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INTERNATIONAL NEWS

EU Challenges China's Trade Expansion With Landmark Tariff

The European Union fired a warning shot at China over its global trade ambitions with an unprecedented tariff decision to counter Chinese subsidies to exporters.

For the first time, the EU on Monday took aim at alleged market-distorting aid granted by a country to exporters located in another state. To date, such European duties have focused only on subsidies provided by the country where the exporters are based. "It's a landmark case that could lead to many more similar ones," said Agatha Kratz, an associate director at Rhodium Group who leads research on EU-China relations and Chinese commercial diplomacy.

"Chinese state support is in fact found widely beyond China's borders, with distortive effects on EU and other foreign stakeholders." The dispute involves EU imports from Egypt of glass fiber fabrics, an industrial good used in everything from wind turbines to sports equipment. The two Egyptian exporters of such fabrics are subsidiaries of China Jushi Co. and Zhejiang Hengshi Fiberglass Fabrics Co.

Jushi Egypt for Fiberglass Industry SAE and Hengshi Egypt Fiberglass Fabrics SAE are based in the China-Egypt Suez Economic and Trade Cooperation Zone, which is part of China's controversial "Belt and Road" global infrastructure-development plan.

The EU said that Jushi Egypt and Hengshi Egypt received financial benefits from the Chinese and Egyptian governments and that the aid, along with subsidies for glass fiber fabrics shipped directly from China, unfairly undercut the bloc's own producers such as Finland-based Ahlstrom-Munksjo Oyj in the European market.

Material Injury

EU manufacturers that also include European Owens Corning Fiberglas SPRL in Belgium and France-based Chomarat Textiles Industries SAS suffered "material injury," the European Commission, the 27-nation bloc's executive arm in Brussels, said in the Official Journal.

China lashed out at the EU decision, saying it violated World Trade Organization rules.

“The Chinese side is highly concerned about the ruling,” China’s mission to the EU said in an emailed statement. “The ruling by the EU does not help maintain the authority of WTO rules and the efforts of all parties to safeguard the multilateral trading regime, disrupts the normal investment flow and supply chain, and hampers the interests of the developing countries.”

Europe is stepping up efforts to guard against expansionist Chinese commercial policies, part of a balancing act that echoes U.S. concerns about China’s economic rise while aiming to stay within the WTO framework. By contrast, Washington has taken unilateral action against Beijing in ways that sidestep the WTO and that have prompted European criticism.

Tech-Fab Europe, an association of European producers of glass fiber fabrics, hailed the bloc’s new tariffs against competitors based in China and Egypt by saying the levies mark a “new era in EU trade defense to counter foreign subsidies.”

The EU is threatening in two other trade investigations to target alleged Chinese aid to exporters based outside China. One inquiry by the commission focuses on EU imports of glass fiber reinforcements from Egypt; the other probe covers shipments of stainless steel from Indonesia to the bloc.

In its decision to impose an anti-subsidy duty on Egyptian glass fiber fabrics, the commission devoted a sizable section to constructing an argument that WTO law gives the EU scope to take account of Chinese aid to Jushi Egypt and Hengshi Egypt when calculating the level of the levy on both companies. The rate is 10.9%.

The commission presented this legal analysis in the context of the political significance of China’s Belt and Road Initiative in general and of the Suez Economic and Trade Cooperation Zone, or SETC-Zone, in particular.

Chinese Parent

“The governments of Egypt and China have pooled their resources to provide the companies manufacturing in the SETC-Zone with favorable conditions that confer benefits to them,” the commission said. “This pooling of resources via such close cooperation serves a common purpose and benefits a common beneficiary (Jushi Egypt and Hengshi Egypt)."

Jushi Egypt and Hengshi Egypt are related through a bigger Chinese parent company -- China National Building Material Group. The EU anti-subsidy duty on glass fiber fabrics from Egypt is for five years.

Source: finance.yahoo.com– Jun 15, 2020

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China's Textile And Garment Industry Goes Forward

At present, China's textile and garment industry is facing the overall decline in internal and external demand caused by the global epidemic, the lack of orders and the poor logistics. The terminal consumption has been reduced to the whole industry chain, and the internal and external sales have been blocked. The interruption of the supply chain has also dragged down the development of foreign trade of intermediate goods, resulting in a continuous decline in the capacity and exports of the upper, middle and lower reaches of the products. But China's textile industry has the entire industrial chain and perfect infrastructure from raw materials to finished products. Once the epidemic is eased, the supply capacity can be restored immediately.

Epidemic impact

Export situation of textile and clothing is grim in the first quarter

In the first quarter, China's textile and clothing trade volume was 52 billion 480 million US dollars, down 15.5% from the same period last year. Among them, exports of 46 billion 350 million US dollars, down 17.7%; imports 6 billion 130 million US dollars, an increase of 5.4%. Its main characteristics are as follows: first, production gradually recovered in March, and exports rebounded significantly in February. Two, general trade exports have improved slightly and foreign aid supplies have increased dramatically. Three, ASEAN is the first largest export market in China for the first time. The proportion of Chinese products in the US market has dropped to below 20%. Four, the export situation of textiles is better than that of clothing, and the export of anti epidemic products has soared. Textile category epidemic prevention materials exports increased significantly

In the face of severe epidemics, Chinese enterprises responded quickly and efficiently, and made great contributions to the global epidemic. The export of anti epidemic materials to the world's serious epidemic countries and regions has increased significantly.

In March, exports of textiles related category (including medical masks, medical protective clothing, surgical cap, medical shoe covers, cotton swabs, cotton sticks and cotton balls) were exported to US $1 billion 440 million, accounting for 9.1% of the total export volume of textiles and clothing this month, up 90.8% from the same period last year.

Among them, medical masks increased by 180%, medical protective clothing increased by 78%, exports to the European Union (including the UK) increased by 213%, and Japan and Korea increased by 58.8% and 224% respectively. Due to the lack of attention in the early stage of the epidemic prevention and control in the United States and the difference in product standards, the export to the US increased by only 7.1%.

China's textile and garment industry is still in a position to attract investment and return orders.

In the short term, the epidemic will indeed accelerate the transfer of industries to areas outside China, but in the long run, this effect will not last. Strong and stable production and supply capabilities will once again become a bonus for China's textile and garment industry, and will attract more investment and orders to China.

In the US market with the largest share decline, China lost 10 percentage points in the first quarter to more than a dozen countries. Although the share of ASEAN has exceeded China and its industrial chain is incomplete, the reality of relying on China for raw materials and semi-finished products has not changed. Based on this, it is estimated that the share of major market imports from China will come back in the coming months.

Source: sjfzxm.com– Jun 15, 2020

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US retail sales projected to drop by over 10% in 2020

The US retail sector could take years to recover from the impact of the COVID-19 pandemic, and the hit could be worse than that of the Great Recession, according to the latest forecast on US retail sales by eMarketer, which recently said total retail sales will drop by 10.5 per cent this year to $4.894 trillion, steeper than the 8.2 per cent drop in 2009.

Brick-and-mortar sales will weigh down overall retail long term. Brick-and-mortar retail sales will fall 14 per cent to $4.184 trillion in 2020. It will take up to five years for offline sales to return to pre-pandemic levels. E-commerce is the only bright spot, jumping 18 per cent this year to reach $709.78 billion as Americans rely on Amazon and other online retailers for necessities.

These estimates assume that widespread social distancing measures, which have gradually been lifted in May, will continue to ease and economic activity slowly resumes in the third quarter, according to a press release from the company.

However, consumer spending will likely remain dampened throughout the year. Total retail sales won't rebound to 2019 levels until 2022, and estimates throughout the forecast period will be lower than previously predicted.

For the first time, Walmart will surpass eBay as the No. 2 e-commerce retailer in the United States.

Source: fibre2fashion.com– Jun 15, 2020

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UK government unveils new customs procedures for 2021

The UK government has announced a new approach to customs procedures from January 1, 2021. The government will not be extending the transition period. Recognising the impact of coronavirus on businesses' ability to prepare for the impact of leaving the EU without a Free Trade Deal, the government has introduced new border controls in three stages.

From January 2021, companies importing standard goods (which covers all fashion and textiles) will need to prepare for basic customs requirements, such as keeping sufficient records of imported goods, and will have up to six months to complete customs declarations.

Tariffs will need to be paid on all imports, payments can be deferred until the customs declaration has been made. Businesses will need to consider how they account for VAT on imported goods, according to a UKFT press release.

From April 2021, all products of animal origin and all regulated plants and plant products will require pre-notification and the relevant health documentation. From July 2021, companies moving all goods will have to make declarations at the point of import and pay relevant tariffs. Full safety and security declarations will be required and checks for animals, plants and their products will take place at GB Border Control Posts.

Source: fibre2fashion.com– Jun 15, 2020

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Primark plans to reopen its England stores from June 15

Primark plans to reopen its England stores as of June 15. Sales were promising in its reopened stores elsewhere. Primark stores began to close globally from March 11, leading to a loss of sales of £ 650 million a month.

The organization was cutting costs to offset these losses as well as canceling some forward orders but the main contributors to its overhead reduction were government job retention schemes across Europe.

The company has been able to reopen 112 stores recently and now plans to open all its English stores with social distancing protocols and hygiene measures in place. Unlike some other retailers that are taking a phased approach, Primark is confident that it can handle this as it's learnt a lot from its European reopenings, although it's waiting for further guidance for the stores in Northern Ireland, Wales and Scotland and anticipates openings in late June.

It will also open three new stores by June 15 which were originally planned for earlier debuts. They include Mons in Belgium and Gropius in Berlin , Germany which has already opened, while a store will open on 15 June at the Trafford Center in Manchester, UK.

Source: textilefocus.com– Jun 15, 2020

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COTTON USA signs new licensees in Western Europe

COTTON USA has signed two new licensees in Western Europe, I Cotoni di Albini and Bugatti. Cotton Council International (CCI), the export promotion arm of the National Cotton Council of America (NCC), is a non-profit trade association that promotes US cotton fibre and cotton products. The Cotton USA licenses cover the equivalent of 2,088 bales of US cotton.

I Cotoni di Albini, a company of the Albini group, specialises in the production of high-end yarns. Thanks to its partnership with Cotton USA, Supima, and Oritain, I Cotoni di Albini can offer 100 per cent traceable US cotton. Created in 1876 in Italy, the Albini group's ambition is to create the most beautiful fabrics in the world. Textile know-how, Italian creativity, and continuous research are the distinctive features of the Albini group, according to a press release by CCI.

Bugatti, a German internationally successful, mid-market men's, and women's brand, is licensed for a line of US cotton-rich men trousers. Established in 1947 as a family business, the company is now run by the second and third generation of the family and employs more than 1,000 people in Germany.

In 2019, the company generated sales of $250 million and its export share is 44 percent. The group's main export countries are Italy, Austria, the Netherlands and Russia. Bugatti has 327 points-of-sale in Germany and 600 in its export markets.

Source: fibre2fashion.com– Jun 13, 2020

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Cambodia makes progress on FTAs with China, S Korea

South Korea's ministry of trade, industry and energy recently said it has made further progress on the planned free trade agreement (FTA) with Cambodia. The third round of negotiations on the Cambodia-China FTA, expected to be finalised by 2020 end, recently approved in principle market access of goods and services, the Cambodian commerce ministry said.

South Korea and Cambodia completed a joint feasibility study on the FTA last month and agreed to start domestic procedures to pave the way for official talks, the South Korean ministry was quoted as saying by media reports in the country.

The Cambodian commerce ministry has set up eight different groups to be in charge of the trade negotiations with each potential partner. Even though the trade deal is yet to be been signed, the ministry has already enabled the export of some goods to the South Korean market through the World Trade Organisation (WTO).

Two-way trade between Cambodia and South Korea was valued at $1 billion in 2019, representing a 36 per cent rise from $756 million in 2018, up 15 per cent compared with 2017.

The Cambodia-China FTA is expected to boost the Cambodia's export volume and also draw more investment in raw material supplies and diversify the industrial sector, according to analysts.

The FTA is expected to boost bilateral trade to $10 billion by 2023. Bilateral trade volume between the two countries reached $7.4 billion in 2018, a 22 per cent increase compared to 2017's $6.04 billion.

Source: fibre2fashion.com– Jun 15, 2020

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Première Vision Paris digital to be held in September

Première Vision Paris will be held as per schedule from September 15 to 17 at the Parc des Expositions de Paris Nord Villepinte. However, the physical show will be supplemented with a digital show providing exhibitors with greater visibility across the globe.

In addition, the physical show will meet all required government health protocols through the use of digital badges, disinfectant gel and masks, and an updated, spacious layout for social distancing procedures.

The show will also include its B2B e-commerce platform launched in 2018, which will feature Fall/Winter 2021-2022 collections and online business discussions in preparation for show visits. It would also feature a denim village at the marquee event to supplement the May Denim PV show that was forced to cancel.

The digital show will include a program of content, services and digital tools to support the creative fashion industry and address the strategic questions on how to move forward through the unprecedented times.

Source: glamour.com– Jun 13, 2020

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Around 50 per cent Indonesian textile factories to close by September

The three-month pandemic has led to a 90 per cent drop in production utilization causing 50 per cent of textile factories in Indonesia to permanently close in September. The Indonesian Textile Association (API) revealed the utilization of large industrial production is only 10 per cent remaining. This is lowering the industry financial condition to run low. API estimates the industry to last only until next September.

The pandemic had launched export markets and domestic products. As a national strategic industry that requires a large workforce, this industry needs serious attention from the government. Therefore, in order to ease business, some entrepreneurs have asked for the assistance in the form of easy banking loans, postponed payment of electricity tariffs during April-September and provided Corporate Tax PPH tax relief for 2020.

Since production in China has been disrupted, the Association noted around 17 containers of textile products coming from China. This number has increased with illegal smuggling. Some of the products are finished goods, so it is increasingly difficult for domestic industries to sell goods. This condition is exacerbated by the sluggish demand for textile products.

China is the largest exporter of textiles and textile products (TPT) to Indonesia. In 2018, the volume of TPT imports from China reached 4.392 tonne.

Source: fashionatingworld.com– Jun 15, 2020

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Bangladesh: Value Addition in RMG Explained

The global market is becoming versatile day by day & Bangladesh have to come out of the vicious circle of traditional items.

Bangladesh requires a sound strategy and policy to build a sustainable dependence free, diversified industry that will help Bangladesh to become a prestigious country in the textile & RMG sector.

Bangladesh is suffering a lot now because of the COVID-19 crisis, as a result, most of the order has been canceled about $3 bn where only $1 bn order has been confirmed. According to experts suggestion, one way of sustaining the competitive market can be through focusing on Value Addition.

Bangladesh is considered as one of the major suppliers of readymade garments to the world market with around 6% market share & RMG is the prime export-oriented largest industrial sector of the country's export earnings.

In the fiscal year 2018-19, the country's earnings from apparel exports stood $34.13 bn with registering 11.49% growth, contributed over 84 percent of the country's total export earnings by contributing 13% in the total GDP whereas from Knitwear items earned $16.88 bn with 11.19% growth & Woven items earned $17.24 billion with 11.79% growth.

With the emergence of globalization, competitive atmosphere, and quality consciousness, observed a gradual rise is in consumer demands & has reached a fresh mark. And to reach up to that mark, manufacturers have to add something different to their products to get some extra value for their products from the buyers. This urge to come up with something novel to earn an increased profit, have a larger market share that could probably be termed as value addition to the Textiles & RMG.

So Value Addition is the process where we enhance the aesthetic look of the product by adding some incentives to it that describes the full range of activities that are required to bring a product from the conception through the different phase of production which helps the producer to make a higher margin between costing & pricing. The key aspect of value addition is outrageous price, uniqueness, attractiveness, and focusing a business more closely.

Meanwhile, in the financial year 2018-19, Gross value addition from the country's RMG export has increased slightly from the financial year 2017-18. According to the Bangladesh Bank data, the overall import value of RMG raw materials stood at $12.17 bn against $34.14 bn export earnings in FY19 that defines the gross value addition from the readymade garment sector stood 64.33 per cent where the import value represents about 35.68% of the total RMG export earnings.

Bangladesh Bank calculated this value addition considering the import price of raw materials including raw cotton, synthetic/viscose fibers, synthetic/mixed yarn, cotton yarn, and textile fabrics and apparel accessories. During the period ranging from FY 13 to FY 19, the value addition of the sector remained between 61 per cent and 64 per cent showing a mixed trend.

Click here for more details

Source: textilefocus.com– Jun 15, 2020

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Bangladesh garment exports to decline by 40 per cent: BGMEA

According to Rubina Haq, President of the BGMEA, Bangladesh's garment exports may plummet almost 40 per cent in the next few months as the retail market in the country is yet to rebound. The impact of the COVID-19 on consumers' behavior is still unknown and factories in the country are still struggling with cash flow and credits to make a turnaround.

Export Promotion Bureau (EPB) revealed that Bangladesh's export earnings from knitwear garments declined by 5.17 per cent to $1.89 billion during July-May of FY 2019-20.

Similarly, the exports of woven products by the country declined by 14.31 per cent while its overall exports declined by 14.08 per cent compared to the last financial year. Huq further revealed inflow of new orders has also declined by 45 per cent compared to last year.

Source: fashionatingworld.com– Jun 15, 2020

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Bangladesh: Apparel exporters see 62% drop in new orders

Apparel exporters have seen a sharp decline in new orders, as nearly 62% orders shrank in the last three months to May due to slower demands in export destinations and supply chain disruption caused by the Covid-19 pandemic.

According to Bangladesh Garment Manufacturers and Exporters Association (BGMEA) data, the number of fresh orders dropped to 172 in March-May period, which was 454 in the same period last year.

During the July-May period of the current fiscal year, earnings from apparel export raked in $25.70 billion, down by 19 % against $31.73 billion in the same period last year.

On the other hand, the global retailers have canceled work orders totaling around $3.15 billion during the period.

In March, apparel manufacturers under BGMEA received 87 work orders, which were 138 last year. In April and May, they received 8 and 77 work orders, which was 136 and 180, respectively last year.

“Covid-19 pandemic has cast a devastating impact on the global fashion industry. Sales of clothing items fell sharply as global outlets are closed due to the lockdown”, BGMEA Senior Vice President Faisal Samad told Dhaka Tribune. “As the second largest exporter of clothing goods, Bangladesh faced the worst impact of Covid-19.”

According to a recent research by Wazir Advisors, an India- based consulting and advisory firm, the consumption of apparel goods in the EU market will fall by 59%, US 63% and Japan 20% in 2020, due mainly to the pandemic. Besides, imports of clothing goods will decline by $128 billion this year and consumption by $328 billion next year by the EU nations, US and Japan, it adds.

Exporters say a turnaround in work orders will depend on how fast the life gets back to normalcy in the export destinations and the virus comes under control or the vaccine is invented.

Turnaround to be delayed

Turnaround in work orders will depend on how fast life gets back to normal in export destinations and the virus comes under control or a vaccine is invented.

“Until there is stability in the health issues of export destinations, it will be very difficult to gear up work orders from the global buyers. If you look into the trend of reopening economies, it is just to start, as they reopened despite no decrease in infection rates,” Sharif Zahir, managing director of Ananta Denim Technology Ltd, told Dhaka Tribune.

Consumers will remain panicky, fearing second wave of virus until an invention of vaccine and they won’t buy a lot, rather just as much to survive, said Zahir, also a director of BGMEA. In October, the order flow may increase ahead of Christmas to some extent, but the third quarter of the year will remain dull, said the business leader.

“In returning to the peak as it was in 2019, we might have to wait till 2022,” he predicted.

Though there is a ray of hope in health related textile goods, it is very minimal and we are not ready to capture it because of lack of preparedness regarding its production processes, he added.

On top of that, there is little chance to recover dues if the ongoing negotiation to reinstate the canceled orders are successful. As per BGMEA data, so far over 1,150 factories have faced export cancellation worth $3.15 billion.

From the BGMEA as well as there is strong negotiation with the buyers to get back the orders previously canceled by the buyers, said business leaders as well as factory owners.

"If the buyers ethically respond to our call and follow the best buying practices, it will help the sector to sustain manufacturers and help thousands of workers retain their jobs," Zahir observed.

Source: dhakatribune.com– Jun 15, 2020

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Pakistan: Changing nature of supply chains

Global economic landscape was not looking good even before Covid-19 but it is a whole new story after that.

In the months prior to the Covid-19, the global trade tensions, particularly between the US and China, and a populist tendency in many other global economies tested nerves of global markets.

The rising trade protectionism and other economic barriers started straining the flow of goods and services that was on an upward trajectory since the start of 21st century, with the short exception of 2008-09 crisis.

Growth in international trade was already showing signs of stress, starting late 2018. And then came the Covid-19 that exacerbated these trends, though the real impact is yet to be accounted for.

Looking ahead, the Covid-19 has made few trends quite clear, and adjustments or shifts in global supply chains (GSCs) are one of the major ones. This is the result of exposed fragility of GSCs whereby multinationals encountered supply shocks followed by demand shocks, leading towards policy thinking of “self-reliance”, “multi-level sourcing” and “closer-to-home” supply chains.

GSCs had been optimised for “just-in-time” model that reduced operating costs for businesses, but it was based on the assumption of ever-functioning transport, regulatory and business networks, which have been seriously exposed by the Covid-19 crisis.

As the pandemic started in China, which has a reputation as the “factory of the world”, the interruption in that factory changed perceptions at all levels of the GSCs.

The current situation would result in a few adjustments or shifts in GSCs. Some of these trends could be as follows.

First, diversification of supply chains to reduce reliance/exposure to the Chinese manufacturing base. Second, regional logistics hubs will re-emerge in order to mitigate single-source dependencies, and to establish a flexible and adaptable supply chain.

Third, the human dimension is back, and it will play a prime role in rebalancing supply chains during this crisis, and well beyond. Fourth, the transition to a new model for supply chains will be underpinned by a rapid and wholesale digitisation of the paperwork that accompanies global trade.

Fifth, new manufacturing practices such as 3-D printing may be used on larger scales. Sixth, multipurpose manufacturing units, for example cosmetics companies making hand sanitisers, may increase in number and use.

The case of Pakistan

What is in it for Pakistan? A lot, only if the country’s economic and trade policy and management is geared towards these changes in order to harness benefits of the aforementioned “adjustments” and “shifts”.

The following guiding points may be helpful for Pakistan to plan ahead and get a share in the shifting GSCs.

First, Pakistan needs to establish a trade intelligence mechanism to get the real-time global markets pulse and identify opportunities arising out of shifting GSCs. Second, there needs to be a realistic and dynamic assessment of supply capacity, in various manufacturing and services sectors of Pakistan, including the lead times (to supply) in order to harness the opportunities through proactive marketing.

Third, the trade promotion strategy and modalities must be changed drastically in order to make this system agile, proactive and connected with suppliers (exporters of Pakistan) and buyers (in target markets). The existing trade promotion system lacks these elements.

Fourth, Pakistan may have more opportunities in non-traditional exports, ie other than textile, leather and rice. Services, particularly information and communication technology (ICT), financial, logistics and professional, carry a huge potential that has always been overshadowed by traditional exporter lobbies.

Fifth, Pakistan may present itself as an alternative manufacturing base in some sectors. This may be done through the China-Pakistan Economic Corridor (CPEC) to invite Chinese companies to establish a manufacturing base in Pakistan and feed into GSCs.

Light engineering and light electronics sectors carry a good potential for starting this effort. An improved logistics infrastructure, however, would be the key in this case.

Sixth, as Pakistan has the labour cost advantage, though some skill development is required, it may present itself in the labour-intensive manufacturing sectors and particularly in niche areas.

Pakistan is an interesting case for international trade analysts, which is an economy of around $300 billion (subject to current calculation debates) with exports hovering around $20-24 billion since years.

It becomes even more interesting if one reads the trade policies and strategic trade policy frameworks adopted by successive governments. These policies outline ambitions that have never been met.

Were these mere illusions or ill-prepared documents or something more to it? Probably the all of that in addition to the archaic trade policy management, whereby trade is seen only as exports and exports is seen only as textile and textile is seen only as subsidies.

The share of textile is no more than 10% in the economy of Pakistan; rest of the 90% may carry a bigger potential.

Another point that trade policy management needs to factor in is to introduce an accountability or monitoring and evaluation mechanism. Firstly, at the level of policy, or strategic framework, development it should be ensured that these documents make sense and are reality-based rather than a typical bureaucratic exercise.

Secondly, the army of commercial counsellors must be able to demonstrate the increase in exports and investment in their areas of jurisdiction. Above all, the trade policy needs to be taken seriously at the legislature and media organs of the state. It is said that there is always an opportunity in crisis. In the current crisis, those who will not capture this opportunity appropriately may have to face a lasting crisis in their international trade ambitions.

The trade policy of Pakistan needs to be seen through this lens as traditional markets and export channels worked only in the pre-Covid-19 era. Global supply chains and markets are going to change fundamentally, be agents rather than victims of this change.

Source: tribune.com.pk– Jun 15, 2020

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Pakistan's textile sector rejects 'unrealistic' Budget 2020-21

The condition of the textile industry will worsen amid a liquidity crunch and shrinking global business, and will lead to closure of industrial units, decline in exports and massive unemployment.

Pakistan Hosiery Manufacturers Association (PHMA) Chairman Salamat Ali, in a statement, said the value-added textile export industry had rejected the federal budget for 2020-21, terming it "one-sided and unrealistic" without any relief for the textile industry, which was the backbone of the economy and exports.

Being the most labour-intensive, the textile industry provides employment to a huge number of female workers, particularly to the lower class, in garment units.

The association was of the view that the textile industry had been completely ignored and deprived of relief in the federal budget, which purportedly had been made on directives of the International Monetary Fund (IMF).

It said the imposition of 17% sales tax in the previous budget had brought a disastrous impact on the textile industry and its exports as well as caused liquidity crunch due to stuck refunds worth billions of rupees. “The demand for restoring the zero-rating facility and proposals of the textile export sector have been disregarded,” it said.

Value-added textile exporters have expressed sheer disappointment and have demanded that the government review and restore the zero-rated regime for the five major export sectors as a lifeline for the economy.

The exporters urged the government to reconsider restoring the zero-rating facility or slash general sales tax from 17% to 4%, said Ali in the post-budget statement. The PHMA chairman was of the view that the government ignored the global business shrinkage and the challenges faced by the local textile Industry.

Source: tribune.com.pk– Jun 16, 2020

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NATIONAL NEWS

India's exports continue to shrink in May; except these four items, exports contract for all commodities

After the coronavirus pandemic-led global lockdown severely hit India's exports in the month of April, the exports once again contracted in the month of May. India's exports shrank by 36.47 per cent, recovering significantly from a 60 per cent contraction in the previous month, according to the ministry of commerce.

Exports in May 2020 were USD 19.05 billion, compared to USD 29.99 billion in May 2019, and USD 10.36 billion in April 2020. Except for iron ore, drugs & pharmaceuticals, spices, and rice, exports of all other commodities registered an on-year contraction in May 2020.

Exports of leather & related products fell 75.07 per cent, gems & jewellery fell 68.83 per cent, and petroleum products plunged by 68.46 per cent on-year. Non-petroleum and non-gems and jewellery exports in May 2020 were USD 16.36 billion, showing a contraction of 23.61 per cent.

A major fall in the domestic demand amid the nationwide lockdown, coupled with travel restrictions on international cargo flights, also led to a severe fall in May's imports. Imports in May 2020 more than halved to USD 22.20 billion.

The lockdown almost paralysed the gems and jewellery sector, which is also indicated by 98.4 per cent fall in gold imports in the month of May. Travel restrictions and slow industrial activities also hit the fuel demand, causing nearly 72 per cent contraction in the imports of petroleum and crude products. The imports of coal, electronic goods, and machinery also fell up to 45 per cent on-year.

On the back of Due to a higher contraction in imports, compared to exports, India's trade deficit narrowed sharply to USD 3.15 billion in May 2020 from USD 15.36 billion in the same month last year. The trade deficit in May is at the lowest level since February 2009. India's trade deficit was over USD 15 billion in January 2020, however, weak business and industrial activities, coupled with the coronavirus pandemic led to a continuous fall in trade. Since India's imports fell faster than exports, the balance of trade also kept reducing.

Source: financialexpress.com– Jun 15, 2020

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CCI tweaks discount plan to price its cotton at market level

Vishwanath Kulkarni In a bid to trim its bulging stocks and to ensure availability of raw material to the spinning mills at competitive prices, Cotton Corporation of India (CCI) modified its discount scheme on Monday by rationalising the prices.

"To serve the twin objective of helping farmers and also the spinning mills, we have rationalised prices," said PK Agarwal, Chairman and Managing Director, CCI. The rationalisation has brought CCI cotton prices closer to the market level.

"Our prices are now in parity with the market," Agarwal told BusinessLine. The good quality cotton in the market is ranging between ₹35,000 and ₹36,000 per candy. "Our quality 29 mm cotton is priced at ₹36,200-36,500," Agarwal said.

Under the new scheme, which will be in force till June end, CCI has set the lower base price ranging from ₹35,600 to ₹37,500 a candy of 356 kg each. A discount of ₹300 is being offered for minimum purchase of 500 bales per day. Higher discount of ₹1,200 is being offered for purchase of over 2 lakh bales per day.

Prices under the new scheme are still on the higher side by about ₹1,000 per candy, said Ramanuj Das Boob, a sourcing agent for mills. "Demand for CCI cotton may pick up once arrivals slow down in the days ahead," Boob said.

Source: thehindubusinessline.com– Jun 15, 2020

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ECGC to help exporters expand to new markets

The Export Credit Guarantee Corporation (ECGC) is ready to support exporters in their endeavour to expand to new markets especially to Africa and Latin America, said ECGC chairman and managing director M Senthilnathan during a webinar organized by CII. The session deliberated upon the need for cost-effective insurance to drive exports and bring back growth in the economy.

Senthilnathan mentioned that ECGC is working under pandemic-related restrictions but it is trying to provide services to their clients, who are affected due to Covid-containment measures.

"The crisis is much worse compared to the one witnessed after global financial meltdown a decade earlier. The working capital cycle of almost all the business units have been impacted. ECGC will be playing a counter cyclical role. It recognizes that the situation calls for some credit accommodation and credit insurers need to take high risks," he added.

Sanjay Budhia, chairman, CII National Committee on EXIM, said that in these trying times, managing credit risk and taking protection against unforeseen losses has assumed further importance and there is a need to increase the flow of bank credit to export sector and timely settlement of claims.

Prominent companies like Tata Steel, Siemens, Escorts, Bajaj Electricals, J K Tyre, Bharat Forge, Patton International, Avaada Energy and Coromandel International joined from across the country.

Source: timesofindia.com– Jun 16, 2020

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Ensure effective rollout of Rs 3-lakh crore ECLGS for MSMEs: Finance Minister to pvt banks

Finance Minister Nirmala Sitharaman on Monday held a meeting with the heads of major private sector banks, and asked them to ensure effective rollout of Rs 3-lakh crore ECLGS for the MSME sector, hit hard by coronavirus-induced lockdown. The meeting — also attended by CEOs of major non-banking financial companies (NBFCs) — on Emergency Credit Line Guarantee Scheme (ECLGS) was held through a video conference.

The Finance Minister chaired a meeting through video conference with major private banks and NBFCs to ensure effective roll out of ECLGS and uninterrupted/ smooth liquidity to Indian MSMEs in this difficult time. Debasish Panda, Secretary, Department of Financial Services, was also present in the meeting, the finance ministry said in a tweet.

As of June 11, public sector banks have sanctioned loans worth Rs 29,490.81 crore under the 100 per cent Emergency Credit Line Guarantee Scheme. Out of this Rs 14,690.84 crore has already been disbursed. The scheme is the biggest fiscal component of the Rs 20-lakh crore Self-Reliant India Mission package announced by Sitharaman last month.

On May 21, the Cabinet had approved additional funding of up to Rs 3 lakh crore at a concessional rate of 9.25 per cent through ECLGS for the MSME sector. Under the scheme, 100 per cent guarantee coverage are being provided by National Credit Guarantee Trustee Company (NCGTC) for additional funding of up to Rs 3 lakh crore to eligible MSMEs and interested Micro Units Development and Refinance Agency (MUDRA) borrowers in the form of a guaranteed emergency credit line (GECL) facility.

For this purpose, a corpus of Rs 41,600 crore was provided by the government, spread over the current and next three financial years. The scheme is applicable to all loans sanctioned under GECL facility during the period from the date of announcement of the scheme to October 31 or till an amount of Rs 3 lakh crore is sanctioned under GECL, whichever is earlier.

The main objective of the scheme is to provide an incentive to member lending institutions to increase access and enable availability of additional funding facility to MSME borrowers, in view of the economic distress caused by the COVID-19 crisis, by giving them 100 per cent guarantee for any losses suffered by them due to non-repayment of the GECL funding by borrowers.

All MSME borrower accounts with an outstanding credit of up to Rs 25 crore as on February 29, which were less than or equal to 60 days past due as on that date, i.e., regular, SMA-0 and SMA-1 accounts, and with an annual turnover of up to Rs 100 crore, are eligible for GECL funding under the scheme.

Source: financialexpress.com– Jun 15, 2020

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Is India ready for economic growth?

Economic growth is about increasing the value of measurable economic activities, and is a convenient (if overemphasised) proxy for increases in welfare. One can measure aggregate economic activity by capturing its components, valuing them and adding them up, either from the perspective of expenditure, or income.

India's pandemic lockdown brought a forced halt to a large fraction of economic activity, so national income and expenditure would naturally take a big hit.

The problem in such circumstances, aside from the fundamental issue of basic survival for many people affected by the loss of income, is that such reductions have ripple or multiplier effects, deepening and prolonging the initial loss.

This phenomenon led to the Great Depression of the 1930s, and that traumatic time helped to change the way in which appropriate economic policy responses were conceived. In particular, government was recognised as being uniquely able to spend in bad times (including transferring money to its citizens, who would do the actually spending in that case), to cushion first-order income losses and their even more substantial ripple effects.

Every government has been responding in this manner to pandemic-caused halts to economic activity. In previous columns, I reported what I thought was a broad consensus view, that the Indian government's fiscal response has been inadequate, given the hit taken by the economy as a result of the lockdown.

It has been a bit difficult to estimate the overall impact of government measures, in terms of net fiscal “stimulus”, but a dozen or so different analysts reported numbers mostly ranging around 1% of GDP (the standard measure of aggregate economic activity). Recently, however, Surjit Bhalla, who holds a very important position as India’s Executive Director at the International Monetary Fund (IMF), provided a headline number of a 5% fiscal package.

He argued that this is one of the largest responses among all economies in the world, and that India is now “Ready for Growth”. I hope he is correct, but given the importance of this issue for the Indian economy going forward, the basic issue of how much the government is supporting aggregate economic activity seems to be worth re-examining, before one gets into issues of the quality of structural reforms and long-run growth prospects.

Bhalla bases his estimate on the IMF Policy Tracker, which reports its own estimates of various components of the government’s economic package. He reports added expenditure of 3.5% for poor households, migrant workers and agriculture, plus another half percent transfer to state governments, together totalling 4% or so. The headline number is not derived explicitly, but is supported by some qualitative arguments, including methodological disagreements with all the analysts who preceded him. The methodological issues seem to be complex, and include issues of where spending gets counted, and whether certain kinds of guarantees indirectly support spending that would otherwise not have taken place.

Who is more accurate? Reviewing one analysis, as reported in The Wire on May 17, provides a detailed calculation of a direct fiscal stimulus of 1% of GDP, much less than the IMF numbers, the sources of which are not provided. More recently, Pronab Sen, former chief statistician of India and chairman of the National Statistical Commission, has also offered calculations that amount to around a 1% fiscal stimulus, possibly doubled by multiplier effects.

Using a consistent approach, he estimates the corresponding response to the 2008-09 crisis, which was much less severe, at 3% of GDP. Yet, another detailed and thoughtful evaluation of the entire economic package, by Rajeswari Sengupta and Harsh Vardhan (like Sen’s analysis, available at www.ideasforindia.in) concludes that the incremental government spending in the overall package is less than 2% of GDP.

Several analysts of the temporary shock to economic activity estimate its magnitude at 10% or more of annual GDP for 2020-21. In that case, even a 5% stimulus would be inadequate, and the bulk of analyses indicate that even allowing for indirect effects, the total package the government has come up with is less than that. On the bright side, the monetary policy response has been more appropriate, but monetary policy measures are not as direct as putting money into people's pockets, and the distributional impacts are also less favourable than when money is transferred to the poor.

I have not been able to find an official government analysis, or a rebuttal of academic and private sector analyses of the economic package, beyond the government's own discourse and framing. The issue is not one of politics or of the quality and impact of economic reforms: it is a basic question of what the government is actually planning and accomplishing in its efforts to engineer an economic recovery from the lockdown. India will resume growth, but the questions are how much and how soon, and what will be the ultimate economic cost in terms of lost income and welfare. The answers depend on what the government does, and, at least to me, it is not clear that it is doing the best it can.

Source: financialexpress.com– Jun 15, 2020

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Trade fair 2.0: What countries are doing to restart trade exhibitions

Managing the health crisis and reviving the economy are the two biggest priorities for governments around the world today. Trade shows, especially, are critical in rebuilding economy, as these offer a chance to companies to sell and source, a vital component of the business calendar and a key factor in building a network.

In its 2019 exhibition report, France-based organisation UFI The Global Association for the Exhibition Industry had estimated that approximately 32,000 exhibitions happen every year, featuring 4.5 million exhibiting companies that attract over 303 million visitors. Exhibitors and visitors combined spend around $137 billion every year on exhibitions, making exhibitions a significant industry. Globally, the tourism segment MICE (meetings, incentives, conferences and exhibitions) was projected to reach

$1,439.3 billion in 2025, registering a CAGR of 7.6% from 2018 to 2025, as per Allied Market Research.

The Indian Exhibition Industry Association (IEIA) estimates the market size of the exhibition industry at `23,800 crore. More than 550 such events are conducted annually in the organised sector. However, the outbreak of the pandemic has resulted in an estimated loss of Rs 3,570 crore in Q1 2020 for the sector, which may further escalate if the crisis continues.

Under strict health screening conditions, China's Hunan Province in May held its first major Hunan Auto Show, attracting 100 auto brands, nearly 600 vehicles and 60,000 sq m of stand booths with over 62,000 visitors in six days. Germany has now become the second country in the world to take a big step forward towards reopening the trade fair business. AUMA—Association of the German Trade Fair Industry has presented the country's policymakers with proposals for regulations. The German government has exempted exhibitions from the rules barring mass gatherings, opening the door to business-to-business events.

Moreover, the #safebusiness project, launched by IEG (Italian Exhibition Group), has devised a plan to work with outfitting and catering companies, technicians and international operators and focus on every phase in the trade show and conference experience. Meanwhile, UFI has released guidance on reopening trade shows and B2B events post Covid-19. The earliest shows likely to take place are the Dallas Total Home & Gift Market, starting August 19 (rescheduled from June), and the Intertextile Shanghai Home Textiles fair, starting August 24.

As India deliberates on the post-Covid era, the exhibition industry is geared up to lead by example. In a virtual event organised by the trade body Indian Exhibition Industry Association (IEIA) last month with Nitin Gadkari, minister of MSME and road transport & highways, the members of the trade association suggested to develop SOPs/safety guidelines such as distance protocols between visitors, mandatory masks, sanitisation, etc, for exhibitions and trade shows to resume in India.

Reopening trade shows with new safety protocols in a 'controlled environment' will make the entire process safe for a visitor, allowing contactless entry, cashless transactions and contactless face-to-face meetings. The presentation submitted to the ministry contains the scale and impact of the Indian exhibition industry and how it is geared up for gradually opening again under well-thought-out safety guidelines.

While exhibitions are known to generate business and enable knowledge and technology exchange within individual economic sectors, they also play a significant role in supporting trade and employment opportunities for many allied sectors such as service providers, hospitality sector (including restaurants, bars, hotels), transport (especially local cabs and taxis in case of tier I cities in India) and the incredibly hard-hit aviation sector, as business travel gets activated together with MICE tourism. “Restarting exhibitions with health and safety guidelines is key to restarting the economy,” says Raj Manek, managing director, Messe Frankfurt Trade Fairs India, a subsidiary of Messe Frankfurt Exhibition GmbH, one of the largest event organisers in the world.

These allied industries are the backbone of the exhibition industry, but lack of business is putting many of these at immediate risk. “Trading and networking platforms under safe and controlled business environment are critical for every business sector… exhibitions play a crucial role in reconnecting and rebuilding business communities and vital supply chains, which, in turn, will have a domino effect across multiple allied sectors by creating employment and opening up the service industry sector,” shares Manek. Messe Frankfurt is gearing up for the 2020 Frankfurt Book Fair in October and is working in close cooperation with the Health Department of the city of Frankfurt to intensify safety and hygiene measures.

Enhanced technology integration in everyday exhibition processes like online registrations, digital on-site registration process, cashless transactions will be the new normal for the industry in India. “We are exploring a combination of live virtual events and webinars to create a balance between the digital platform and face-to-face interactions, which will always hold value,” says Manek. Exhibition apps will help set up and schedule visits and meetings in advance, and digital scanning and exchange of data will replace visiting cards, brochures, catalogues and reference material at exhibitions.

Source: financialexpress.com– Jun 14, 2020

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Public procurement can lift manufacturing

It can be implemented in tandem with setting up SEZs in sectors such as shipping. Solar power, too, is an area of promise

A self-reliant India needs success in manufacturing with increasing value addition. The key to this is finding the policy instruments which would deliver results in today's context. India is now so integrated into global consumption and production supply chains that it cannot try and go back in time to become the closed economy of the 1980s.

Indian industry cannot be shielded behind the walls of protectionism of those days. Manufacturing has also undergone relative decline in the last few decades. Imports from China have been gradually taking over the domestic market for consumer goods. The government's fiscal resources have been collapsing due to the lockdown and its first priority has to be to stimulate demand for domestic goods and services.

Macro conditions

There are some macro conditions which are prerequisites for success in manufacturing. The first is the necessity of preventing the appreciation of the real exchange rate. The 19 per cent real exchange rate appreciation that took place between 2008 to 2017 was equivalent to an across the board lowering of import duties by 19 per cent. This meant that we had negative rates of import duties in many cases. No wonder industrial growth rates collapsed. An explicit enunciation by the RBI of the policy goal of not letting the real exchange appreciate is overdue.

The other is investing to create/upgrade infrastructure to international standards in industrial areas chosen for rapid growth in competitive manufacturing. Then costs of production, land, electricity and logistics, have to be brought down and made comparable to those of our competitors.

The government usually tries to promote a particular industry by capital/interest subsidy, or exemption of taxes on profits. The government recently announced production linked incentive schemes of 25 per cent on capital investment for electronic goods and 5 per cent on incremental sales of medical devices. But it may not be possible for the government to find the resources for such subsidies for rapid broad-based industrialisation.

The case for exemption of taxes on profits has been nebulous. Firms make investment decisions if they are confident of making good profits. Exemption of taxes on profits is unlikely to be the determining factor for a firm on whether to make an investment decision or not.

The way to move ahead is on how to make manufacturing so profitable that there is a surge of new investments by domestic as well as foreign firms. If subsidies are not an option then what options does the government have. One instrument which was earlier neglected is public procurement.

A beginning was made a few years back with the introduction of purchase preference for domestic bidders who were allowed to match the price of the lowest bidder in global tenders and get the contract. The instructions just issued for inviting only domestic bids from suppliers who do at least 50 per cent value addition in India, if sufficient capacity exists in the country, takes this to the next level. This helps in the growth of existing industrial investments.

Ship building

To get investments in new areas, a radically different approach would work better. Let us take the case of ship building, a classic labour intensive industry where with rising wages in China it could shift to India. This is unlikely at present. To make this happen, the government would need to promote a large Special Economic Zone for ship building and its supply chain. This would provide a competitive regime for production costs.

It should then get the Shipping Corporation of India to invite bids for the supply over five years of a large number of ships for cargo movement as well as oil tankers starting from the year of production. Value addition in India should be required to rise by the fifth year to over 70 per cent.

To create a competitive industry structure, it should allow the second and third lowest bidders to match the price of the successful bidder and get two-thirds of the volume of the order of the lowest bidder. Land and environment clearance should be on offer for the successful bidders in the bid process so that they can start setting up their plants immediately.

The Exim Bank should offer in advance dollar denominated credit at prevailing international rates. This would give potential Indian bidders a level-playing field for financing. With assured orders, competitive costs and reduced risks, investor interest would be high and competitive bids would be received. The key would be getting the first round of orders to be so large that bids from a number of investors are received.

If the discovered price is the prevailing international price then there would be no additional cost for anyone. Even if it is a bit higher, the impact on freight charged would be negligible. The government can mandate that cargo for its agencies would have to move on ships made in India.

The Special Economic Zone development should be self-financing. India would then have created a globally competitive ship-building industry within five years. By the end of the decade it could target a substantial share of the global market in ship building.

A similar approach could be adopted by the Solar Energy Corporation of India (SECI) which should invite bids for solar power capacity with the condition of full domestic value addition. Orders should be placed for 2GW per year on the lowest bidder with the next two getting orders for 1.5 GW per year if they matched the lowest price. The same could be done for large grid storage batteries. Offer of land in industrial parks should be part of the bid process.

This would need a major change in the procurement guidelines of the government, the Central Vigilance Commission and the approach of audit and other investigating agencies.

Creating jobs, getting investment in manufacturing and increasing value addition in India have to become explicit goals of public procurement. Such procurement can and should be done with full transparency. The reduced risks would result in lower prices.

Source: thehindubusinessline.com– Jun 14, 2020

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Employment generation a challenge but not unachievable: Nitin Gadkari

The Minister of Micro, Small and Medium Enterprises (MSME), Nitin Gadkari, has acknowledged that employment generation is a challenge, but with the right economic policies, it can be achieved.

In conversation with BusinessLine after the government came out with booster shots for the MSME sector, Gadkari said, “There is a need to understand that jobs and employment are two different things and right now I am talking about employment generation, which is the biggest challenge for the government but not impossible to achieve, if we go ahead with right kind of policies.” Excerpts:

If the latest scheme (loan) gives automatic support to MSMEs, why is there this huge gap between the amount sanctioned to banks and the amount disbursed?

Now, we have software in place through which we get to know about the implementation of the schemes, total applications received as well as total sanctions. It came to our notice that no decision was taken on some applications. When we questioned the concerned banks, we were told that some applications didn’t come under their area. Then I asked them why they didn’t forward it to the concerned area. Now, we have instructed them to send them quickly.

There were also instances where applications were incomplete. I have asked officials at district level to coordinate and complete documentation and inform banks accordingly. So, we are monitoring the entire thing.

Then there is another scheme that gives loans in 59 minutes. It is true that the scheme was sanctioned, but disbursement was not done. So, I instructed that disbursement should be done and to provide me the actual figures. The ₹3-lakh crore fund that banks have received under the collateral-free automatic loan scheme is a huge amount that has been disbursed.

Why is there a proposal for overseas funding?

It is important to raise liquidity in the market as it will enhance purchasing power and improve demand and supply, eventually giving a boost to employment which, again, will lead to growth in per capita income. In these times, investors across the globe are worried and India is a safe destination for them. We will rate MSMEs that export and have a good tax record, helping them tap the market eventually.

The way we have NSE and BSE, there will be MSME stock exchange where they will take our fund and take money from the market. I plan to consult the RBI to explore whether foreign investment can be allowed in NBFCs to strengthen them.

...We need to come up with a mechanism to figure out the kind of investment that should come — be it in infrastructure, MSME, railways or bullet trains. Apart from upgrading technology, foreign investment can help increase our exports and reduce imports.

The Finance Minister recently said the Emergency Credit Line Guarantee Scheme (ECLGS) will be open to all companies, not specifically to MSMEs. Your views.

The decision taken by Finance Ministry is the final decision. The fund available in it is worth ₹3 lakh crore. The disbursement is currently on and all industries will benefit from this.

Recently, you said creating employment opportunities in rural, agriculture and backward areas is the need of the hour and that priority will be given to import substitution. Can you elaborate?

Our nation resides in villages. Our economic policy has focussed on villages, the poor, farmers, and we have decided to deepen this.

For example, MSME contribution to our GDP is 29 per cent and we want to take it to 50 per cent. MSME share in exports is 40 per cent and we want to take it to 60 per cent. So far, the sector has created 11 crore jobs and in the next five years we want to create 5 crore jobs.

The turnover of our village industry is ₹88,000 crore and our priority is Agro MSME. We are contemplating what can be done through this in villages. For example, ethanol requirement in our country is such that we can reduce our oil import by 75 per cent. In India, rice, wheat and sugar are in surplus. So, we have decided to make ethanol from sugar and rice. We import petroleum products worth ₹7 lakh crore. We can reduce this by ₹1 lakh crore and spend it for agriculture.

Blue economy is of ₹1 lakh crore. Our fishermen go to sea up to 7 nautical miles. Now we have trawlers to help them go to the high seas for fishing. Fishing producer companies on the lines of farmer producer companies will be formed and given a loan of ₹1 crore.
We are also planning to come up with alternatives to items that India currently imports.

Basically coming up with import substitutes…

Slowly, we are trying to come up with import substitutes that are cost-efficient and pollution-free, and an effective export-oriented policy. We can achieve this as we have huge manpower, skilled workforce, availability of raw materials and we can make quality products. By improving technology and bringing foreign investments, we can definitely give a boost to our exports.

Source: thehindubusinessline.com– Jun 15, 2020

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GDP contraction poses 'existential threat' to MSMEs, policy measures offer little succour: Report

A 5 per cent contraction in gross domestic product (GDP) during 2020-21 may lead to a 15 per cent fall in corporate India's revenues and poses an "existential threat" for small businesses, a report said on Monday. However, policy interventions by the Reserve Bank of India (RBI) and the finance ministry offer little hope because they cannot revive demand, which is crucial for the small businesses, the report said.

The micro, small and medium enterprise (MSME) sector will have to face a sharper decline in revenues of up to 21 per cent, while operating profit margins will narrow to 4-5 per cent, said the research wing of domestic ratings agency Crisil.

The agency expects a 5 per cent contraction in the economy because of the impact of the coronavirus pandemic, which has led to nearly three months of lockdown across the country with little steps at opening up lately. The government and the RBI have already announced actions like collateral-free loans of up to Rs 3 lakh crore to the segment since the onset of the crisis.

“MSMEs face existential crisis, revenue to fall a fifth...a sharp decline at the operating level will also impact creditworthiness, aggravating the liquidity stretch these units have been grappling with, particularly on the working capital front,” the agency said.

It said there are gains to be made out of the lower commodity prices but the weak demand in the economy will ensure that the small business segment is unable to capitalise on those, it said. The average interest service coverage ratio could slide to 1-1.5 times from 2.4 times seen between the financial years 2016-17 and 2019-20, even after factoring in the benefit of moratorium on interest payments announced by the RBI, it said adding that without the moratorium, the ratio would have gone below one.

The hardest hit will be the micro enterprise segment, which accounts for 32 per cent of the overall MSME debt, and are facing material stress in terms of revenue growth, operating profit margins and working capital stretch, it said.
Drawing from precedents, it said previous downturns have shown that micro and small enterprises are unable to manage transient working capital challenges as easily as their large and medium peers.

The policy interventions from the RBI and the finance ministry will help them tide over tapered cash flows, it said adding that the biggest concern is demand that needs to be revived for the betterment of this crucial sector. However, the report was not so optimistic on the policy interventions’ ability to drive demand in the economy.

“The current facilitations may not have the heft to crank up demand in the near term because fiscal stimulus is limited and only to vulnerable households,” its Chief Operating Officer Amish Mehta said.

“It is critical that the demand curve is yanked steeply northwards, especially in discretionary products and services,” he added. He said a three-pronged strategy is essential now, which should include improvement in the sentiment around job security for formal and informal workers to boost consumption, hastening implementation of the Aatmanirbhar scheme to ensure flow of liquidity to MSMEs continues, and lenders going beyond traditional credit processes because they have to play a seminal role in recovery.

From a sectoral perspective, it said consumer discretionary, construction, and export-linked ones will bear the brunt, while small real-estate contractors into EPC (engineering, procurement, construction) projects, and ceramics and textiles makers have been significantly impacted so their credit profiles are the most vulnerable.

Revenue growth of MSMEs in the real estate EPC segment could almost halve with demand sliding even as rising costs, supply chain disruptions and labour issues exert severe pressure on margins, it added. Lower utilisation and partial absorption of BS-VI price hike could erode margins of auto-component MSMEs this financial year despite lower raw material prices, it said. The bigger companies are not expected to be impacted as much by the challenges, and the overall revenue growth will decline 15 per cent only while the operating profit margins will be down by a fourth, it said.

Source: financialexpress.com– Jun 15, 2020

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Odisha to offer liquidity, relaxations in labour laws to industry to tide over Covid

Odisha, which attracted 18% of total investment in the country in H1FY20, is keen that the pace is maintained despite Covid-19. To handhold the industry, the state government will shortly announce sops in the forms of liquidity support and certain relaxations in labour laws to help it navigate through the Covid-19 pandemic, Odisha industrial promotion body IPICOL's managing director Nitin Jawale told FE's Prasanta Sahu. Edited excerpts:

Why investors would prefer Odisha over other coastal states?

Few states can match Odisha's huge mineral resources base, surplus water and power as well as five deep sea ports (including two under construction). The mix of resources as well as critical strategic placement and infrastructure that has come up in the last 20 years due to the stable government (led by BJD's Naveen Patnaik since 2000) are very effective factors for investors. In the entire eastern region, there is not much of competition against Odisha (after decline of industry in West Bengal). This region needs to be serviced and we provide industry a readily available launch mode.

What has been Odisha's share in the country's investments in recent periods?

In the first half of FY20, we got 18% of total investments in the country, the highest by a state. This is a proof that our stance has translated into investment.

How is Odisha planning to attract foreign investment at a time many firms are relocating from China to other countries?

Our industrial backbone is mining and the metal industry. We can't expect that some iPhone manufacturing will out rightly start in Odisha because there are a lot linkages involved. But, what we can focus on is metal downstream industry and ancillaries. We already have a footprint of Japan and Germany in a few metal and ancillary industries. Japan's Nippon Steel is partnering with ArcelorMittal for expanding capacity in the erstwhile Essar Steel pellet plant in Paradip. Hopefully, we'll be able to attract some other companies which are trying to relocate from places like China for a particular sector which is our strength.

Is Odisha planning new measures for industry, including MSMEs, to create more job opportunities?

We are focusing heavily on MSME development. With a lot of industrial disruption due to Covid-19, an inter-ministerial committee has recommended statutory support, liquidity support and infrastructure support to MSMEs and large industries. These measures, awaiting approval from the government, are aimed at helping them survive this crisis and grow.

Could you elaborate on the succors being planned for industry?

The government can give certain relaxations on statutory dues to the government by MSMEs and industry. Some relief may be given on statutory compliance (as per labour laws) requirements by industries. Infrastructure support, as well as help in terms of procurement, is also being planned. We have told district collectors to lay a lot of emphasis on industrial development, issues related to land and utilities.

What are the recent investment proposals in the state?

Even in this Covid-19 crisis, in April, the high-level clearance authority (HLCA) approved three big projects, each one of more than Rs 1,000 crore. These investments are in areas such as metal and petrochemical downstream.

Which are the sectors you are focusing to attract investment?

The foremost is metal and metal downstream. Then we have petrochemicals and chemical industries; textile and apparel industry; electronics; tourism and health and the pharmaceutical sector. Barring electronics, we have done relatively well in other sectors.

Source: financialexpress.com– Jun 14, 2020

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Anti-China sentiments can be used to expand our agricultural products to the world: Ajay Sahai, FIEO

Export and import account for 40% of India's GDP, but the COVID-19 pandemic has particularly hit the Indian exporting community hard. To figure out where Indian export community stands, and when a meaningful recovery can take place. ET Digital spoke to Ajay Sahai, DG & CEO, Federation of Indian Export Organisations (FIEO), Edited excerpts.

Economic Times (ET): Even before COVID-19 started affecting the Indian economy, how were the exports doing this fiscal?

Ajay Sahai (AS): Indian exports were doing well in the first half of the last financial year. But, in the second half, COVID started impacting some of the Northeast Asian economies and then Europe. We started to see a dent in the demand and little disruption in the supply chain. With that, probably in the last few months of the last financial year, we have seen export dipping and finally, at the end of the year we clocked around 5% decline in exports.

But our major problems started in this financial in the first month itself, when we saw a 60% decline in exports and there are reasons for that. The manufacturing was completely under lockdown, there was supply chain disruption also. But as we are opening our economy, we will be coming back on track slowly. But it will be a long journey for us, particularly in the field of exports as the global demand has taken a huge hit and we expect around 30% decline in the demand. It will be more challenging in the lifestyle products which are employment intensive, including leather, apparel, textile, handicraft, carpets, gems and jewelry. Over a period of time demand will be back and we might see an increased by the demand in the pharmaceutical and processed food sector.

ET: Indian exports were in some sort of trouble even before COVID-19, but how hard was it after the COVID-19 lockdown, especially in India and the subsequent tapering down of demand across the world?

AS: COVID-19 has played a huge dampener on our exports. The micro and small industries have been the most affected as they hardly have any liquidity left with them. They were under the lockdown roughly in every state for around two months and in some states, many units are still in the containment zone or their offices are in that zone, and therefore they are not back to the normal.

We have to keep in mind that if there is a disruption for a few months, going back to recovery may take longer time, and that is happening now. There was a dampening in global demands prior to the COVID-19 pandemic. The biggest problem at this point of time is that large companies across the globe are heavily leveraged, and they hardly have any elbow room. And it is very difficult for them to come back on track. In fact, the trend started after the financial crisis of 2008-2009 and we have seen interests dipping and these large companies have resorted to massive borrowing. So even before entering the pre-COVID period they were already heavily leveraged and that's according to one estimate, the global debt is around 95% of the global GDP, which is very worrying for us.

ET: India has started getting out of the lockdown phase, and so have countries across Europe. We see virtual easing in the US as well, too. Though these are very early days, but what is the kind of demand that Indian exports is seeing?

AS: It is good that many economies are coming back on track. We are also encouraged by the fact that the unemployment rate in the US has come down in the month of May which was unexpected. Secondly, what we are seeing is increased inquiries are coming to India, particularly from the countries who are taking an anti-China's stand because the industries in those countries are a little worried that if China specific tariff is imposed then they need to have an alternate supply line.

So, their choice is India and we have seen many of these inquiries coming in. But at this point of time most of them are exploring. I feel that it will be a time consuming exercise for Indian exports to be back on track. I will be happy if we are able to contain the export decline in the current financial year between 15 to 20% because in the first month of April we have taken a 60% decline, which means 5% decline if you divide it into a 12 month period. The World Trade Organisation has said that the global trade will decline by about 30%. So, it's not a good time for exports and that's why we are encouraging the SMEs to look into the domestic market and explore the possibility of promoting their exports through e-commerce.

ET: In terms of the anti China sentiment, how much do you think is it possible for India to grab a share of the exports, and how do global exports move so that India can you know take advantage of this?

AS: Globally, people are apprehensive to buy edible products from China, and that is not something which is not linked to the anti-China sentiment. But now with the anti-China sentiments rising I would like to cash in on that as countries are apprehensive to buy from China, particularly food products. That gives us huge scope to improve our agriculture exports. This includes fruits and vegetables, processed food, cereals, tea, marine products. We can look for a massive market because China is a major player in this segment. Related products can include utensils, because people are worried about what kind of steel China is using and whether that's contaminated. So for these products the entire globe is open for us. It's a win-win situation for other countries, including India.

At the moment we are seeing anti-China sentiments in the US, Europe, Japan, Korea, Australia, New Zealand, and this will be further articulated by the US President in his elections because that will be one of the key planks on which he will be contesting the polls. So over the next three to four months, many more countries will be joining in.

But China is a major player and will not be easy to replace, but at the same time, the disruption in the supply chain route has urged countries to look for some kind of localization, a trend that has also started in India. So, we will see some kind of import substitution also coming in because of the anti-China's stance. If we want to be the biggest supplier of pharmacy of the world, then we should have an integrated supply in place in our own country.

At the end of the day if you want to replace China I think we need to create capacities in various sectors. It's good that the Government has come with a very robust policy for electronic manufacturing, where they will provide 4 to 6% incremental incentives in clusters for electronic manufacturing. Now we are talking about the same set of incentives for medical and surgical equipment, because we need to bring down the dependence also, and this kind of strategy has been successful in the past. We have attracted mobile companies coming in India and they have helped us to reduce our import dependence and now they are using India as the base to export to the Middle East and South Asia.

These are the good things which are happening, but I agree with you that if you want to compete with China, you have to create scalability also into your operation, which will be definitely a little long-drawn process. Let us look into this over a three to five year horizon.

ET: The government announced a slew of measures since May, 13. Was there anything for the export community and do you think the government can do something more?.

AS: There has been some initiative that the government took to support the export sector. The biggest one was the extension of the interest equalization scheme where MSMEs have been given 5% interest equalization. This puts Indian MSMEs very close to what the Southeast Asian countries are getting. I'm not comparing with the US or Japan, where the interest rate itself is low, but in most of the cases the cost of trade for MSME has come down to less than 4% and in some cases 2% .

Also, realizing the challenge that liquidity is a problem, even with global buyers, the Reserve Bank of India it extended the remittance period from nine to 15 months, and extended the tenure of pre and post shipment credit from 270 days to 450 days. So these are very pragmatic moves and all the agencies of the government have provided relaxation so far as compliance with concerned.

Many countries are providing demand stimulus and now they should get our attention as far as the exports are concerned. At this point of time we are competing with countries, including China who has provided 3 to 4% extra VAT rebate on exports and since Indian currency had depreciated by 3% during March to May we would require the government to provide some kind of fiscal support to export, though for a limited period.

ET : When do you see any meaningful recovery taking place?

AS: If there is no second wave of COVID-19, then we may see a good thing happening for export sector from September onwards, though there won't be any remarkable growth in this calendar year. So, I hope that exports will go in a positive territory from January 2021.

Source: economictimes.com– Jun 15, 2020

HOME

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Cutting costs to trimming their losses: India's garment industry is hanging by a thread

The government's Unlock 1 order gave malls and markets the go-ahead to reopen with caveats. But clothing store owners are struggling to get back on track. Many were already on a rocky road even before Covid, thanks to the double whammy of demonetisation and GST, and now, broken supply chains and a crash in consumer spending means that many don't see the possibility of a pickup in revenues until September, if at all.

With clothing seen as a non-essential item, and obvious fears about trying on clothes in a shop that someone else would have tried on before, buyers are scarce — and store owners are trimming staff accordingly. "Shopping is not going to be a priority for people for a while.

Offices are open, but people are still working from home. Schools and colleges are still shut, too. People are not really socialising, so why shop for clothes if you can't flaunt them?", explains Tushar Pamnani, owner of the soon-to-be-closed Nandini Collection in Delhi's Amar Colony.

Then there is the shortage of labour. Store owners in the capital's well-known Sarojini Nagar Market aren't just dealing with a drop in customers, but labour, too, with 50-60 per cent of Delhi's apparel shop staff having returned to their homes in Uttar Pradesh, Bihar and Jharkhand.

The question now seems to be less about shoppers' readiness to come out and more about a shop's readiness to open.

Between a rock and rent

In May, the apparel sector witnessed an 84 per cent drop in sales. Low demand coupled with rent and overhead store charges is driving businesses like Pamnani's into the ground. Unable to afford the rent, which was approximately Rs 70,000, Pamnani is closing Nandini Collection after three years and says countless other stores in Amar Colony are closing down as well. He is now selling all his inventory in bulk to "lot boys" who, he tells ThePrint, sell goods on the outskirts of Delhi in rural areas. "It's a jugaad way of getting rid of stock," he says.

Compared to high-scale retailers demanding 100 per cent rental waivers from mall owners, many stores in places like Amar Colony or Sarojini Nagar Market have landlords who can't budge on rent as it's the only source of livelihood for their families.

Caught in a tough spot, clothing stores that have opened are now in survival mode, cutting operational costs and sacking employees. Apparel brands have stopped ordering fresh stock, and put orders of fall-winter collections on hold as they try to get rid of excess items from previous collections.

Jatin Malhotra, who owns three ethnic wear shops in Lajpat Nagar (one on rent and two are his own) says he's now "working with 50 per cent capacity and [therefore] 50 per cent staff".

Since he opened his store on 1 June, he has been getting an average of 10-15 walk-in shoppers a day. However, since most of the store's revenue comes from selling running fabric in bulk to boutique shops, the supply chain seems to be broken with little to no demand from boutique shops.

But he's not quite as despondent, even after a 60-70 per cent drop in sales since lockdown. He is looking ahead to September and the Diwali season, when sales usually double. "It's not as though sales were great before Covid," he says. "The market was still recovering from note bandi [demonetisation] and GST."

Flash sales for emergency cash

Having been forced to dip into their personal savings to keep their stores running during lockdown, some store owners are now trying to sell as much inventory as possible for liquidity. Pranav Sood, co-owner of a Mumbai-based clothing rental store, tells ThePrint that his business relies heavily on the film industry rather than walk-ins, and since there have been no movie shoots for months now, he is feeling the impact.

With 10-15 film projects on hold, his plan is to now sell goods online, including via Instagram. “If we put 10 items up for sale, usually two are sold. I wasn’t surprised by this since our business is very much based on touch.

Customers like to come in and touch and feel the garments before renting them for a shoot,” says Sood. Malhotra, too, expressed concern about selling online since “it’s hard to showcase intricate embroidery on a website”.

Brands, too, are looking at ways to adapt to the Covid era, and one of those ways is through Covid fashion. Well known brand The Label Life has started online sales of a work-from-home collection and are heavily promoting nightwear. Meanwhile, face masks have become fashion statements.

Smaller production teams and reducing to match demand is another way out. To that end, something like Delhi-based leather bag brand Chiaroscuro, which is completely online and works on a made-to-order basis, is at an advantage, since it maintains a light stock and has a team of only about 20 people.

Founder Smriti Sain tells ThePrint that Chiaroscuro went from making approximately 10 per cent of regular sales in April to 35 per cent in May and hopes to reach normal revenues by the end of June. She says that this way of working is “a lot more sustainable in the way you handle your raw material, use the productivity of your artisans and also your finished goods.”

Source: theprint.in– Jun 14, 2020

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It is time to tap potential of handicrafts and textiles

India has an estimated 16 million craftspeople, living mainly in rural India, who are actively involved in some of the most complex textile processes that the world has ever seen. This is not an insignificant number.

These craftspeople constitute a highly-skilled workforce, with huge knowledge of specialised processes, learnt from master craftsmen, who ran guilds over centuries, of complex designs.

It was in the 1960s that I discovered the art of gold embroidery in a rural setting, in small villages in West Bengal, where the craft was being practised. It is said that the origin of the craft was Iran, and it came to India during the Sultanate. The embroideries from these villages were once patronised by the Nawabs of Bengal. India is replete with village workshops like these, which cannot survive without financing and infrastructure.

After the coronavirus pandemic, the reality is that the handloom and handcraft sector in India needs a way to survive. There is no relevance today in government-run emporiums.

Our philosophy is completely wrong. A superior handloom product, aesthetically appealing as well as ecologically-friendly, cannot be sold out of compassion but needs the modern technology of marketing and retailing, and needs to be projected as the best in the world. This is the only way to survive in a competitive market.

A fact not commonly known is that the textile sector is the second largest employer in rural India, after agriculture. India was the world's largest supplier of textiles 200 years ago. By 1947, this was converted into a nation using copies of its own textiles, in bulk from England's industrial areas. This bankrupted India's rich craft economies is causing destitution in India's rural markets.

It is a miracle that post-Independence, due to the government's efforts to revive heritage crafts, India has been able to recreate many of its forgotten textile crafts. This was forward-thinking at its best and was not easily achieved. It took a sustained and progressive, revival movement to save India's handmade legacy. This was successfully launched with a series of the "Viswakarma" exhibitions, which displayed the sophisticated creations of this revival in prestigious museums.

The programme generated a great degree of excitement, and the affluent middle-class became the biggest patron of these textiles. This was unlike in many other countries where priceless textiles were relegated to dusty museums. In India, these creations, and not fashion from the international ramps, became aspirational garments for urban consumers, especially women.

In an effort to create interest in Indian crafts internationally, the “Vishwakarma” exhibitions were exhibited through the Festivals of India in the most-prestigious museums around the world capitals. This highlighted the richest traditions of handcrafts left in the world. This again caught the attention of the fashion fraternity abroad. India was once again on the world fashion map.

Over the last two decades, the Indian fashion industry has made strides. And unlike the rest of the world, it boasts of an indigenous team of designers. These do not necessarily mean only those who show on the ramps, but also those present in the rural fields. They are weavers, embroiderers and creators of embellishments, which no one in the world can create.

Most of Indian couture and its glamorisation can be attributed to the handmade crafts. In India, the garments from maharajahs and royal pageants serve as a theme to Big and Small Indian Weddings. Their imitations have flooded malls, boutiques, village haats and bazaars across smaller markets. Each has its own version, creating a theatrical, Indian ethnic fashion.

With the recessionary trend that the pandemic is causing, it is time for the government to step in, as they did in the 1950s, to save India’s handicrafts. The drop in the retail of high-end merchandise will temper the scale of celebrations. Most high-end production will move from hand-made to mechanised alternatives. The world today produces textiles using sophisticated machinery.

India’s vast repertoire of designs may end up being used only as an inspiration, as is the case with China, which produces copies of the woven Benares saris, among a host of other textile merchandise, and sells these at a fraction of the price to India. This has destroyed the handloom market in Varanasi. After the pandemic, we have a real problem of livelihood on our hands here, as well as one of the intellectual property of textiles which is facing a real threat.

The government has to think outside the box, step in and support start-ups. This is a lucrative market. It can be run and marketed by a professionally-run organisation, with cutting-edge pricing, which also offers retail spaces on the internet. The only way to do this is to become a conduit to the customer to buy directly from the craftsman which would involve minimal overheads. It can easily be achieved.

Let us look at the USP of this sector. Handicrafts can be best generated in agrarian set-ups. They do not necessitate a move from the rural to the urban scenario, hence avoiding the ghettoisation of its inheritors.

It requires little investment in production infrastructure or skill development. It will be the only Made in India by Hand brand in the world.

Source: hindustantimes.com– Jun 15, 2020

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