements and the exit of the EU preferential trading zone will make nearshoring more expensive.

New for renegotiating supply terms

International brands operating in the UK currently face 8-12 per cent tariffs on their fashion imports while domestic brands face 6 -12 per cent duties, reports Vogue Business. Post Brexit, the government plans to scrap tax-free shopping for international visitors. As per estimates by the British Fashion Council and Oxford Economics, this may result in UK fashion industry's revenue dipping by up to a quarter this year. It may also increase fashion prices across the country, crippling demand further. To avoid significant costs and delay, brands will have to negotiate with material suppliers, logistics firms and customs agents even though it may seem a bit overwhelming given the current economic pressures.

To continue trading with the EU post Brexit, UK brands will need to process new documents and follow new protocols, including obtaining a registration and identification number known as an EORI. Once they have an EORI, they would have to gather the relevant paperwork and forms to move goods across the border. For this, they would also have to collaborate with partners including suppliers and freight companies.

Monitoring contract terms

Besides tariff codes and export documentation, brands would also have to consider diverging rules on data protection, labeling and intellectual property besides checking contracts to ensure that the same terms apply once the UK leaves. Small and medium-sized brands can dampen price-increases by reaching a zero-tariff deal.

To avoid unnecessary transportation of goods, fashion retailers across price points are increasing their share of European warehouse space and directing goods shipped from Asia to Europe. International brands are familiarizing themselves with customs procedure as they are likely have a presence outside Europe in future.

The final straw

In January, the UK government plans to end tax-free shopping that allows tourists from outside EU to claim back 20 per cent of the cost of luxury purchases. This may encourage tourists to choose Paris and Milan over London for their international shopping. Brands may also face a two-delay in getting goods over the border.

Other complications that brands may face include the rules of origin as goods manufactured across the borders of Europe and its Mediterranean neighbors like Morocco, Turkey and Tunisia will no longer be duty-free after entering the UK. To deal with this, brands will have to prepare themselves to face the worst. However, with many companies currently being at a risk of shutting down, Brexit may prove to the final nail in the coffin for European fashion.

Source: fashionatingworld.com– Oct 13, 2020

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UK Plans Tax- and Duty-Free Changes in January

Tax-free shopping in the U.K. is coming to an end on Dec. 31.

The British government is making changes to value-added taxes (VAT) and duty-free shopping that will take effect on Jan. 1. VATs are essentially broad-based consumption taxes assessed on goods and services bought and sold in European Union (EU) countries.

Currently, the VAT Retail Export Scheme allows shoppers to claim back 20 percent of the purchase price that was paid in VAT for goods bought in Britain, provided they are from a country that's not part of the EU. Last month, U.K.'s Treasury department, under the leadership of chief financial minister Rishi Sunak, said that tax-free shopping would end in January. That would make the U.K. the only European country that doesn't offer tax-free shopping.

As Chancellor of the Exchequer, Sunak has oversight of the Treasury, controls public spending, and can raise revenue through taxation. And that's what has some retailers confused because they fear the retail sector will lose revenue as shoppers head to other European countries to do their shopping just as the country will be dealing with the impact of its EU exit. The Treasury has countered that argument by noting that overseas visitors can still get some tax-free advantage when they buy goods in stores and ship them home.

That's not good enough for many in the retail sector. Critics say implementation of the planned VAT changes could result in the loss of 70,000 jobs, and pry 5.6 billion pounds ($7.25 billion) from the U.K. economy. In a signed letter, some retailers petitioned the Chancellor to reconsider the planned policy change.

"The damage will be significantly wider than the Treasury envisages, our luxury goods manufacturing based will be badly wounded and all global brands will half any investment in the UK due to dramatic drop in demand," Neil Clifford, Kurt Geiger's CEO, said in his letter, according to Drapers. He also noted that the impact isn't just in retail stores, but also would affect U.K. hotels, restaurants and theaters if they were to go elsewhere. Clifford said his company was planning about 500 job cuts early next year, or 25 percent of its workforce.

And Selfridges' managing director Anne Pitcher told the Daily Mail that the end to tax-free shopping was "another nail in the coffin" for city center retailers still reeling from the coronavirus lockdown as they try to lure back shoppers. "This should have been a golden opportunity to make Britain one of the most desirable countries to visit. Instead, with a single swipe, the government has taken more than 20 billion pounds ($25.88 billion) of opportunity from the economy," she told the publication.

While Covid-19 has certainly impacted the U.K. economy, Brexit ignited much of the current uncertainty. Fiscal stimulus has helped to keep momentum going following the initial Covid-19 outbreak, and a slight rebound in retail sales was just starting to take hold. August retail sales volumes rose for the fourth consecutive month in August, although apparel stores were still 15.9 percent below February's pre-pandemic levels. However, that recent rebound is now threatened by a second wave of Covid-19 cases, according to Nick Bennenbroek, international economist at Wells Fargo Securities.

"More fiscal stimulus would help keep economic momentum going. Although, there are signs that the U.K. government is softening its position on winding down much of the economic support enacted in the spring. In our view, fiscal polity is, at best, likely to exert a neutral impulse to economic growth going forward," Bennenbroek said.

As for duty-free changes, British passengers traveling to EU countries can still buy duty-free goods in British ports, airports and international train stations, as well as aboard ships, trains and planes. And the allowance for duty-free alcohol, tobacco and other goods brought in by passengers from non-EU countries will be increased and extended to EU countries, according to the Baker & McKenzie law firm.

Source: sourcingjournal.com– Oct 14, 2020

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E-Commerce Sales to Jump 25% in 2020, Shatter $1 Trillion by 2023

The Covid-19 pandemic has driven scores of shoppers online this year, and now one consulting firm is anticipating that digital sales will climb as much as 25 percent year over year in the U.S. to $748 billion. That would mark the strongest growth for e-commerce since 2006 and far surpass FTI Consulting's pre-pandemic forecasts of $677 billion.

FTI's forecast projects that e-commerce sales will reach $1 trillion by 2023, a year earlier than last year's outlook. Total online market share is projected to reach 27 percent by 2025 and 33 percent by 2030, compared to 19.2 percent in 2020.

In the long run, FTI projects total online market share to reach 33 percent by 2030 and 39 percent by 2040, with the ultimate ceiling for online market share now approximately 500 basis points (five percentage points) higher than the firm's pre-Covid model estimate.

Additionally, the FTI forecast projects online's market share of total retail sales to increase by 350 basis points (3.5 percentage points) in 2020, more than double its annual market share gains in recent years. This market share pickup represents an incremental gain of nearly 220 basis points (2.2 percentage points) in 2020 compared to FTI's pre-Covid model.

Online market share gains had consistently ranged from 125 to 140 basis points annually for the past few years, so 2020 represents an outlier year, representing nearly three years of market share gains in a single year.

Overall, 80 percent of shoppers said they more likely to shop online this year relative to last year, according to FTI's Holiday Gift Giving Survey. Moreover, consumers plan to spend a larger percentage of their overall holiday shopping budget online compared to prior years.

"Covid-19 has impacted our everyday lives in profound ways, and it has accelerated trends already in place," said Christa Hart, a senior managing director in the retail and consumer products practice at FTI Consulting. "This year, we have seen a surge in online commerce and a quickened pace of retail store closings throughout the country due mostly to forced adoption or further adoption of online shopping by housebound consumers. Even when Covid-19 subsides and more normal lifestyles can resume, this historic event likely has permanently changed the ways in which we choose to shop for various goods."

EMarketer has offered more conservative, but still notable 2020 U.S. e-commerce growth projections, with anticipated jumps of 18 percent to $709.8 billion, while the firm anticipates that brick-and-mortar retail sales will experience a historically significant decline of 14 percent to $4.2 trillion. Total retail sales will not rebound to 2019 levels until 2022 and estimates throughout the forecast period will be lower than previously predicted, eMarketer said. The company's latest forecast on U.S. retail sales, which does include automotive and fuel, indicated that total retail sales will drop by 10.5 percent this year to $4.89 trillion. On a similar note, Forrester Research expects online retail to grow by 18.5 percent in North America throughout the year, but its total sales decline projections weren't as negative, reaching 2.5 percent for the full year.

Either way, the increase in online spending will spark back-end fulfillment investments, particularly as warehouses continue to feel the heat of blossoming e-commerce sales, which are expected to surge throughout the holiday season. Robotics company Kindred, which reports that its installed fleet of its AI-powered Sort robots has picked 100 million retail units since launching in 2017, said fourth quarter 2020 AI data shows its e-commerce customers have increased the unit volume they process with Sort picking robots by 244 percent year-over-year. Throughout 2020, the pick-and-place robots have increased picked units by 50 percent quarter-over-quarter, demonstrating the substantial momentum e-commerce retailers have gained since the beginning of the Covid-19 pandemic.

Both Gap and American Eagle are among apparel retailers that have heavily increased their adoption of the robots this year.

J.D. Wichser, leader of the retail and consumer products practice at FTI Consulting, noted that the pandemic created a new "marginal consumer," whose shopping habits have been transformed by access constraints and safety concerns. Wichser predicted that the industry will continue to see shoppers opting out of traditional brick-and-mortar retail and pivoting to online.

However, FTI predicts that annual sales growth similar to 2020 is highly unlikely going forward. Annual online retail sales growth will decelerate to low double-digit rates over the next several years, according to the forecast. Annual online sales growth will fall sharply next year to 11.5 percent given the challenging comparisons to 2020, and thereafter will revert towards a pre-pandemic sales growth trajectory.

The pandemic is expected to significantly alter the traditional holiday shopping season this year, starting with Amazon's Prime Day, with more consumers anticipated to start their peak shopping earlier. In fact, a Listrak survey indicated that as many as 35 percent of shoppers said would start as early as October, with that number jumping to nearly 50 percent, according to Affirm.

Source: sourcingjournal.com– Oct 14, 2020

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Sri Lanka's merchandise exports surpass $ 1 billion for the third time in September 2020

Sri Lanka's merchandize exports have surpassed the $ 1 billion mark for the third time this year in September after July, the Export Development Board said in its monthly report.

"I am extremely pleased to see $1 Billion of exports in September. I salute the entire export community, our resilient businesses and all employees in the export sector for this remarkable performance," the EDB Chairman

Prabhash Subasinghe said expressing concern over the resurgence of COVID-19 in the country.

“It is the 3rd time this year we have seen a year on year increase of merchandise exports. However, we are concerned about the recent escalation of COVID-19 in Sri Lanka but hopeful of a swift recovery and a stable level of business continuity. Our businesses must continue to be resilient whilst facing the unknown and must have strong COVID-19 preventive measures in order to bring in the much-needed foreign currency for Sri Lanka.”

As per the Customs statistics, earnings from merchandise exports recorded a positive growth of 5.16% in September 2020 to US$ 1,001.27 Million as compared to the value of US$ 952.1 Million recorded in September 2019.

This strong performance is consistent with the gradual lifting of restrictions due to Covid 19 pandemic within the country and globally.

Increases in exports were recorded as; Europe Region (20.19%), CIS Countries (19.59%) and African Region (56.4%) in September 2020 compared to September 2019.

Moreover, earnings from merchandise exports in September 2020 increased by 5.65 % compared with the value recorded in August 2020.

Export Performance of Major Sectors in September 2020

Export earnings from Apparel & Textiles declined by 3.75 % to US$ 431.87 million during the month of September 2020 compared with US$ 448.68 million recorded in September 2019. In parallel, 1.48 % decline recorded in September 2020 in comparison to August 2020. Despite the decline in the sector, earnings from exports of made-up textiles & other textiles increased by 88.86% and 49.24% respectively in September 2020 in comparison to September 2019.

Export earnings from tea in September 2020 which made up 12% of merchandise exports increased by 3.3 % y-o-y to US$ 113.99 million but the export volume was decreased by 2.82 % in September 2020 compared to September 2019. In addition, export earnings from tea recorded 10.7% increase in September 2020 in comparison to August 2020. The expansion was mainly due to higher demand for tea from Turkey, Russia and Chile.

In addition, Export earnings from Rubber & Rubber finished products have increased by 10.54 % y-o-y to US$ 80.01 million in September 2020 due to the better performance in exports of Pneumatic & Retreated Rubber Tyres & Tubes (5.19%), Industrial & Surgical Gloves of Rubber (22.7%) and Gaskets, Washers, Seals etc. of Hard Rubber (11.74%). However, exports of Rubber Plates, Sheets Rods of Vulcanized or Unhardened Rubber and Hygienic or Pharmaceutical Articles have decreased by 12.56 % & 30.77 respectively in September 2020 in comparison to September 2019.

Earnings from all the major categories of Coconut based products increased in September 2020 compared with September 2019. Earnings from Coconut Oil, Coconut Milk Powder, Coconut Cream and Liquid Coconut Milk categorized under the Coconut Kernel Products increased by 122.94%, 3.64%, 87.57% and 130.48% respectively in September 2020 compared with September 2019. Being the largest contributor to Coconut based sector, Coco Peat, Fiber Pith & Moulded products which categorized under the Coconut fibre products increased by 28.23 % to US$ 13.4 million in September 2020 in comparison to September 2019. Earnings from Activated Carbon, which categorized under the Coconut shell products increased by 19.22 % in September 2020 compared to September 2019.

Export earnings from Spices and Essential Oils have increased significantly by 24.14% to US$ 38.93 million in September 2020 compared with the value of US$ 31.36 million recorded in September 2019 with significant increase in export of cinnamon (50.06%).

Meanwhile, earnings from export of Electrical and Electronic Components (EEC) increased by 13.42% to US$ 37.01 million in September 2020 in comparison to September 2019. Also, earnings from export of EEC increased by 12.39% to US$ 37.01 million in September 2020 compared with August 2020. Export of Switches, Boards & Panels increased by 38.06% in y-o-y to US$ 4.97 million in September 2020 and export of other EEC products increased by 16.61 % in y-o-y to US$ 19.24 million in September 2020.

Click here for more details

Source: colombopage.com– Oct 14, 2020

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After Decades of China Dominance, Sourcing Seeks a New Way Forward

As the world continues to reel from myriad challenges, one wonders if the events of 2020 will read, in future history books, like a dystopian drama.

A global pandemic has managed to dismantle supply chains and deflate consumer confidence. And even though some stir-crazy shoppers are now eager—after so many months at home—to part with a few dollars for a pick-me-up, the contagion's unabated spread has made it impossible for the retail sector to return to business as usual.

Stores and shopping centers, for the most part, remain deserted. And though e-commerce has accelerated tremendously, the uptick in online orders has still fallen far short of what many legacy businesses need to survive.

This year represents an inflection point for the industry, with the word "unprecedented" being thrown around liberally. But the problems that plagued apparel's sourcing sector began long before the globe became familiar with the term, "coronavirus."

Over the past two years, tariffs on goods from China have forced the U.S. apparel businesses to reexamine their dependence on the country. Rising labor costs, currency devaluations and rumblings about human rights abuses have also presented unfavorable conditions for healthy trade, and brands have been slowly, through necessity, engaging partners elsewhere.

What's more, the ethos of the fashion industry is changing—and not in China's favor. Its massive capacity and unending supply helped the country burgeon into a hub for fast fashion, but disposable clothes are quickly going out of style. While the region has the ability to produce just about anything, from luxury goods to mass market wares, a Made in China tag still carries unfavorable implications.

The stall and restart cadence of 2020 has shone a light on some harsh truths, according to Munir Mashooqullah, founder and chairman of global sourcing firm Synergies Worldwide. Even after normal trade resumes, sourcing is unlikely to return to the status quo, he told Sourcing Journal. "I don't want to say never, but the possibility of that happening is very low," he said.

China has been dealt a handful of blows, he added, citing the continued trade war, currency issues, and of course, the Covid crisis that began to radiate outward from Wuhan in January, eventually infecting the globe. "Naturally, when a country is facing all these headwinds, your interest and investment is going to be diluted," Mashooqullah added.

Synergies has both factories and offices in China, and Mashooqullah said he's seen an uptick in interest from brands and fashion firms looking to stake out new relationships or further diversify away from the country. "Movement has accelerated," he stated. Synergies is in a unique position to observe these trends as it also has factories in nine other countries, including key players like Bangladesh, India, Pakistan, Portugal, Turkey and Cambodia.

Mashooqullah believes that China's reign as a singular sourcing superpower is over. And contenders for the giant's business aren't just waiting in line for a piece of the pie—they're actively digging in.

Bangladesh and India are emerging as leaders in unstructured casual clothing, denim and children's wear, while Pakistan has cornered the market in popular fleece styles. Vietnam's technical skill is nearly unrivaled, with an ability to produce highly sophisticated synthetic performance products, Mashooqullah said. Still, the country imports more than half of its raw materials and inputs from outside markets, including China, making it tough to verticalize operations.

Some suppliers based in China and Hong Kong heard the canary in the coal mine years ago, and have worked to set up factories in these other locales to circumvent tariffs and tap into different skill sets. And brands have since followed, Mashooqullah said. "I think the departure to other countries with Chinese expertise has already happened."

Hong Kong-based multicategory supplier Lever Style has employed such a tactic, seeking to diversify its own sourcing operations so that its clients don't have to. According to executive chairman Stanley Szeto, the optimal supply chain is a network of strategic sourcing partners, each equipped with unique capabilities spanning a range of product categories.

Lever Style, which once served retail stalwarts like J. Crew and Banana Republic, has evolved its strategy in recent years. It now focuses on direct-to-consumer brands, which Szeto believes to be the business model of the future. When the firm went public in fall of last year, one of his stated goals was to focus on the acquisition of smaller, more categorically diverse suppliers to better serve these specialty startups.

“We’ve been trying to be as flexible as possible for our clients, and that’s why we have factories all over the place,” Szeto said, adding that Lever Style operates on an asset-light strategy with quick turns and low minimum order quantities—all key qualifiers for DTC clients like Stitch Fix, Bonobos and Everlane.

“Before the trade war, China was by far our largest production base,” he added, but now Vietnam is larger, accounting for about half of Lever Style’s production. In July, the firm acquired Vista Apparels, a China-based knitwear supplier that specializes in sweaters, with the intent to bring those operations to a new factory in Vietnam. And in August, Lever Style bought Hong Kong’s Liwaco Overseas Marketing Limited, a technical outerwear company responsible for the high-performance gear sold by brands like Mammut and Helly Hansen.

Operational diversification makes Lever Style a one-stop shop for its customers, who can work with the company on the creation of all types of garments without worrying about managing multiple downstream relationships. “Whenever they have to find a new supplier and onboard them, it’s actually very cumbersome,” Szeto said. “And that’s why the narrower the sourcing base that our clients have, the better off they are. They can more focus on the front end, and what they’re good at.”

Szeto believes that having factories in multiple markets also reduces the risk for brands. “By working with us, they’re not putting all their eggs in one basket in terms of a single factory and a single country,” he said. Lever Style, he added, can shift manufacturing amongst its factories “as the winds blow.”

“If, let’s say, Donald Trump tomorrow says we’re going to slap tariffs on Vietnam,” Szeto theorized, referencing the United States Trade Representative’s recent announcement that it would be investigating the country on charges of currency manipulation, “we can move operations for our clients.” Lever Style’s growing network of factories and materials suppliers is designed to allow the company to react to shifts in trade relationships quickly, without disrupting production.

Speed and versatility are paramount, especially set against the uncertain backdrop of a Covid-ridden world. As the fashion industry marches forward into the unknown, Szeto believes brands will increasingly rely on "test-and-react strategies" where trends are vetted swiftly and fast reorders are key.

"Some manufacturers will adapt to the new quick-turn, high-mix-low-volume demands from brands," he said. "Others may let companies like ours take over their businesses so we can do the hard work of transformation."

Large-scale denim manufacturer Saitex is in the midst of just such a metamorphosis, according to founding CEO Sanjeev Bahl. "People lose business quite frequently because of this nonsensical system we have," Bahl said, referring to the longstanding reliance on high minimum order quantities, long lead times and strict seasonal calendars. "These are all antiquated."

"We thought, 'Let's try and create a speed-to-market model that is totally integrated,'" he added. The Vietnam-based B Corp has recently verticalized its operations in the country by setting up its own denim mill, lending speed and agility to its processes, and providing traceability from a materials perspective.

"Being a factory in Vietnam didn't cut it," Bahl said, as he felt constrained by mill partners' limitations. "There's no transparency, there are quality issues, and there are pricing constraints because there's nothing you can do about the material cost."

Owning its own mill allows Saitex to streamline production, testing fabrics for shrinkage, double-checking measurements, and creating optimal washes "in-house."

Saitex has also been laying the groundwork for its first Los Angeles factory, set to be up and running sometime in Q4. Closer to the company's U.S. brand partners and their target market, Bahl sees the outpost as a "factory of the future," containing all of the robotics, artificial intelligence and digitized technology he's employed in his Vietnam operations. The factory's initial output will be about 600,000 units per year, though he hopes to see it churn out more than one million at peak capacity.

The L.A. factory will enable American brands to re-up on successful styles during the selling season—a feat that's nearly impossible within the confines of the traditional fashion supply chain, and one that Zara has employed with reported success. According to Bahl, if a brand wants more units of a denim style that's flying off the shelves, they have to coordinate with their mills, trim suppliers and manufacturers to rush the order. It's a costly process, and the goods often arrive too late.

Saitex's L.A. operations will help brands test styles with small quantities of product, and then re-order their top sellers in time to fulfill demand. "If you're launching a new style, you could have a read on it super fast," he said. "It's about getting a good handle on a product before you commit to inventory and take risks, and you have the ability to chase so you don't lose out on dollars." Brands are also less apt to be left with excess inventory ripe for markdowns.

Source: sourcingjournal.com– Oct 14, 2020

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Bangladesh RMG exports to non-traditional markets decline

According to Export Promotion Bureau (EPB), Bangladesh's RMG exports to tis non-traditional markets maintained negative growth during the first quarter (Q1) of the current fiscal year (FY).

According to industry people, Australia, Brazil, Chile, China, India, Japan, Korea, Mexico, Russia, South Africa and Turkey are the 11 prospective markets beyond the three traditional export destinations, namely, the USA, European Union and Canada.

Exports of both knit and woven items to the non-traditional destinations declined by 8.33 per cent to $ 1.24 billion in Q1 as compared to $1.36 billion in the corresponding period of the last fiscal. Exports to Brazil, Chile, China, India, Japan and Mexico declined by 26.88 per cent, 18.37 per cent, 34.35 per cent, 43.50 per cent, 10.93 per cent and 25.72 per cent respectively in the July-September period.

Exports to Australia, Korea, Russia, South Africa and Turkey, however, increased by 8.28 per cent, 9.22 per cent, 41.69 per cent, 4.19 per cent and 47.74 per cent respectively during the period. The RMG shipments to the US witnessed a rise by 5.98 per cent to $ 1.58 billion during the Q1.

Source: fashionatingworld.com – Oct 14, 2020

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NATIONAL NEWS

India's successful journey to self-sufficiency in PPE kits

The AtmaNirbhar Bharat (Self-Reliant India) mission was launched as a result of a crisis caused by the Covid-19 pandemic. The Government of India (GoI) had set out on a daunting path of turning a crisis into an opportunity. Nevertheless, the nation proved that it is possible. The successful development of an indigenous supply chain of Personal Protective Equipment (PPE) kits in mere 60 days is an example for local manufacturers that self-reliance in a high-quality product is an achievable goal.

When the virus reached India on 30th January, local manufacturers did not have the capability to produce PPE kits like body coveralls, which are required during pandemic situation and classified as class-3 protection level under ISO 16603 standard. India was entirely dependent on imports, so another crisis in the form of export restriction of essential medical supplies around the globe worsened the health crisis. In March, Niti Aayog estimated that that we would need 20 million PPE kits and 40 million N-95 masks, which translated to 20,000 PPE kits and 400,000 h-95/FFP-2 class masks per day by July.

With zero capacity and only few days to spare, the government faced an uphill task to ensure the safety of the people and the healthcare staff including doctors, nurses and paramedical staff.

The GoI played a critical role in the journey. To begin with, a virus spreading at an exponential rate meant that the healthcare sector could collapse under shortage of class-3 PPE kits, so the decisions had to be made soon and with minimal errors. It began with planning, which involved a joint study by Ministry of Health and Family Welfare (MoHFW) and MoT undertaken in February-March for understanding the gaps in the existing infrastructure, resources, and overall, for end-to-end production, testing, and packaging of the PPE kits as per the WHO quality standards. Both textile and healthcare industry experts were involved along with industry associations and major manufacturing companies in India, with the GoI at the helm.

Another challenge was the quality of the PPE kits manufactured, which had to comply with the stringent quality standards. The pilot run in the planning stage revealed that a majority of local manufacturers were not able to produce the right fabric to withstand Synthetic Blood Penetration Test in accordance with ISO 16603:2004 (Class-3 exposure) specifications. The South India Textile Research Association (SITRA), a textile research organization was instrumental in testing samples during the pilot run. By 22nd March 2020, test samples of only four manufacturers could pass the test, thus preventing the initiative from scaling up. This led to another bold decision, launch of “Operation PPE Coverall” by MoT on 24th March, the same day the nationwide lockdown was announced.

The next step of capacity building process was itself a herculean task which coupled with another challenge in the form of the lockdown. SITRA was the only lab conducting tests, so before scaling up manufacturing, MoT and MoHFW focused on setting up a network of testing labs across the country. Amidst the lockdown, on 8th May, it was reported that seven more NABL-accredited laboratories besides SITRA have been approved for testing PPE Coveralls. Building up a network of labs ensured efficient testing of PPE kits across India and reduction in post-production timeframe involved in testing, clearance, and dispatch of the PPE kits.

MoT and MoHFW then focussed on developing a PPE supply chain, getting special approvals and clearances for coverall and fabric manufacturers, facilitating inter-state logistics, streamlining international coordination, and enabling round-the-clock support to the manufacturers on operational issues. The process required immense coordination between manufactures and suppliers at different levels of the supply chain, testing laboratories, regulatory authorities and other relevant institutions. There were regulatory roadblocks, operational issues, information gap, along with heightened logistical issues thrown into the mix owing to the lockdown.

The concerted efforts by the MoT and MoHFW ensured that these gaps were plugged. For example, to bridge the information gap, the GoI involved DRDO, Alternative Energy Promotion Centre (AEPC), and Bureau of Indian Standards (BIS) and Confederation of Indian Industries (CII) to disseminate the important information about quality, processes and ways of addressing technical and resource issues. They also brought on board leading manufacturers like Aditya Birla to share their expertise. Through coordinated effort, the GoI was thus able to develop the business ecosystem where local manufacturers could be guided by bigger players in the market and industry associations. This was one of the many tasks facilitated by the GoI through five groups constitutes to oversee five different aspects of capacity building.

In addition, the GoI also constituted an empowered committee to manage the operational challenges and for facilitating the availability of time-critical medical supplies. The Cabinet Secretary also monitored all the challenges and issues and addressed them in a time-bound manner.

The whole process demonstrates the role of the government as a facilitator, which involved extra-ordinary leadership, a major part of which played out in the ground-level execution. The success was driven by the single-minded focus of the MoT and MoHFW, commitment of all stakeholder from the top to bottom and a steady monitoring of the scope of the initiative, the limited time frame and the quality of the PPE kits. In this way, an importer country of high-quality products was able to transform itself into a self-sufficient country in manufacturing of PPE kits that complied with WHO quality standards. In fact, India has been able to achieve this milestone in a matter of 60 days from the launch of Operation Coverall.

As of 12th May, India was manufacturing 200,000 units of PPE Body Coveralls and 200,000 units of N95 masks on a daily basis. In July, India's indigenous supply of PPE kits had exceeded the domestic demand and it exported 23,00,000 personal protection equipment (PPE) to the US, the UK, Senegal, Slovenia, and UAE. India was thus able to transform from an importer country to a self-sufficient one and later an exporter country in PPE kits.

Thus, the concerted efforts of the government, businesses and multiple stakeholders turned this crisis into a golden opportunity for indigenous manufacturers. This successful journey has become an inspiration for other indigenous manufacturers, and the AtmaNirbhar Bharat mission is there to support these manufacturers to act on their aspirations. The government has set out on a war-footing to make India self-reliant as well as a global supplier. Now, the way forward is for other sectors to replicate this success story.

Source: economictimes.com– Oct 14, 2020

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All four labour codes likely to be made effective from April 1

Draft rules for three codes to be made public next month

The government intends to implement all the four labour codes from April 1. These four codes will subsume all existing 29 Central labour laws.

The four codes are — Industrial Relations Code, Code on Occupational Safety, Health & Working Conditions Code (OSH), Social Security Code and Code on Wages. Though the fourth Code was enacted and rules finalised last year, however since all are interconnected, so it has been proposed to implement all the four together.

“We hope to finalise rules for remaining three codes during last quarter of FY 2020-21,” Labour Secretary Apurva Chandra told reporters here. There are some rules to be framed by the Centre while some are to be formulated by States.

“We have written to all the States to finalise rules on their part,” he said.

45 days for feedback

The Centre will publish draft rules on its part during second half of next month. Then 45 days will be given to stakeholders to give their feedback. Based on the feedback and if required large stakeholder consultation, rules will be framed accordingly. There are indications that some rules could be notified earlier and some later depend upon how States proactively work for finalisation of rules on their part.

These codes have already been enacted after passed by Parliament and accented by the President earlier this month.

Ease of doing business

The government hopes that these new laws will facilitate ease of doing business and boost investment. These will establish transparent, answerable and simple mechanism reducing to one registration, one licence and one return for all codes, Labour Ministry had said after passage of there codes in Parliament.

The OSH Code (operational safety and health) envisages safe working environment for workers especially women. An effective dispute resolution mechanism is being ensured through Industrial Relations Code providing for time-bound dispute resolution system in every institution. The Social Security Code provides a framework to include organised and unorganised sector workers under the ambit of comprehensive social security. It also contains provisions relating to EPFO, ESIC, building construction workers, maternity benefits, gratuity and social security fund for unorganised sector workers.

For the first time in the OSH Code, annual health check-up has been provided for workers above a certain age. It also provides for the payment of at least 50 per cent of the penalty imposed on an employer for injury or death at the work place, to the aggrieved worker, in addition to other benefits. With all these provisions, an effort has been made to give workers a safe working environment. A provision has been made that women can work in any type of institution at night as per their choice.

Thee government claims that fixed term employees' service conditions, salary, leave and social security will also be the same as a Regular Employee. In addition, fixed term employee has also been given the right to pro-rata Gratuity. As far as raising the threshold in retrenchment, closure or lay-off in the IR Code from 100 workers to 300, it says labour is the subject of concurrent list, and the concerned state governments have right to change the laws. He informed that as many as 16 States, using this right, have already increased this limit.

Source: thehindubusinessline.com– Oct 14, 2020

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Will growth rebound in India in FY22?

India may see a sharp recovery in economic activity in 2021-22, but the prospects for the current fiscal remain subdued and highly uncertain after the International Monetary Fund and the Reserve Bank of India forecast a sharp contraction in GDP this fiscal.

In its World Economic Outlook, the IMF has said the Indian economy is projected to contract by 10.3 per cent in 2020 before rebounding by 8.8 per cent in 2021.

"Revisions to the forecast are particularly large for India, where GDP contracted more severely than expected in the second (June) quarter," it noted.

Second revision

For India, this is the second downward revision by IMF after it cut its April forecast of 1.9 per cent to a 4.5 per cent contraction in June for 2020-21. "Second quarter GDP was weaker than projected, for instance, where domestic demand plunged following a very sharp compression in consumption and a collapse in investment (such as in India), where the pandemic continued to spread (such as in Mexico)...," the IMF report noted. This comes on the back of the RBI's forecast of a 9.5 per cent contraction in real GDP growth, with risks tilted to the downside in the current fiscal, although it expects growth to come back out of contraction mode by the fourth quarter this fiscal.

"Real GDP growth for the first quarter of 2021-22 is placed at 20.6 per cent," said the resolution of the Monetary Policy Statement. The World Bank has projected a 9.6 per cent decline in economic growth this fiscal for India followed by 5.4 per cent positive growth in 2021-22.

A number of other agencies are also likely to review their growth projections for the economy for this fiscal year. "We would also be reviewing our estimate of -8 per cent to - 8.2 per cent in the light of the views expressed by various agencies, including the RBI," said CARE Ratings.

More clarity is likely when the Central Statistics Office releases its second quarter GDP data next month.

No clear picture

However, almost all analysts say that getting a clear picture of economic growth for next fiscal or beyond is difficult, given the uncertainties surrounding the Covid-19 pandemic, vaccine availability and further lockdowns.

The IMF expects global economic recovery to strengthen in 2021 to 5.2 per cent from a contraction of 4.4 per cent in 2020. But it expects growth to gradually slow to about 3.5 per cent into the medium term.
"This implies only limited progress towards catching up to the path of economic activity for 2020-25 projected before the pandemic for both

advanced and emerging market and developing economies," the report noted.

Further, in what could lead to significant concerns for India, the IMF report has also noted that the pandemic will reverse the progress made since the 1990s in reducing global poverty.

"...close to 90 million people could fall below the $1.90 a day income threshold of extreme deprivation this year," it has warned.

Source: thehindubusinessline.com– Oct 14, 2020

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DGFT issues Trade Notice for Electronic filing and Issuance of Preferential CoO for India's Exports

The Director General of Foreign Trade (DGFT) issued Trade Notice for Electronic filing and Issuance of Preferential Certificate of Origin (CoO) for India's Exports under GSP, GSTP, India-Malaysia CECA, India-Singapore CECA with effect from 15th October 2020.

The trade notice issued by DGFT informed that the electronic platform for Preferential CoO is being expanded to add four more FTAs/PTAs to facilitate electronic application of CoOs. The e-platform has been designed as a single-point access for all FTAs/PTAs, all designated CoO issuing agencies and for all export products, and is accessible at the URL, https://coo.dgft.gov.in. It may be noted that the CoO for exports from India under following FTAs/PTAs are already being applied and issued through the e-platform.

To further this trade facilitation initiative, the Preferential Certificate of Origin for exports to various other countries under the four trade agreements namely, Generalized System of Preferences (GSP); Global System of Trade Preferences (GSTP); India Malaysia Comprehensive Economic Cooperation Agreement (IMCECA); and India Singapore Comprehensive Economic Cooperation Agreement (ISCECA) shall also be applied and issued from the CoO e-platform with effect from 15th October 2020. The trade notice further clarified that CoO applications for exports under GSP may also be submitted through e-CoO platform with effect from 15th October 2020.

However, the earlier procedure of submitting the manual CoO applications (under GSP) physically to the designated issuing agency shall also be in operation. There shall be a transition period of 3 months when both the online and the physical process shall be operated.

“Manual submission of GSP CoO applications is accordingly allowed to continue up to January 14, 2021 or until further orders,” DGFT notified. The notice informed that for the applications under the FTAs/PTAs, the e- CoO system shall generate all the existing set of CoO copies along with an additional copy i.e. electronic copy. The electronic copy shall bear the image signature of the officer and stamp of the issuing agency.

“The exporter may however get the remaining copies duly ink-signed by the issuing officer with the stamp from the designated issuing office. The copies of the CoOs issued may be collected by post or in person, for any submission to the FTAs/PTAs partner countries authorities,” the notice said. The notice directed the Exporters to take note of the additional points with regard to the process being notified. Firstly, digital Signature Certificate (DSC) would be required for the purpose of electronic verification.

The digital signature would be the same as used in other DGFT applications. Secondly, the digital signature may be Class II or Class III and should have the IEC of the firm embedded in the DSC. Thirdly, any new applicant exporter would be required to initially register at the e-platform. The password would be sent on the email and mobile number of the IEC holder.

In case the IEC holder desires to update their email on which communication is to be sent, the same may be done by using the ‘IEC profile Management’ service on the DGFT website https://dgft.gov.in. Lastly, once registration is completed, the IEC branch details would be auto-populated as per the DGFT-IEC database. Applicants are required to ensure that updated IEC details are available in the DGFT system. Necessary steps may be taken to modify the IEC details online, whenever required.

Source: taxscan.in– Oct 14, 2020

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India's export opportunities could be significant even in a post-COVID world

India's intellectual and policy community has embraced atmanirbharta. This inward turn — actually return — amounts to abandoning two core principles of the post-1991 consensus: Export-orientation on the macro-economic side, and slow but steady liberalisation on the trade side. Is the inward turn strong? Is the underlying diagnosis-cum-prognosis correct? Will it work? Based on new research, our simple answers are, respectively: Yes; no; and not really.

Let's start with some key facts. The inward turn is most evident in trade policies aimed at promoting domestic manufacturing. Leaving aside the spate of China-related restrictions, tariffs have been increased substantially, trade agreements have been put on hold, and a spate of production subsidies are being offered.

Between 1991 and 2014, average tariffs declined from 125 per cent to 13 per cent. However, since 2014, there have been tariff increases in 3,200 out of 5,300 product categories, affecting about $300 billion or 70 per cent of total imports. The average tariff increased from 13 per cent in 2014 to nearly 18 per cent. The largest increases occurred in 2018 when tariffs for nearly 2,500 product categories were increased, amounting to nearly 4 percentage points. Tariff increases have been greatest in low-skill manufactured imports and cell-phone assembly, amounting to 10-15 percentage points.

The inward turn is based on three misconceptions of diagnosis and prognosis. First, the perception is that India's growth success since 1991 has not really been based on exports and certainly not on manufacturing exports. This is wrong. India has been a model of spectacular export success and an exemplar of export-led growth.

Between 1995 and 2018, India's overall export growth (in dollars) averaged 13.4 per cent annually, the third best performance in the world amongst the top 50 exporters. Most strikingly, India's manufacturing exports (in dollars) — for long considered India's Achilles Heel — grew on average by a whopping 12.1 per cent, the third-best performance in the world, and nearly twice the world average (Figure 2). Only China and Vietnam surpassed India.

These exports made a substantial contribution to the overall GDP growth. In each of the three decades since the 1990s, exports contributed about one-third of overall growth. As a result, India's export-GDP ratio is currently 20 per cent, more than twice as high as in the early 1990s, despite the post-global financial crisis (GFC) slowdown. Thus, an export slowdown today is likely to have a more consequential impact on the overall economy. Every 5 per cent of the export growth foregone will shave off 1 per cent in overall GDP growth.

The second is a pessimistic prognosis about India's future exports. This overlooks key facts. Export pessimism is based on expectations of deglobalisation abroad and weak performance at home. But India can gain market share even in a deglobalising world. Consider the numbers. India's manufacturing exports account for 1.7 per cent of the world's which is less than Vietnam's. Even if India's exports grow three-to four times as fast as the world exports, it would gain only a few percentage points of the global market share after 10 years. China's secular ceding of low-skill export space provides further opportunity. This is one of the virtues of past under-performance: The future can be more accommodating to India and less intimidating for the world.

This possibility is not just hypothetical. It is exactly what India did after the global financial crisis. In the 2010s, world exports were stagnant and yet India's exports grew by about 3 per cent. This was true in both manufacturing and services.

The lamentation about deterioration in export performance in the 2010s (especially post-2014) is ironic given that it was partly self-inflicted. It was caused by a domestic anti-export policy, including a sharp exchange rate appreciation of 20 per cent, reputational damage that undermined pharmaceutical exports, and a social policy — on livestock — that affected agricultural exports. Not only did India's exports hold up as global trade collapsed, they could have held up even more had domestic policies not been so inimical.

The real prize that India should aim for is the large unexploited opportunity of unskilled labour exports — around $140 billion which we discuss in our second column. The other under-recognised opportunity is in services. The post-global financial crisis era witnessed de-globalisation of world trade in goods but globalisation continued apace in services. World exports of goods peaked just prior to the GFC at about 25 per cent, declining to about 21 per cent in 2019. However, world exports of services which reached 6.5 per cent in the GFC, took a hit, but have since steadily risen to about 7 per cent.

COVID could even create an upside potential to globalisation. Consumption and production activities that require close physical contact will fare worse. The flip side is that activities that can be done at a distance — and tradable services are exactly that — could benefit enormously. If so, they could play to India's comparative advantage in service exports.

Atmanirbharta's third driver is the strong belief that India's market is big enough to sustain growth going forward and make up for the loss of opportunities overseas. Size seduces. At $2.9 trillion, and as the fifth largest in the world, India's GDP seems alluringly big. But if the domestic market is to sustain growth, we need to look at the size of the market (say the "middle class") with some amount of purchasing power over manufacturing goods and services.

Based on some assumptions, our rough estimate is that this middle class market size is between 15 and 40 per cent of GDP. This is smaller than commonly believed and substantially smaller than any potential world market that Indian firms and producers can and should compete for. The reason is twofold. There are a lot of poor people with limited purchasing power and a few people with a lot of purchasing power who, however, save a lot. Both of these reduce the market for consumption. The delusion of size is making policy-makers set their sights on the domestic market when it should be on the world market.

Normally, it is failure that is an intellectual orphan. In contrast, India's inward turn seems to be a case of making an orphan of spectacular success. India's growth model has been an export-led one and should not be abandoned. Moreover, India's export opportunities in general and in specific sectors could be significant even in a post-COVID world. If the diagnosis and prognosis prompting the inward turn are flawed, will the policy prescriptions be effective? We respond in our next piece, highlighting the real prize that India should aim for.

Source: indianexpress.com– Oct 14, 2020

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WPI inflation for clothing down 0.5% in September 2020

India's annual rate of inflation, based on monthly wholesale price index (WPI), for September 2020, stood at 1.32 per cent over September 2019. The index for textiles declined by 3.57 per cent and for apparel by 0.5 per cent in September, according to the provisional data released by the Office of the Economic Adviser, ministry of commerce and industry.

The official WPI for all commodities (Base: 2011-12 = 100) for the month of September 2020 increased by 1.32 per cent to 122.9, showing positive inflation for the second consecutive month since April this year when the economy was hit by COVID-19 pandemic and lockdowns.

The index for manufactured products (weight 64.23 per cent) for September 2020 increased by 1.61 per cent to 119.8 from 119.3 for the month of August 2020. The index for 'Manufacture of Wearing Apparel' sub-group, however, declined by 0.5 per cent to 138.1. The index for 'Manufacture of Textiles' sub-group too decreased by 3.57 per cent to 113.4.

The index for primary articles (weight 22.62 per cent) rose by 5.1 per cent to 150.3. The index for fuel and power (weight 13.15 per cent) however decreased by 9.54 per cent to 91.0.

Meanwhile, the all-India consumer price index (CPI) on base 2012=100 stood at 156.5 (provisional) in September 2020 compared to 154.7 (final) in August 2020, according to the Central Statistics Office, ministry of statistics and programme implementation.

Source: fibre2fashion.com– Oct 15, 2020

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Phased manufacturing policy that is hardly smart

Last week, the Ministry of Electronics and Information Technology (MeitY) said it had approved 16 firms in the mobile manufacturing sector for the Production Linked Incentive (PLI) scheme (for large-scale electronics manufacturing, notified on April 1, 2020) to transform India into a major mobile manufacturing hub. These are five domestic and five foreign mobile phone producers and six component manufacturers.

The PLI comes on the back of a phased manufacturing programme (PMP) that began in 2016-17 and was supposed to culminate in 2019-20. The PMP incentivised the manufacture of low value accessories initially, and then moved on to the manufacture of higher value components. This was done by increasing the basic customs duty on the imports of these accessories or components. The PMP was implemented with an aim to improve value addition in the country.

More imports in India

Firms such as Apple, Xiaomi, Oppo, and OnePlus have invested in India, but mostly through their contract manufacturers. As a result, production increased from $13.4 billion in 2016-17 to $31.7 billion in 2019-20. However, analysis of factory-level production data from the Annual Survey of Industries (ASI) shows that in 2017-18, value addition for surveyed firms (barring two outliers) ranged from 1.6% to 17.4%, with most of the firms being below 10%. For the majority of the surveyed firms, more than 85% of the inputs were imported. Comparable UN data for India, China, Vietnam, Korea and Singapore (2017-2019), show that except for India, all countries exported more mobile phone parts than imports — which indicates the presence of facilities that add value to these parts before exporting them. India, on the other hand, imported more than it exported, the least being in 2019 when its imports of mobile phone parts were 25 times the exports. Therefore, while the PMP policy increased the value of domestic production, improvement in local value addition remains a work-in-progress.

Further, in September 2019, Chinese Taipei contested the raise in tariffs under the PMP. If the PMP is found to be World Trade Organization (WTO) non-compliant, then we may be flooded with imports of mobile phones which might make the local assembly of mobile phones unattractive. This will affect the operations of the mobile investments done under the PMP.
Focus on value of production

The new PLI policy offers an incentive subject to thresholds of incremental investment and sales of manufactured goods; these thresholds vary for foreign and domestic mobile firms. Thus, focus remains on increasing value of domestic production, and not local value addition. According to our calculations, if implemented in toto, an additional capacity of 60 crore mobile phones per year may be onstream at the end of the PLI, i.e. FY25.

Shift from China is unlikely

Chinese firms that dominate the Indian market are not a part of the PLI policy. Thus their capacity expansion, if any, will be in addition to this. India produced around 29 crore units of mobile phones for the year 2018-19; 94% of these were sold in the domestic market, with the remaining being exported. This implies that much of the incremental production and sales under the PLI policy will have to be for the export market.

Recently, a study by Ernst & Young for the India Cellular & Electronics Association showed that if the cost of production of a mobile phone is say 100 (without subsidies), then the effective cost (with subsidies and other benefits) of manufacturing mobile phone in China is 79.55, Vietnam, 89.05, and India (including PLI), 92.51. This shows that incentives under the PLI policy may not turn out to be a game-changing move, and it may be premature to expect a major chunk of mobile manufacturing to shift from China to India.

It may also be useful to recall that mobile phone investments that occurred around 2005, targeted relatively local and low value export markets, which is being followed by the incumbent mobile manufacturers in the county. Numbers show that though India's mobile phone exports grew from $1.6 billion in 2018-19 to $3.8 billion in 2019-20, the per unit value declined from $91.1 to $87, respectively.

Thus, our export competitiveness seems to be in mobiles with lower selling price. However, for foreign firms chosen under the PLI policy, the incentive will be computed on the basis of the invoice value of phones available at and above ₹15,000 ($204.65).

This is surprising as it is clear that the PLI policy does not strengthen our current export competitiveness in mobile phones; and markets with higher average selling price have lower volumes.

Difficult for domestic firms

The five foreign firms that have been chosen are Samsung and four of Apple's contract manufacturers. Samsung and two of Apple's contract manufacturers already have facilities in India, and can be expected to continue with their strategy of dependence on imported inputs. Domestic firms have been nearly wiped out from the Indian market. So, their ability to take advantage of the PLI policy and grab a sizeable domestic market share seems difficult.

Domestic firms may have the route of exporting cheaper mobile phones to other low-income countries. However, their performance in the last couple of years has not been promising. For example, among the chosen domestic firms, Lava International reported exports of ₹324 crore in FY18, while Optiemus Electronics exported ₹83 crore in FY18 and ₹4 lakh in FY19. Thus, how well they respond to the opportunity that the PLI policy provides is an open question.

Supply chain colocation

Finally, the six component firms that have been given approval under the 'specified electronic components segment', though a welcome step, do not complete the mobile manufacturing ecosystem. For example, literature shows that when Samsung set up shop in Vietnam, it relied heavily on its Korean suppliers which co-located with it to produce intermediate inputs, so much so that 63 among Samsung's 67 suppliers then were foreign. It was a surprise when it was found through our primary survey that though Samsung is invested hugely in India, it has not colocated its supply chain in the country.

In summary, the PMP policy, since 2016-17 has barely been helpful in raising domestic value addition in the industry even though value of production expanded considerably. As backward integration via tariff protection is likely to come up against WTO rules, the new PLI focus is on increasing domestic production, and not value addition. The policy has separately licensed six component manufacturers to start domestic manufacturing. This may not succeed as the assemblers and component manufacturers move together. A first step in this direction could be to encourage foreign firms chosen under the PLI policy to colocate their supply ecosystems in the country.

Source: thehindu.com– Oct 15, 2020

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