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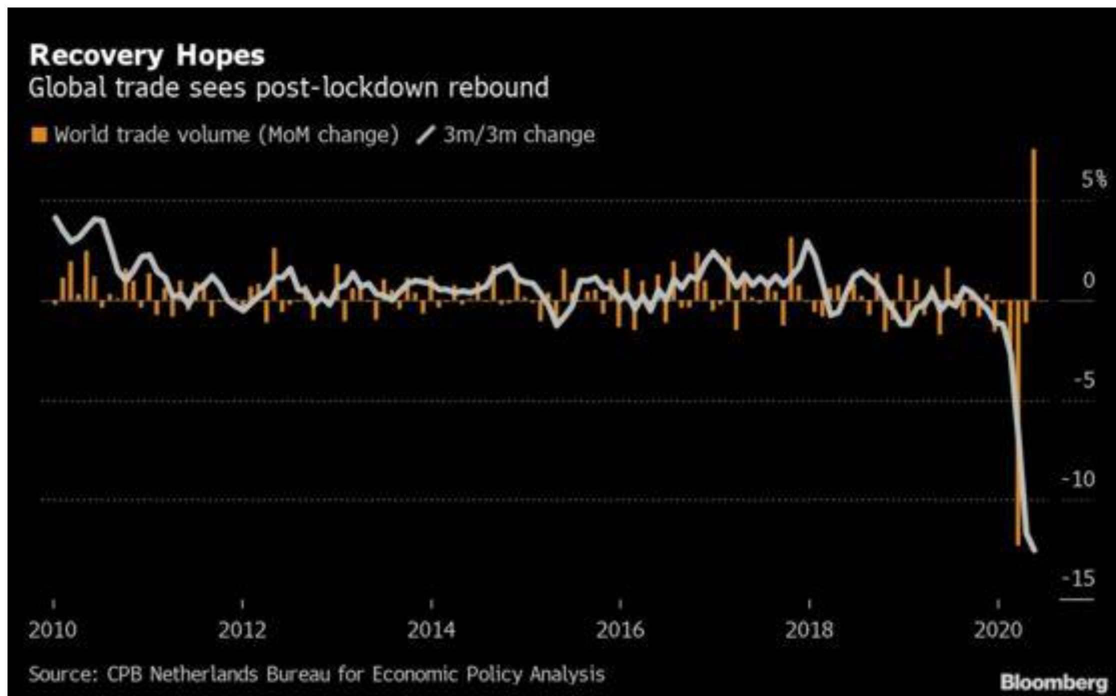
INTERNATIONAL NEWS

Global trade rebounds in June after lockdown slump

Global trade surged in June as governments started to reopen their economies from strict lockdowns earlier in the year.

There was growth in almost all countries, according to CPB World Trade Monitor, after huge declines in the previous three months.

Even after the 7.6 per cent jump in June, trade was down 12.5 per cent in the second quarter, with the headline index at the lowest since 2014.



Source: thehindubusinessline.com– Aug 26, 2020

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Mixed credit impact of supply chain shift on ASEAN: report

Shifting supply chains as countries reconfigure trade relationships following the coronavirus crisis will have mixed credit implications for the Association of Southeast Asian Nations (ASEAN), according to a report by Moody's Investors Service, which said trade diversification is likely to favour ASEAN economies over time, while the reshoring of supply chains closer to consumer markets could move productive capacity away.

"We expect many governments and companies will reduce their dependence on China in global value chains moving forward, driven by the coronavirus outbreak, the China-US trade conflict, and heightened national concerns over economic security," says Deborah Tan, a Moody's assistant vice president and analyst.

"While the technological capabilities of the ASEAN region still lag those of more advanced Asian economies, particularly in electronics, a general openness to foreign direct investment and lower production costs will offer some advantages," said Tan in a company press release.

Recent events will accelerate the offshoring of activities to ASEAN at the expense of trade with China, although an exodus of foreign companies from the Chinese markets is unlikely even as companies step up efforts to mitigate risks.

While the ASEAN economies stand to benefit from the efforts of producers to diversify their sources of supply, they will be negatively affected if reshoring trends become more pronounced.

Yet, there are three ways in which the ASEAN economies might mitigate the impact of a possible reshoring trend and the associated fragmentation of the global trading system: enhancing free trade agreements with advanced economies, deepening regional trade agreements, and developing ASEAN further as a trading bloc in its own right, the report added.

Source: fibre2fashion.com– Aug 26, 2020

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Nearshoring: Europe's next textile boom?

European textile manufacturers look set for a significant boost if new, more flexible legislation is introduced to make it easier to work with nearshore partners. The winners will be textile businesses in the EU and pan-Euro-Med countries. The likely losers will be the UK post-Brexit and competitors in Asia.

The European Commission is on track to push through new rules that could transform the cost advantages of nearshoring textiles production. The rollout will be subject to the approval of ministers from EU member states in the coming months.

EU textiles firms could soon be able to make a fabric in Italy and send it to a Mediterranean neighbour such as Egypt or Lebanon for dyeing, while still avoiding the payment of trade duty on the finished product.

The European Commission has this month recommended that the EU amends its trade agreements with 20 out of 24 of its fellow partners in the pan-Euro-Med (PEM) trade zone. The countries in the PEM zone include the EFTA states, the Balkan states and other countries in the Mediterranean region such as Algeria, Egypt, Israel, Lebanon, Morocco, Tunisia and Turkey.

Manufacturers have been calling for some of the rule changes for the best part of a decade, but negotiations were stalled by the objections of the Tunisian and Moroccan governments. The European Commission has recommended that any countries that agree to the new rules should implement them, with the hope being that others will sign up in future.

Representatives of British textile firms have expressed regret that the UK will not be benefitting from the agreements, which could incentivise European fashion firms to shift more of their production closer to home and out of Asian countries such as Bangladesh and China.

Paul Tostevin, director of world research at Savills, says that its research suggests countries ranging from Ukraine and Serbia to Turkey could benefit from a nearshoring trend: "Policies that aid the flow of trade will further bolster their prospects as nearshoring destinations."

"The overall objective is to develop this Euro-Med region," says Dirk Vantyghem, director general of Euratex, the umbrella body representing textile manufacturers in Europe. Vantyghem notes the urgency of the debate about moving production closer to the market since the Covid-19 pandemic started. The new rules, he says, "fit within that logic".

Ensuring that a textile product avoids duty is a complicated process. It must be demonstrated that the product has undergone enough of a transformation in the final step of the manufacturing process. Get that right — and, for example, linen spun in Lebanon can be turned into a shirt in Italy and be treated as if it were an Italian export in terms of trade duties.

The new rules mean a greater number of production processes will now qualify textile products for preferential trade treatment. They will also allow for "full cumulation" for most products, which means that the necessary amount of manufacturing can be split across more than two countries within the zone and still qualify, even if the initial product — such as cotton from India — comes from outside the zone. "Textiles are quite highly taxed," says Ross Denton, senior counsel at Baker McKenzie, a multinational law firm. "The name of the game is to get as much as they can into the EU duty free."

A number of fashion firms, including Boohoo and Inditex, have benefited in recent years from moving manufacturing closer to where their products are sold. Denton is sceptical that the new rules will be enough to shift the needle for firms that already have highly optimised supply chains further afield, due to additional considerations such as labour costs and taxation. But he sees clear benefits: "They are making the PEM zone a much more attractive place to do integrated supply chains, specifically."

The UK is likely to be excluded from the new rules as the country looks to develop its own bilateral deals with trade partners now that it has exited the European Union.

"We are continuing to raise the importance of this agreement, particularly as other new trade negotiations have not progressed. However, the UK government is currently pursuing its own rules of origin regime," says Adam Mansell, CEO of the UK Fashion & Textile Association.

Source: voguebusiness.com– Aug 26, 2020

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Coronavirus speeds up retail e-com by 5 yrs: IBM US study

The COVID-19 pandemic has accelerated digital shopping by about five years since March, according to IBM's annual US Retail Index Study, which found the pandemic has spurred more people to purchase products online to a level that probably wouldn't have been seen until 2025.

While consumers have gradually increased their digital shopping over the past few years, as the novel coronavirus rippled across the United States near the end of the first quarter, consumers shifted their purchases online, and e-commerce sales accelerated from plus 13 per cent growth in the first quarter to plus 26 per cent growth in the second, IBM said.

"On the other side, department stores, among other 'non-essential' retailers, saw a tremendous deceleration, declining by 25 per cent in the first quarter and 75 per cent in the second quarter. For the full year, e-commerce is projected to grow by nearly 20 per cent, while department stores are projected to decline by over 60 per cent," it said.

But some retailers have benefitted greatly from the pandemic, even while store traffic declined, according to IBM. For example, JOANN, the nation's largest fabric retailer, saw demand for materials to make cloth face masks skyrocket, according to IBM. The company was able to lean on its online channel to fulfil sales as inventory inquiries rose four times above its 2019 holiday peak.

The study stresses that retailers must pivot their focus to omni-channel fulfilment capabilities, if they already haven't.

The study reaffirms the major shift in purchase patterns the pandemic has caused as consumers redefine what's "essential" to them. As clothing has declined in importance (partially offset by an uptick in leisure wear), categories like groceries, alcohol and building materials/home improvement have all accelerated.

Source: fibre2fashion.com– Aug 27, 2020

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Global trade of silk yarns show considerable fall

The global export of silk yarns was reported around $432.32 million in the year 2017, which decreased 13.04 per cent to $375.95 million in 2019. Total exports declined 15.46 per cent in 2019 over the previous year, according to data from TexPro. It is expected to move up to $388.07 million in 2022 with a rate of 3.22 per cent from 2019.

The global import value of silk yarns was $457.59 million in 2017, which fell 22.92 per cent to $352.73 million in 2019, according to Fibre2Fashion's market analysis tool TexPro.

Total imports plunged 28.31 per cent in 2019 over the previous year and is expected to increase to $367.67 million in 2022 with a rate of 4.24 per cent from 2019.

China ($141.36 million), Romania ($75.51 million), Italy ($57.25 million), Vietnam ($32.68 million) and Brazil ($27.64 million) were the key exporters of silk yarns across the globe in 2019, together comprising 88.96 per cent of total export. These were followed by Slovenia ($8.12 million), Germany ($5.73 million) and Thailand ($3.98 million).

From 2016 to 2019, the most notable rate of growth in terms of export value, amongst the main exporting countries, was attained by Italy (68.34 per cent) and Romania (12.33 per cent).

Italy ($168.88 million), Japan ($54.19 million) and India ($15.47 million) were the key importers of silk yarns in the globe in 2019, together comprising 67.62 per cent of total import. These were followed by the UK ($13.73 million), France ($10.97 million) and Vietnam ($9.60 million).

From 2016 to 2019, the most notable rate of growth in terms of import value, amongst the main importing countries, was attained by Italy (35.45 per cent) and India (22.75 per cent).

Source: fibre2fashion.com– Aug 26, 2020

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Technical textiles demand growing while traditional textiles diminish

Global technical textile demand continues to touch historic lows, but technical textiles are showing resilience, raising hopes of a quick recovery in 2021. An updated edition of the study which also tracks the COVID-19 impact on the market offer insights on how demand will evolve during 2020-2030.

Technical textiles have been among rapid growth areas of the textile industry that are commonplace, from gym gear and sportswear to car seats and in airbags.

The global market for technical textiles, in particular, is receiving huge impetus from an unprecedented rise in demand for functional fabric for monitoring safety and operations in the industrial sector.

The textile industry is highly diversified, satiating a broad range of domains ranging from conventional handloom products to wool, cotton and silk products and contain products that stretch through natural and artificial fiber, apparel, and yarn.

Technical textiles are poised to play a vital role in transforming the textile industry, owing to their diverse applications across several end-use sectors including, infrastructure, construction, automobile, aviation, healthcare, and defense.

Technical textiles market size study

- Market to grow at healthy CAGR through 2030
- Mobiltech accounts for leading revenue share
- Governments in various regions to provide taxation incentives on import of technology, and training assistance over marketing and operations
- Rising sustainable concerns to fuel demand for technical textiles in water treatment, and erosion protection in coming years
- North America and Europe to offer lucrative growth prospects, given strong adoption of advanced technologies

COVID-19 Impact on technical textiles market

While the technical textiles market has been facing the rippling effects of the COVID-19 pandemic, the market growth is stimulated by the need to help deliver personal protective equipment (PPE) as various hard-hit countries are confronting an acute shortage of disposable PPE for front-line medical workers.

As the battle against the COVID-19 crisis persists, demand for necessary face coverings continues to soar. The opportunity to create an impact in the battle against the public-health crisis and to help in improving the safety of communities has offered a new meaning to businesses, and operations in the technical textiles market.

Case in point, Berry Global Group Inc. is delivering prominent healthcare and consumer brand firms across the world to manufacture products in large-scale to tackle the contagion of COVID-19.

In the US, the company has scaled up its capacity to provide maximum output on the ground of rising demand for healthcare products such as materials for face masks and hard surface disinfectant wipes.

Moreover, in Europe, the company is operating its meltblown lines round the clock to develop materials for face masks and other healthcare purposes including, materials leveraged in blood filtration.

“Farmworkers are turning their sight towards agro-tech products realizing limited availability of water, uncertainty in climate, and the threat to crops from getting hampered by pests and insects. Such agro-tech products are likely to enhance agricultural productivity, thus, favoring market growth over the decade ahead,” says the analyst.

Technical textiles market – competition intelligence

In a bid to maintain their competitiveness in the global landscape, leading manufacturers are entering into acquisitions of their peers.

- Vitruvian Group has acquired Ahlstrom-Munksjö’s fiber-optic reinforcement business. This acquisition is likely to boost the company’s product portfolio

- Freudenberg & Co. KG has taken over 100% shares of Low & Bonar PLC. With the latter's innovative technology, the company is slated to further extend its technological expertise
- Besides, Freudenberg & Co. KG has acquired 100% shares of Filc, which develops laminated materials and needle punch nonwoven textiles with a focus on construction and automotive industries

Source: textiletoday.com.bd– Aug 26, 2020

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Indonesia, Philippines enhance economic, trade cooperation

Indonesia and the Philippines have discussed a proposal to organise dialogues in copper and textiles, taking each other's advantages and boost economic and trade links between the two countries.

At the virtual 8th Meeting of the Joint Working Group (JWG) on Trade, Investments, Handicrafts and Shipping held on August 11, Iman Pambagyo, Director-General for International Trade Negotiations at Indonesia's Ministry of Trade, and Ceferino S. Rodolfo, Undersecretary for Industry Development and Trade Policy of the Department of Trade and Industry of the Philippines, agreed to finalise a number of Memoranda of Understanding on investment promotion, halal products quality assurance, and the creative economy.

The two sides also agreed to hold dialogues on cooperation in copper and textiles within the year in order to exchange information on best practices and current industry regulations, and discuss collaboration activities, with the participation from both the government and private sector.

They consented that in the long term, these dialogues are seen as avenues to boost the manufacturing capabilities of the two countries' industrial sectors through the infusion of investments and technology.

The Indonesian side proposed increasing cooperation in fisheries and border trade. The Philippines is committed to consider the proposals given its relevance to both the Philippines and Indonesia as archipelagic states with common borders and taking into account the developments in sub-regional integration, Undersecretary Rodolfo said.

The two countries also committed to work on outstanding issues with the end view of enhancing the business environment affecting the operations of both sides' businesses.

The JWG serves as a focused mechanism to discuss trade, investments, economic cooperation and other issues affecting the business environment, apart from the regular engagement of both countries under the ASEAN framework.

In 2019, Indonesia was the Philippines' 8th trading partner, with total two-way trade hitting 7.5 billion USD. Indonesia was also the Philippines' 13th export market, 6th import source (out of 191), and 27th source of approved investments.

Source: en.vietnamplus.vn– Aug 26, 2020

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Pakistan: Protectionism vs productivity

Pakistan has the world's seventh-most protected economy. The country's inward oriented trade policies have served as a substantial roadblock to integration in regional and global value chains. This is evidenced through research by the World Bank, PIDE and APTMA, and particularly through the work of senior economist Gonzalo Varela, which is drawn upon in this article. While modern day production networks rely on components of final goods being able to move with ease through multiple countries, protectionism has made this process inefficient and costly in Pakistan. Tariffs and other duties on imports ultimately serve as a tax on exports, as on intermediate inputs, these can be up to four times higher than in East Asia. Furthermore, average tariffs on final goods in Pakistan are 50 percent higher than the average for South Asia, and almost three times as high as the average for East Asia. (World Bank)

It is evident that periods of high tariffs within Pakistan led to export reduction, while low import taxes promote exports. In this context, a reduction in taxes can be observed from the following data: the first decade of the 2000s, government reduced trade taxes from 23.1% in 1999-2000 to 8.9% in 2014. This had led to gains in exports by 173%. However, this reduction was not consistent and until 2019, the tariffs increased to 11.6%, declining the exports to 9.1%. (PIDE)

As a glaring example of irrational tariff policies, the MMF tariff regime effectively prevents Pakistan from aligning its products in tandem with the rest of the world. More than 60% of world textile trade is in MMF materials, the demand for which has grown exponentially owing to the convenience it affords. However, the duty protection given to obsolete plants in Pakistan is denying the Pakistani industry any chance to compete in this booming market, internationally or domestically.

As a result, our textiles sector has primarily been producing short staple fiber raw cotton while the world moves forward with a focus on synthetic fibers. This brings us to the issue of polyester staple fiber, a raw material of the industry upon which it would be unreasonable to apply any duties. Alarmingly, at present there is a 7% customs duty on the import of polyester staple fiber. This racks up the total import duties, which subsequently fall in the range of 20% including antidumping duty.

Trade policy distortions in the form of tariffs on intermediate inputs affect productivity downstream, through tougher import conditions. This phenomenon serves to increase the cost of production, and thereby hampers profitability. This results in price escalation, which increases the burden on consumers and renders products uncompetitive at the international level. Therefore, high protectionism serves as a hurdle to industrialization and needs to be addressed, in order for the the manufacturing sector to grow sustainably, create employment, and earn foreign exchange by increasing and diversifying exports.

Schemes have been put in place to allow exporters to obtain imported inputs at world prices, but these are largely ineffective. Only about 2 percent of textile and apparel exporters in Pakistan access duty suspension schemes such as the Duty and Tax Remission for Exports scheme (DTRE) and Manufacturing Under Bond (MUB) for their imported intermediates, compared to 90 percent in competitor countries such as Bangladesh.

Any protection to domestic polyester plants should be given directly by the government and not at the cost of our country's economic future. Pakistan's DTRE programme is also highly inefficient, as it can take two to four months to import synthetic fibers, leading to delays and uncertainties in production that are not acceptable to global buyers. This begs the question of why all inputs to textiles are not zero-rated.

A recent article for Express Tribune by Muhammad Nadeem Sarwar, titled 'Pakistan's low productivity and the way out' emphasizes that a competition-based market economic system with unrestricted trade would be an effective means to direct scarce financial and human resources to efficient sectors, and thereby improve productivity.

Implementing reforms that allow the above and further simplify entry into and exit from the market, allow for a low cost of doing business, stimulate a well-developed financial sector and a system that favors competition would be a surefire means to enhancing productivity. Both the firms as well as individuals would have to improve their productivity consistently, which ultimately improves competitiveness in the international market. This could serve to multiply exports and help the country to earn much needed foreign exchange.

Advanced machinery and technological adaptation increase the productivity of labour and thus enable them to produce better quality goods in more quantity and less time. However, our engineering sector does not produce sufficiently-advanced machinery that could help industries in automating production. We are left dependent upon imported machines, which brings us back to the conundrum of high protectionism. As a result, companies often opt to continue with outdated and inefficient technology, which ultimately hurts labour productivity and gives way to uncompetitive product pricing.

Given the large share of the population that lacks access to quality education, there is a need to improve infrastructure and accessibility, as well as to revise curriculum so that unemployment and low productivity in the labour force can be prevented. R&D support for academia and industry as well as collaborative efforts to introduce industry oriented solutions/innovations could take the economy a long way. To sum up, investment in human capital is an essential ingredient for boosting productivity. As per the International Labour Organisation (ILO) estimate for 2009-2019, China's output per person, which is a measure of labour productivity, increased by 388%, India's by 177%, and Bangladesh's by 109% while ours increased by a mere 32%.

Research by Dr. Waqar Wadho and Dr. Azam Chaudhry on 'Innovation in the Pakistani Textile and Apparel Sectors' speaks about several drivers of productivity at each level of Pakistan's business climate. Unsurprisingly, innovative firms were noted to experience higher labour productivity, productivity growth, and employment growth. Moreover, firms that are

small, young and innovative experience even higher growth in both employment and sales. This should serve as a motivational force for businesses to prioritize innovation, but innovation tends to be costly. In this regard, it must be pointed out that those firms which receive R&D subsidies invest less in innovation. Engaging in knowledge creation has significant impact on product and process innovations, especially for firms performing R&D on a continuous basis.

Research has shown that productivity in Pakistan has been stagnant and aggregate gains have been mostly driven by more productive firms gaining market shares. This situation is likely to persist if timely efforts are not made to ease import conditions, rationalize tariffs, value competition and markets and modernize education in the country. It is about time the government, academia and industry linkages were strengthened in order to stimulate R&D and innovation, thereby paving the way for enhanced productivity.

Policies should target and facilitate young innovative companies in order to build them up and help to modernize Pakistan's business environment. Furthermore, the focus should be shifted towards taxing profitability, as taxing before giving the chance to be productive would be akin to jumping the gun, and would kill many potential microsofts.

Source: brecorder.com– Aug 27, 2020

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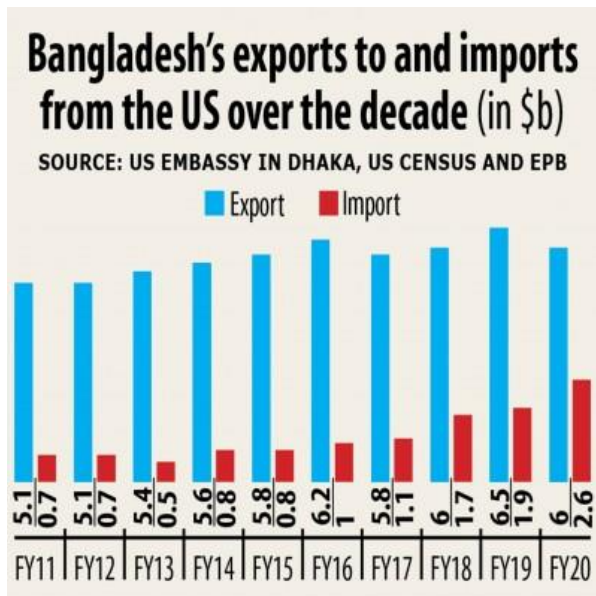
Bangladesh: US seeks list of apparel brands that cancelled orders

The US Trade Representative (USTR), the chief trade negotiator for the Trump administration, has sought a list of retailers that cancelled work orders with Bangladeshi firms due to the ongoing coronavirus pandemic.

After securing the list, the US government is expected to urge the retailers to accept their shipments of previously cancelled work orders.

A senior official of the USTR expressed his organisation's willingness to carry out this initiative during a virtual meeting of the Trade and Investment Cooperation Forum Agreement (TICFA) Council with Bangladesh's representatives on Tuesday.



The fifth round of meeting under TICFA, which was signed in November 2013 in a bid to create a platform for two countries to negotiate trade and investment, was held in Dhaka in March.

A considerable number of work orders for garment items totalling $3.2 billion have either been cancelled, deferred or withheld at various seaports as retailers in the US are reluctant to accept deliveries amid the current economic uncertainty, according to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

However, the international buyers who did not cancel or defer their work orders are demanding unusual payment terms. For instance, most of the retailers complete payment within 90 days after placing an order as per the contract outlined in the letter of credit. Now, buyers have asked for up to 180-210 days to complete their payment.

Since many local garment manufacturers are giving in to these demands in a bid to keep their operations afloat amid the economic maelstrom, the sector has run into a liquidity shortage and numerous workers have lost their jobs in the process.

During the meeting, Bangladesh said that US investors could help set up manufacturing plants for coronavirus vaccines as it would make the highly sought-after drug more affordable and available for the country. "We need a lot more foreign direct investment to spur on our country's development," said Commerce Secretary Md Jafar Uddin, who led the Bangladesh delegation.

Christopher Wilson, an assistant USTR representative for South and Central Asia, led the US delegation. Entrepreneurs from the US are the largest investors in Bangladesh, with the heaviest investments being made in the country's energy sector. But now, Bangladesh is seeking more American investment in the pharmaceutical sector, which has grown rapidly over the years.

"If US investors set up vaccine manufacturing plants in Bangladesh, it might be a timely decision because the demand for it is very high right now," Uddin said after the meeting. The Bangladesh team also demanded more American investment in non-coronavirus-related pharmaceutical industries.

"We told the US to invest in contract-manufacturing of medicine so that they can produce various pharmaceutical products here and later ship some back home," Uddin added. Investing in Bangladesh's pharmaceutical industry could indeed be lucrative for foreign investors as the country is eligible to produce patented drugs cheaply without securing a licence until 1 January 2033.

This is due to a decision made by the World Trade Organisation under the Trade-Related Intellectual Property Rights (TRIP) agreement. Thanks to this facility, the local pharmaceutical industry has thrived, meeting 98 per cent of the domestic demand.

As a result, many local drug makers are now exporting their products to nearly 150 destinations, including the US, Canada, the UK and the EU. In fiscal 2019-20, Bangladesh's pharmaceutical exports grew by 4.5 per cent year-on-year to $136 million, according to data from the Export Promotion Bureau (EPB).

Bangladesh could also be a prime location for American companies to relocate to as many Japanese and Chinese firms are moving to the country due to its trade privileges and competitive production costs. In a virtual presentation during the meeting, the Bangladesh Investment Development Authority detailed the country's initiative to launch One-Stop Service centres that would help both local and international investors.

The issue of reinstating the Generalised System of Preferences (GSP) for certain Bangladeshi products bound for US markets was also raised. Under the facility, Bangladeshi goods such as dry fish, tobacco and ceramics would enjoy duty-free access.

Before the country's GSP status was suspended, Bangladesh shipped products worth $24 million to the US each year under the preferential trade treatment. The current GSP scheme's tenure will come to an end in December either way, the US delegation said.

Therefore, Bangladesh could apply to the USTR for renewal of its GSP status when the next phase comes, according to a statement from the commerce ministry yesterday.

The US government suspended Bangladesh's GSP status back in June 2013, citing poor labour rights and working conditions following the nation's deadliest industrial accident, the collapse of Rana Plaza, in April that year. About 1,138 workers in the commercial complex were killed while 2,500 were left severely injured. After that, the US government outlined 16 terms and conditions to be fulfilled by its Bangladeshi counterparts before the country could regain its GSP facility.

Bangladesh has achieved the conditions, which mainly relate to improving labour rights, workplace safety and remediation of garment factories by the Accord and the Alliance.

The country has since applied twice for the reinstatement of its GSP status but the USTR is yet to give the all-clear as a lot more improvements to the country's labour laws need to be made. "Nonetheless, we are hopeful that the US will consider our appeal items this time as Bangladesh has already fulfilled all the conditions," Uddin said.

Locally made apparel items should also be given duty-free access to the US even though it does not provide this scope for any other country other than a few African nations under the African Growth and Opportunity Act.

Bangladesh imports tonnes of cotton from the US each year and so, these garment products should get the duty-free facility, he added. During the meeting, the US delegation demanded cotton imported from the US be not fumigated upon arrival as it had already gone through the process before being shipped.

Double fumigation deteriorates the cotton's quality and also causes a delay in the manufacturing process. The double fumigation method was introduced in the 1950s, during Ayub Khan's tenure as leader of East Pakistan, now known as Bangladesh, to prevent bollworm attacks.

The US is Bangladesh's single largest export destination but about 95 per cent of all exports to the nation are garment products. As many as 97 per cent of the goods of Bangladeshi origin had enjoyed duty-free access to US markets due to the country's classification as an LDC.

Under the LDC category, Bangladesh products still get tax-free entry to several other destinations, as per the decision taken during the Hong Kong Ministerial Meeting of the WTO in 2005.

However, the country's main export item, garment, was not included in the 97 per cent package even back then.

Garment exports account for 95 per cent of Bangladesh's overall shipments to the US.

With the existing regulations, Bangladeshi apparel items are subject to 15.6 per cent upon arrival in the US.

Source: thedailystar.net– Aug 27, 2020

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Bangladesh: Yet another round of low-cost funds on the cards for garment exporters

The government may consider another stimulus package for garment exporters such that they can pay workers' wages of August, said Finance Minister AHM Mustafa Kamal yesterday.

"I received a letter from the garment manufacturers and exporters for another stimulus package," the minister said at a meeting at his secretariat in Dhaka.

Kamal, however, said it was difficult for him to take such a decision because the issue of giving the stimulus package to the exporters depends on the consent of the prime minister.

On the eve of Bangladesh embarking on a countrywide shutdown on 26 March, the government announced a Tk 5,000-crore special package to pay the wages and allowances of export-oriented industries' workers for three months starting from April.

As the fund was later found to be inadequate, the government released another Tk 2,500 crore from the bailout package rolled out for the large industries affected by the pandemic.

Banks disbursed the amount directly to the workers' bank accounts or mobile financial service accounts. The interest-free loan carried a 2 per cent service charge.

Then on 22 June, the Bangladesh Garments Manufacturers and Exporters Association (BGMEA) and the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), whose members generate most of the export receipts, jointly wrote to Kamal seeking continuation of low-cost loans for three more months to September.

Garment factory owners are in deep worry about carrying out various activities, the future of the industry and how to pay wages to the workers, said the joint letter, which was also sent to the prime minister's principal secretary.

"As a result, it would not be possible for most garment factory owners to pay wages to workers for July, August and September," the letter said, adding that the initial stimulus package had helped the garment sector withstand the crisis brought on by the global coronavirus pandemic.

Garment factories in Bangladesh faced order cancellations or suspensions worth more than $3 billion since the pandemic took form. Subsequently, earnings from apparel shipments in the immediate past fiscal year fell to its lowest in a decade of $27.8 billion. The amount is 18.5 per cent lower than in fiscal 2018-19.

It may take up to eight months to get the payment for the shipments already made. But the workers have to be paid to keep factories up and running to execute the current shipments and make the delivery for the orders coming in, the two trade bodies said.

In response, the government in July gave yet another stimulus package worth Tk 3,000 crore for the export-oriented industries to help them provide wages and salaries to their workers for the month.

Borrowers will have to pay 4.5 per cent interest rate to avail the fund while banks will get 9 per cent interest as the government will give the rest as subsidy.

Banks will be permitted to take up 50 per cent fund from the central bank's refinance scheme to provide the credit to the export-oriented industries smoothly.

Borrowers will have to pay the loans within two years including a grace period of six months. Now, the exporters are seeking another round of low-cost funds to pay the wages of August, although shipments are on the rise.

Garment shipments raked in $3.2 billion in July, which is 14.1 per cent more than the target set by the commerce ministry for July. In July last year, apparel exports stood at $3.3 billion.

"We have asked for soft loans like before to pay the wages of August," said Md Shehab Udduza Chowdhury, a director of BGMEA. The garment exporters need the loans as many of them are struggling to hold out against the economic onslaught of the pandemic, he said.

"We also sent a letter to the finance minister seeking loans at a 2 per cent service charge," said Mohammad Hatem, vice-president of BKMEA.

Source: thedailystar.net– Aug 27, 2020

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NATIONAL NEWS

Cotton spinners' revenue to fall 30-35 pc in FY21 on tepid demand: Crisil

Revenue of cotton spinners is likely to decline 30-35 per cent to a six-year low in the current financial year due to tepid domestic as well as export demand following the COVID-19 pandemic, according to Crisil Research.

This revenue loss along with inventory losses and lower profitability is expected to result in moderation in credit quality of cotton spinners this fiscal, Crisil Research said in a report.

“Cotton spinners are facing a double whammy of sharp erosion in revenue and inventory losses. Revenues of the domestic industry, which had fallen last fiscal, is set to slip again and touch a six-year low.

“Additionally, inventory losses loom because cotton prices have declined 10-15 per cent on a sequential basis in the first quarter of the current fiscal,” Crisil Research Director Hetal Gandhi said.

Domestic demand for cotton yarn, which accounts for over 70 per cent of overall demand, has been impacted because of slack in end-user segments such as readymade garments (RMG) and home textiles.

Similarly, cotton yarn exports have been affected because of fewer orders from China and Bangladesh, which account for over half of India’s exports, the report said.

Revenue from exports had already wound back by a third last fiscal, with China increasing procurement from other countries, predominantly from Vietnam, it added.

The decline in yarn offtake since COVID-19 disruptions began in February 2020 has meant the current fiscal began with higher inventories of 4-4.5 months compared with 3-3.5 months on an average in the past two fiscals.

With demand likely to revive only from the second half of this fiscal, inventories will remain high in the first half, it noted.

With yarn prices falling more than cotton prices, cotton-yarn spread is seen narrowing down to Rs 75-80 per kg this fiscal compared with Rs 80-85 per kg in the previous financial year. Operating margin is expected to contract by 350-400 basis points (bps). Further, the report noted that the working capital cycle has got elongated because of a stretch in receivables following steep business pressure on key end-users such as readymade garment makers, it added. Overall, Crisil Research expects credit outlook for cotton spinners to remain negative this fiscal.

Most firms are managing the situation by availing moratorium on debt servicing, additional COVID-19 related bank lines, and government measures such as the relief package to micro, small and medium enterprises, the report said. Additionally, it noted that one-time restructuring of loans announced by RBI will be a viable option amidst tightness in accruals to repayments in current fiscal.

That said, the benefit of continuing soft cotton prices and liquidation of high-cost inventories from the past fiscal should help cotton spinners perform better in the second half of the current fiscal, provided demand limps back, it added.

Source: financialexpress.com– Aug 26, 2020

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India cannot be export powerhouse without being open to imports: Panagariya

India should send the signal that "we stand for globalisation, we stand for exports but are not afraid to import", if we want to grow exports, said Arvind Panagariya, professor of economics and the Jagdish Bhagwati Professor of Indian political economy at Columbia University.

Except for a gap of about 200 years, India has been a large contributor to global output, Panagriya wrote in his book India Unlimited: Reclaiming the Lost Glory. In 1820, India contributed about 16% of global gross domestic product (GDP). China (33% of world GDP) and India together controlled half of the world's GDP. Currently, India's exports lag behind China's, and southeastern countries such as Vietnam and Bangladesh have become competitors, especially in the textile sector.

In his Independence Day speech, Prime Minister Narendra Modi spoke about Atmanirbhar Bharat or self-reliant India. He also spoke about being 'vocal for local', 'Make in India', and 'Make for the World', which would mean increasing exports.

Panagariya, who was the first chairman of the NITI Aayog, the Centre's policy think-tank, from January 2015 to August 2017, spoke to IndiaSpend about how India can become a global export power house, how it needs to change policy and how companies on the ground can be supported.

Making for the world means that we become more export-oriented. How do we do that?

First of all, we need to change the optics a bit. If we truly want to be an export-oriented economy, then there has to be signalling. Two things--one is signalling and the other is substantive policy changes. Both are important.

A good example of signalling is South Korea in the early 1960s. President Park Chung-hee, who led the Korean revolution, was to South Korea what Lee Kuan Yew was to Singapore. First thing Park Chung-hee did was just take charge himself, create a committee which he chaired himself. This was a committee that would meet once in a month, and all export interests would come in there--his own ministries, industry chambers, exporters themselves, some of the academics--[and] would then say what they need to do to capture global markets. And every month they would review the progress, bottlenecks and how those bottlenecks ought to be removed.

I think that sends a huge signal and we ought to do something like that. Even if it is not once a month, [we could do it] every three months. If there is a review of that kind where the progress is assessed by the Prime Minister's committee, it sends a huge signal.

If you were to look at the last decade, many people would argue that a lot of industries which could have been here--including for instance, garments--have left India and gone to countries such as Bangladesh and Vietnam. Why would that change or how can that change?

That is why I think signalling is very important--that we stand for globalisation, we stand for exports, but are not afraid to import. When we also simultaneously say we are going to do import substitution, which is what we have been saying and doing really, then the signal gets mixed up: That India wants to come to the global market as an exporter but it is not

there as an importer. Policy-wise, it does not help. That is the first thing, signals have to be very clear.

I think our signals have been very mixed in addition to the policy barriers that we face. Vietnam and Bangladesh have done better than us in terms of labour markets, land markets, business friendliness, particularly in the apparel sector, which is where we need to capture that market at the global level. Vietnam and Bangladesh have been ahead of us.

You have argued several times in your book, as well as in your article published on July 22, that we should avoid the import substitution trap.

How do we break out of that?

That is where we have to be bold and understand the economics of globalisation. We cannot be an export powerhouse without also being open on the import side. Remember, you want to export only so that you can import more as well. Just imagine, if you were not importing anything, why would you export? That would be like taking products and dumping them in the harbour because you are not getting anything in return. The whole idea behind exports is that you can import things that you do not produce at a low cost. That is the basic point.

The reason we fall into import substitution is because producers often drive the policy--the manufacturers, industry associations and so forth. And for the producers, it is a lot easy to say: “We have potential for a billion mobiles. Indians are buying a few hundred million mobiles every year. And there is no risk for us and we can capture this market. As long as imports are kept out, the market is there and there is no risk. As we can all assemble mobiles, let us do that.” That seems very plausible to the government. What we do not realise is in doing so, particularly when we are doing this through not policy reform but through import protection--that is imposing tariffs on the foreigners--then we are encouraging our less efficient producers to get into the market. And these are not going to be global size kind of manufacturers.

We have done that in the last 5-6 years, a lot of entry has happened of domestic manufacturers in mobiles. But in the end, not one of them is going to be an export powerhouse. We have seen the prospect; it is only some of the larger ones, the multinationals who have entered--who in any case operate in the global market--who could potentially be exporters. So what we are doing is taking resources from industries where we are much more competitive and into the ones that we are not competitive.

The example that you used of local mobile manufacturers not becoming competitive, why does that happen? Or why did that happen?

Now we go back to policy issues. Why is it that from the very beginning, we were not mobile producers or manufacturers, and by now major exporters, like China? That has to do with our overall policy regime. First of all, we started opening up in 1991. Our exports as a proportion of the GDP was only 7% at that time including goods and services. We started, and we were very gradual to liberalise. By the time the mobile revolution comes, everything, including phone manufacturing, was in the public sector in India. The private entry started in the mid-1990s but it really was not properly opened up till Prime Minister [Atal Bihari] Vajpayee put in place the new telecom policy. That telecom policy allowed the entry of private players, but not for manufacturing. So that revolution could actually happen because at that time we were open to importing mobiles.

We had signed the International Technology Agreement at the World Trade Organization under which we said that we will allow technology products to enter with zero tariffs, zero protection and so these mobiles would come in. And if you look at the usage of mobiles in India, the way it expanded was phenomenal. It was truly exemplary.

Our telephone production at that time was in small scale industries. We used to actually reserve a large number of products for exclusive manufacture by the small scale industry, which never goes in with the export market in mind. So, as far as manufacturing was concerned, at that time, there was no chance that we could compete globally. And with zero tariffs, of course, imports came in quickly. Thankfully so, because we could get the mobile revolution. Now, small scale reservation is gone, but labour markets are still a huge problem.

If you were to look at traditional industries--garments, light engineering, including the toasters and ovens that China excelled in--all of which also happened in recent times, what is that we can do today, if we could?

First of all, let us be very clear that we want to be an open economy. That signalling is very important. But policy-wise, labour markets are very inflexible in India. If you are a company of 100 workers or more, then it is effectively impossible to lay off any of the workers. And that deters firms in industries like apparel from becoming very large because then they have to deal with labour issues.

It is not that entrepreneurs do not want to employ workers. The whole purpose is to employ workers, not to fire them. But sometimes there are some workers who vitiate the environment and in such circumstances, you need to be able to lay off those workers, take them out so that the firm can operate properly.

Do you feel that is a critical component amongst the reasons as to why we are not able to move ahead in light engineering?

In my judgement, it is. A lot of people contest that and I am eclectic in this matter. If others think that there are other barriers the removal of which will lead to these outcomes, I am quite happy to listen to that as well.

And I do not believe in one single reform. One single reform will not do it, but it is one of the critical ones. Also, I think, for our large enterprises, land markets have become inflexible and land has become very expensive today.

If you were now to start with a clean state, how would we do it? What would give entrepreneurs the confidence, particularly in the industries that you genuinely feel you have missed the boat? You say in your book that in 2014, China exported $186 billion of clothes, almost $782 billion of electronics and electricals. The figures are much higher now, over $1 trillion. Where do we start and even if we start do we stand a chance?

You never missed the boat. The boat is always there. It is a matter of whether we get on to it. In fact, now China is getting off the boat in many products, and we are the natural ones [to take its place]. Who has got the 500-million strong workforce? Only India, nobody comes close. So I still personally think that it is purely a matter of policy, and we [need to] begin to give proper signals while also changing policies.

I have one suggestion that I have written in the book as well. The model I am very influenced by is the Shenzhen model of China. Take two or three coastal areas, where you have ports--you have them in Gujarat, Andhra, Maharashtra, Orissa--and take out a land area that is at least 300-500 sq km and declare that as an autonomous employment zone. And as in Shenzhen, empower the local administration to change the labour laws within at least that particular zone. Introduce a kind of flexibility and allow easy movement of imports into the zone, and exports out of the zone. So, facilitate trade as well. It does not require any export subsidies, or export requirements. If they want to sell domestically that is fine. If they want to

sell abroad that is fine. But fix your domestic laws nicely in three or four of those zones and see what happens.

We have tried that but that has not quite worked in the past.

Because the model has always been wrong. What we have tried are the special economic zones [SEZ]. These are small little operations, many of which became land grabs. The whole approach that we take--that every state has to have a SEZ--[is wrong].

I remember in the NITI Aayog, the proposals coming in: "In such and such area, SEZ is supposed to be 10,000 acres. But small states cannot have it. So let us make it 1,000 acres." But that is not the way. It is not a matter of every state having everything. Industry locates itself in a few states and then the workers move in. Shenzhen, when they started, had a bunch of fishing villages, a population of 300,000. Today, you have 12 or 13 million. So workers have moved in. The local language is Cantonese, everybody speaks Mandarin because they come from the rest of China. So people will move in, industry will move in.

And once the signal goes out, a lot of the industry that is moving out of China would come into these zones. And once that happens, we can begin to showcase that both to the outside world, and the domestic constituencies that this liberalisation is a good thing. We can then extend across the country.

One of your premises for economic growth overall is that we should have an export-led economy, which in turn means a strong manufacturing-led economy. In India, the argument would be that we are a large domestic economy. We have 1.3 billion people, we have enough to create for, produce for, and sell to within the country. You thoughts?

That is a huge strength and I do not dispute that. We are now also a reasonable size economy, close to $3 trillion, we are getting there. It is a good size market. But there is no comparison with the global market. The global market is way bigger. Your manufacturing alone would be multi-trillion. The goods export market today in the global economy is $17 trillion, and we are $3 trillion total--with goods, services, agriculture and everything. So it is still a very large market.

But that is not the only reason. The much more important reason to be out there is that the global marketplace is where the technological improvements and innovation happen. If you are absent from there, you will not learn those things. I like to use this analogy with cricket: Why do we have such fantastic cricket players coming one after the other? You have Saurav Ganguly, Yuvraj Singh, [Sachin] Tendulkar, Virat Kohli, MS Dhoni who has just retired. This is happening because we are playing cricket of every kind. We have been at the forefront of international cricket--[it] makes a huge difference. That is where your mettle is tested as well. You also learn from other players but you also get tested there. You really have to work hard.

We academics, whether we are operating in the market place here, which is global, or we are operating within a small little country, if my peer group is my local competitors only, I know I can be laid back. I can do one or two articles every year and still be a rajah [king]. But I cannot survive here [globally]. I am just here by what I did in the last year. Whatever stock you created in the last 40 years is history. What did you do in the last year, that is the standard by which we get judged. That is exactly what happens in the global marketplace. So it is very important.

If you can get the global companies to come in, they bring their capital, bring in their management, their links to the world markets, their technology and what we supply is good workers. It is a perfect complementarity. The Japanese have extra capital, but they do not have enough workers there to work on that capital. Let that capital come into India. We have the workers--Japanese capital, Indian labour, we can kind of cooperate together.

Post Trump, a lot of manufacturing left China or began to leave China and moved to other parts of Southeast Asia, or even moved back to America or Europe for that matter. India currently has tensions on the India-China border. What would be your prescription to take advantage of that situation, economically?

For a long time, I was very much for the RCEP [Regional Comprehensive Economic Partnership], which included 16 Asian countries, India and China among those. But post Galwan [valley, which saw a violent face-off in June], I have really changed my mind. I do not think we can really trust China in the longer run and we need to decouple. I am very much opposed to doing this decoupling by starting a trade war with China. Some of the things that directly go into security like Huawei equipment or some of the things that directly impacts security, fine, there we have to take action based on security

considerations. But otherwise we should move away from China gradually. And we can do that if we forge trade relationships with a large number of other countries. Within Asia, we have Japan, South Korea, we have Australia, we even have a number of ASEAN countries.

I would actually start with a free trade agreement with the European Union. That is a large market. I think we do not have a serious conflict in forging a free trade agreement with the Europeans because they will not push hard on issues of labour standards, intellectual property etc., which the US will. Likewise on agriculture: Europeans do not have huge export interests. With the Americans, the export interests of American farmers will come in conflict with our own willingness to liberalise our agricultural market. So for that reason, start with the European Union.

We have to be bold, we have to be willing to open our market for automobiles, spirits and so forth, which are export interests for the Europeans. We have to be prepared for that if we want the large market--$14 billion-odd worth of apparel and footwear to the Europeans. We have to be willing to open our own markets as well. The United Kingdom is another good market where we can have a free trade agreement. Gradually, if we do those--even Canada and Australia--confidence will be built up, we can then be ready to forge similar agreements with the US. That should be our roadmap. That process also allows us to liberalise our own, and that sends the signal that India really wants to be an open economy.

What are the two or three things we could do to ensure that we get this off the ground both from the top end, which you have touched upon in terms of policy, but also equally from a bottom-up point of view, from the perspective of companies?

I would very much pitch for the autonomous employment zones. It sends out a huge signal and would also solve, within those zones, the policy problems with respect to labour and land laws. Second, the Prime Minister has to give a very clear signal by bringing in some of these labour-intensive product exporters.

Also within that fold, we need to bring in foreign manufacturers. What has been missing very badly, especially in these labour-intensive sectors, are medium and large enterprises in India. I think we are populated by very small enterprises, particularly in apparel, footwear etc. These very small enterprises--shops with 20 tailors--are not your big exporters. There are two or three big manufacturers, consult them on what more needs to be done. If

the Prime Minister's Office takes that kind of initiative, it will send a huge signal. I think the states will then follow; some of the labour, land reforms, states can do.

Karnataka, for example, on land, has done very good reforms. They are trying to allow the conversion of land around the cities, from agricultural to non-agricultural uses and so forth. And that I think is a very important reform because that is where the industry has to expand--in the periphery of the cities. If we do these two things: autonomous employment zones and the Prime Minister really showing very centralised, focused interest in export of labour intensive products by both domestic firms and multinationals abroad, states will follow.

Source: business-standard.com– Aug 27, 2020

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Cotton yarn spinners heading towards six-year-low revenues in current fiscal

Tepid domestic and export demand following the Covid-19 pandemic is pushing cotton spinners to the wall as revenues are estimated to decline 30-35% in the current fiscal, marking a six-year-low. This, along with inventory losses and lower profitability, is expected to result in moderation in credit quality of cotton spinners this fiscal, a study of 150 Crisil-rated firms shows.

Domestic demand for cotton yarn, which accounts for over 70% of overall demand, has been impacted because of slackness in end-user segments such as readymade garments (RMG) and home textiles. Cotton yarn exports, too, have been materially affected because of fewer orders from China and Bangladesh, which account for over half of India's exports. Revenue from exports had already wound back by a third last fiscal, with China increasing procurement from other countries, predominantly Vietnam.

The decline in yarn offtake since Covid-19 afflictions, which began in February 2020, has meant the current fiscal began with higher inventories of 4-4.5 months compared with 3-3.5 months on an average in the past two fiscals. With demand likely to revive only from the second half of this fiscal, inventories will remain high in the first half.

Hetal Gandhi, director, Crisil Research,said: “Cotton spinners are facing a double whammy of sharp erosion in revenue and inventory losses. Revenues of the domestic industry, which had fallen last fiscal, is set to slip again and touch a six-year-low. Additionally, inventory losses loom because cotton prices have declined 10-15% on a sequential basis in the first quarter of the current fiscal.”

With yarn prices falling more than cotton prices, cotton-yarn spread is seen narrowing down to Rs 75-80 per kg this fiscal versus Rs 80-85 per kg last fiscal, which will contract operating margins by 350-400 bps.

Further, the working capital cycle has got elongated because of a stretch in receivables following steep business pressure on key end-users such as readymade garment (RMG) makers. Consequently, spinners have been depending more on bank borrowings, leading to high utilisation of working capital limits.

Krishna Ambadasu, associate director, Crisil Ratings, said: “Already the credit ratio for Crisil-rated cotton spinners has deteriorated between April-July 2020. Tepid business performance and consequent low cash flows from operations is aggravating liquidity pressures, in the first half of the current fiscal. Interest coverage ratio for Crisil rated players is expected to slide to below 1.6 times this fiscal versus 2.7 times last fiscal.”

According to Crisil, most firms are managing the situation by availing of moratorium on debt servicing, additional Covid-19 related bank lines, and government measures such as the relief package to micro, small and medium enterprises.

Additionally, one-time restructuring of loans announced by RBI will be a viable option amidst tightness in accruals to repayments in current fiscal. The benefit of continuing soft cotton prices and liquidation of high-cost inventories from the past fiscal should help cotton spinners perform better in the second half of the current fiscal, provided demand limps back, Crisil added.

Source: financialexpress.com– Aug 27, 2020

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India needs to create 9 crore more non-farm jobs in ten years; these three areas can spur economic growth

As India's economy takes a halt amid the coronavirus crisis, the country needs to leapfrog ahead to achieve the employment and productivity growth needed. India needs to put growth on a sustainably faster track and meet the aspirations of its growing workforce, said a report by McKinsey & Company. The report highlighted that over the decade to 2030, India needs to create at least 9 crore new non-farm jobs to absorb the 6 crore new workers and an additional 3 crore workers who could move from farm work to more productive non-farm sectors.

Three 'growth boosters' can spur $2.5 trillion of economic value

Global trends such as digitization and automation, shifting supply chains, urbanization, rising incomes; demographic shifts; and a greater focus on sustainability, health, and safety are accelerating in the wake of the pandemic. Within these three growth boosters, the McKinsey report found 43 potential business opportunities that could create about $2.5 trillion of economic value in 2030 and support 11.2 crore jobs, or about 30 per cent of the non-farm workforce in 2030.

It has been suggested that India should introduce sector-specific policies to raise productivity in manufacturing, real estate, agriculture and food processing, retail, and healthcare sectors. Besides, unlocking land supply to reduce the cost of residential and industrial land use and creating flexible labour markets with stronger social safety nets and more portable benefits have been emphasized.

Perks of privatisation

Large-scale privatization is expected to more than double the productivity and potentially contribute between 0.2 and 0.4 percentage points annually on average to GDP.

India has about 1,900 state-owned enterprises, of which we estimate about 400 could be privatized and it is estimated that just 2 per cent of all PSUs could yield as much as 80 per cent of total value from privatisation.

Meanwhile, reducing commercial and industrial (C&I) power tariffs through new business models in power distribution; improving the ease and reduce the cost of doing business; and using more household savings to capital markets are other recommendations mentioned in the report. It has also been highlighted that the financial-sector reforms can help India meet its $2.4 trillion capital requirement.

Source: financialexpress.com– Aug 26, 2020

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A Free Trade Agreement between Quad nations: Vision or reality?

A rising and aggressive China, necessitates a stronger and more robust US-India bilateral relationship. Notwithstanding Secretary of State Mike Pompeo's vocal support for India in the face of Chinese aggression on its northern borders, other confidence boosting measures between the two countries by way of closing a smaller bilateral trade deal that has long been in the works. However, to truly propel growth as nations recover from the after-effects of the pandemic, New Delhi will need to prioritize two correlated economic agendas.

First, besides deepening security cooperation with the United States, India will need to explore economic partnerships with like-minded countries such as the "Quad nations" to counter Chinese influence more effectively. Strategic relations with the Quad, including a Free Trade Agreement, are in India's best interest to counter Chinese assertiveness and secure its vision for the Indo-Pacific. Second and on a related note, the regional dynamic in the Indo-Pacific should be a wakeup call to Indian policy makers to make domestic reforms a corner stone to secure India's economic growth.

There are plenty of reasons for elevating economic engagement with Quad nations— the four countries with over 1.8 billion peoplerepresent a quarter of the world's population and over $30 trillion in combined GDP. Trade between the four countries exceeded $440 billion in 2018, with nearly $6 trillion in trade with the rest of the world.

The Quadrilateral Security Dialogue was originally initiated in 2007 as a forum for dialogue, information exchanges, and military drills between involved nations. However, in the years since, the activity of the Quad has

been inconsistent. India has been cautious to maintain status quo with China, particularly following the Wuhan Summit.

However, increased Chinese assertions of power in the region have created a need to revive the Quad. For India, especially following the Indo-China border clashes in June, protecting its security concerns with an alliance of democratic nations in the region is now a necessity to maintain peace.

Moreover, the COVID19 pandemic has taken a toll on the global economy, including Quad nations in sectors ranging from employment to investments. Thus, deepening their economic relationships for increased freedom and cooperation will facilitate a swifter recovery from the pandemic's impact.

But economic freedoms experienced by businesses in these countries are vastly unequal. While Australia is considered the fourth freest world economy by the 2020 Index of Economic Freedom, Japan and the U.S. are 'mostly free' by the same metric and Indiais considered 'mostly unfree'. Moreover, deepening stress between the United States and China has put pressure on American companies to diversify their supply chains that are currently heavily dependent on China.

Although India is attractive as an alternative manufacturing hub, its relatively lower economic freedom and some restrictive policies are obstacles to this. Thus, from a regulation standpoint, India should focus on structural changes to prioritize domestic ease of doing business. Revisiting its tariffs and removing red tape would facilitate both the economic freedom required for a Quad trade deal, as well as make India a more attractive investment destination. With these domestic changes, India would be remiss not to capitalize on the opportunity to become a manufacturing hub and facilitate an FTA with the Quad.

There has been some skepticism to the idea of reviving the Quad, in spite of its alignment with the current needs of the region. As Quad countries value their diplomatic flexibility, they fear that a military agreement will hinder their ability to negotiate independently with China. However, the advantages of free trade between these nations go beyond strategic advantages. As the world reels from the impact of the pandemic and the global economy shifts towards greater protectionism, a Free Trade Agreement between Quad nations would also improve their place in the global value chain.

The outbreak of COVID-19 followed by China's assertive global posture has resulted in a flurry of meetings and discussions particularly among the Quad countries. A recent teleconference with senior officials from the Quad countries on how to respond to the pandemic also included three additional Indo-Pacific powers, namely New Zealand, South Korea and Vietnam. New Zealand, despite being under the American security umbrella has traditionally shied away from taking an overt anti-China position. This only goes to show that the potential for a new security regime in the region already exists. As the country with the most to gain from such a partnership, perhaps India will need to shed its hesitance and lead the alliance.

Source: financialexpress.com– Aug 26, 2020

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Pent-up demand to take Indian yarn prices to a never-seen before levels

Though shortage of good quality cotton is pushing cotton and yarn prices up, low cotton fabrics prices are pulling them down. Spinning mills along with their agents and dealers are desperately trying to get better prices from customers who, on the other hand, prefer to wait for prices to drop.

Demand for premium apparels is at an all-time low, impacting demand for premium yarns too. Currently, carded and combed yarns are being sold at the same price with this trend likely to continue until the next festive season.

Demand for viscose, cotton remains healthy

However, soon massive pent-up demand is likely to erupt in the yarn market taking yarn prices to a level never-seen-before. Already, demand for viscose yarn and fabrics is growing at a healthy rate though their prices are controlled as most of these yarns are imported.

Demand for cotton sheeting fabrics is growing with most wider-width looms in India being packed till October and some even till December. The growing demand from denims as well as sheeting is also boosting the prices of open end yarns in India.

Rise in cotton, polyester prices; viscose unstable

Cotton and polyester fiber prices are trending up as are viscose. As their prices were depressed across all sectors, even a small increase seems like a surge. The prices of cotton carded yarns have slowed after an abnormal rise. The price of 30s combed knitting yarn have increased from Rs 170 ex-factory to Rs 176 ex-factory. However, as soon as exporters increase yarn prices, domestic manufacturers adopt a wait and watch policy instead of rushing into sales. Hence, merchant exporters receive orders of yarn booked at Rs 170 and Rs 172 too

This month, prices of 60s compact weaving yarn increased by Rs 5 over the last month only to trickle back down later. Similarly, prices of 32s carded weaving yarns also declined to less than Rs 170 ex-factory. On the contrary, there was a spike in demand for open end yarn. The prices of 10s OE yarns increased to Rs 102 while those of 16s OE yarns rose to Rs 110 exfactory.

Currently, 30s viscose yarn is being sold at Rs 154 and its price is expected to rise to Rs 158 before falling back again. However, the prices of viscose yarns remain unstable as manufacturers expect the government to levy duties on these soon. These duties may mute yarn demand for some time; however they will ultimately restore viscose to the premium category it once belonged to.

Demand picks up in overseas market

Demand for Indian yarn in Bangladesh is picking up with buyers sending inquiries again. The country plans to buy stock for September and October. However, Chinese buyers continue to demand lower prices. Buyers from Europe and Africa are buying decent quantities of yarn from India.

Currently, 16s carded yarn is being sold at $1.92 whereas 21s carded is trading at $2.02. 21 combed knitting from Gujarat is at $2.20. Earlier, 30s cotton knitting yarn was being sold at $2.35-$2.40 levels. However, now exporters are quoting $2.45 for this yarn.

Source: fashionatingworld.com– Aug 26, 2020

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CBIC announces deferred duty payment scheme to ensure easy compliance

The scheme was launched in 2016 as part of 'Turant Customs' reforms which envisages a faceless, contactless and paperless customs environment for enhancing ease of doing business, increasing efficiency and improvement in turnaround time.

Central and state level public sector undertakings (PSUs) can now pay customs duty 15 days after clearance of imported goods through customs, a move that is set to ensure speedier clearance and ease compliance for companies.

The Central Board of Indirect Taxes and Customs (CBIC) announced the deferred duty payment scheme on Tuesday, adding that it had centralized intimation of entitlement to the scheme to all customs ports, thereby removing another hurdle for compliance.

"This measure is expected to result in speedier clearance of the goods imported by the PSUs, thereby helping them in their activities," the Board said in a statement. Central and state PSUs importers will have to register with the CBIC on the basis of a recommendation letter from a joint secretary level officer of their administrative ministry or department.

The deferred duty payment scheme is presently available to 244 Authorized Economic Operators (AEOs) who can get their imported goods immediately and pay customs duties subsequently.

The Board has done away with the requirement of approved AEOs having to intimate every customs port of their entitlement to avail the facility of deferred payment of customs duties. "This would now be handled centrally... This will also apply to the approved PSUs," it added.

The scheme was launched in 2016 as part of 'Turant Customs' reforms which envisages a faceless, contactless and paperless customs environment for enhancing ease of doing business, increasing efficiency and improvement in turnaround time.

Source: economictimes.com– Aug 25, 2020

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Department of commerce proactively engaging with states to promote exports, says Anup Wadhawan

The department of commerce is proactively engaging with state governments to promote exports, Commerce Secretary Anup Wadhawan said on Wednesday.

The secretary also requested state governments to extend their support to take forward the initiatives to boost country's outbound shipments.

"We have been proactively engaging with states in terms of encouraging them to create export policies, in terms of allocating the export function to a senior level, to a dedicated department and to a dedicated officer," he said.

Wadhawan was speaking at the release of the first edition of 'Export Preparedness Index, 2020'. Gujarat has topped the chart, followed by Maharashtra and Tamil Nadu.

"We are working with states to not only have a state export strategy covering infrastructure, logistics, incentives, all other facilitation and promotional measures but also having a decentralised strategy covering each and every district," he added.

Talking about the index, he said the issues related to wrong attribution of export numbers of one state to other would be addressed.
Those issues "we are trying to address" through exporter awareness by creating windows in the shipping bills and in the GSTN formats, "so that right at the ground level, the source of the exports, right to the district level is accurately captured and states do not have this grievance that exports originating from a district in their state is wrongly attributed to some other state," he said.

There has been a paradigm shift in the incentivisation regime for exports, he added. "You see as a competing nation, competing with various countries including new entrants into the export arena like Vietnam, we have to match the global sought of package which is available to investors," he said.

He added that India has started moving in that direction in the recent past, and the entire approach to incentivising exports has seen a paradigm shift.

"We are moving away from the MEIS (Merchandise Exports from India Scheme) type of incentive to production linked incentives, to improvement in the physical environment in which investors can start operating in a plug and play manner," Wadhawan said.

Export performance in quantitative and qualitative dimensions are key metrics for assessing the health and prospects of an economy, he added.

Contracting for the fifth straight month, India's exports slipped 10.21 per cent to $23.64 billion in July on account of decline in shipments of petroleum, leather and gems and jewellery items.

Source: financialexpress.com– Aug 26, 2020

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Interest to be paid on net GST with from September 1

But GST Council says that the decision holds only for future with no recoveries for past period

Our Bureau The Finance Ministry has fixed September 1 as the appointed date for charging interest on delayed payment of net GST liability. However, there will no recovery for past period.

Net liability refers to gross tax liability minus input tax credit. The GST Council had approved a retrospective amendment but the notification currently has only been issued for future period.

The Ministry clarified that the notification relating to interest on delayed payment of GST has been issued prospectively due to certain technical limitations.

However, it has assured that no recoveries will be made for the past period as well by the Central and State tax administration in accordance with the decision taken in the 39th Meeting of GST Council. This will ensure full relief to the taxpayers as decided by the Council.

The Central Board of Excise & Custom (CBIC), the key policy making body for indirect taxes under Finance Ministry, issued the notification saying "Central Government hereby appoints the 1st day of September, 2020, as

the date on which the provisions of section 100 of the Finance (No. 2) Act, 2019 (23 of 2019), shall come into force."

Section 100 of Finance Act, 2019 amends Section 50 of the CGST Act. The original section talks about interest on delayed payment of tax. Every person, who is liable to pay tax but fails to do so within the prescribed time limit, will be required to pay interest of 18 per cent.

Post amendment a new proviso has been added in this section which says, "Provided that the interest on tax payable in respect of supplies made during a tax period and declared in the return for the said period furnished after the due date in accordance with the provisions of section 39, except where such return is furnished after commencement of any proceedings under section 73 or section 74 in respect of the said period, shall be levied on that portion of the tax that is paid by debiting the electronic cash ledger."

Section 39 of CGST Act deals with filing of returns while sections 73-74 prescribe mechanism for determination of tax not paid or short paid or erroneously refunded or input tax credit wrongly availed or utilised for any reason other than fraud or any wilful misstatement or suppression of facts. A section of experts welcomed the decision of notifying the date for future period. However, there has been no relief since 2017. Also, only select taxpayers get a relief where there is a delay in filings. There is likely to be another round of litigation on this.

Commenting on notifying the appointed date, Abhishek Jain, Tax Partner with EY, said, while this definitely would help businesses for go forward dues, with the GST Council having approved a retrospective amendment to interest being applicable on net liability, businesses would now await retrospective prescription for this.

"The retrospective notification becomes all the more imperative to subside multiple notices which were issued by the revenue authorities demanding GST on gross liability," he said.

Source: thehindubusinessline.com– Aug 26, 2020

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Delayed MSME payments: 75% dues pending by govt, CPSEs cleared in July, says MSME Secretary AK Sharma

Credit and Finance for MSMEs: MSME dues pending by the government and central public sector enterprises, which has been among the biggest cause of capital crunch for small businesses, has largely been cleared, according to MSME Ministry Secretary AK Sharma.

Addressing a CII initiative for liquidity infusion in MSMEs, Sharma said that through the online reporting mechanism for the clearance of dues, in the month of July, almost 75 per cent of the total pending dues has already been cleared, the industry association said in a statement quoting Sharma.

The secretary said that the government is looking to replicate this mechanism at the state level also. Govt's delayed payment monitoring portal MSME Samadhaan was launched in October 2017 to enable recovery of delayed payments for MSME from government organisations, departments etc. within 45 days of acceptance of goods and services.

The secretary also announced that over 3 lakh MSME registrations have happened in July and August on the newly launched portal for registration of MSMEs called Udyam Registration. The portal was launched in July for small businesses to register themselves paperless and based on self-declaration. The portal provides MSMEs with a registration number following which the registration certificate is issued.

MSME Ministry in a statement in July had said that the certificate will have a QR code embedded through which details about the new enterprises could be accessed on the registration portal. Investment and turnover related information of the business linked with the PAN and GST is captured automatically from the government databases. Th secretary said that the number of registration is further picking up well even as he urged more units to register.

Moreover, the government is also targeting to bring on board venture capital and private equity investors to participate in the Fund of Funds for MSMEs, the secretary alluded. The Fund of Funds was announced in May by Finance Minister Nirmala Sitharaman to infuse Rs 50,000 crore equity in MSMEs. Earlier this month, State Bank of India's Chairman Rajnish Kumar in a virtual MSME conclave by FICCI had said that the fund is likely to be operationalized soon.

The fund was announced with a corpus of Rs 10,000 crore approved by the Cabinet in June along with the revision in the definition of MSMEs. The fund "will benefit over 25 lakh MSMEs under stress," MSME Minister Nitin Gadkari had said in a statement in May. To be operated through a Mother Fund and few Daughter Funds, it would also encourage MSMEs to list on the main board of stock exchanges, the government had said while announcing the scheme in May.

Source: financialexpress.com– Aug 26, 2020

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Gujarat most prepared for exports; tops Niti Aayog's Export Preparedness Index 2020

Gujarat has topped the Export Preparedness Index 2020 that indicates the presence of basic facilities, a conducive environment, and the reach of the exports' footprint in the states. Gujarat emerged as the top-performing state in the 'Coastal States' category, followed by Maharashtra and Tamil Nadu, said the Niti Aayog's Export Preparedness Index 2020.

Gujarat has topped the index with a strong display in various sub-pillars such as export promotion policy, business environment, and infrastructure, the report added. Notably, other coastal states such as Maharashtra and Tamil Nadu occupy the second and the third positions in the index and all the three states have performed consistently across all the pillars, thus consolidating strong scores.

At present, 70 per cent of India's export has been dominated by five states – Maharashtra, Gujarat, Karnataka, Tamil Nadu and Telangana, the government's report highlighted. "In line with this new orientation, NITI Aayog has taken a significant step by developing the first-ever Export Preparedness Index for Indian states.

The Index ranks states and union territories on critical parameters required for promoting the country's exports," said Amitabh Kant, CEO, Niti Aayog. The Export Preparedness Index would be useful to states and union territories to benchmark their performance against their peers and analyse the potential challenges and prospects to develop better policy mechanisms to foster export-led growth, he added.

Keeping in mind the concept of Aatmanirbhar Bharat, India is looking towards a present-day dynamic economic landscape. Attaining self-reliance implies becoming globally competitive by removing bottlenecks at various steps in the export process as the country's export sector holds immense potential to become a viable alternative supplier for some of the major economies, said Rajiv Kumar, Vice-Chairman, Niti Aayog.

To realize this potential, it is crucial that India turns to its states and union territories and makes them active participants in the country's export efforts, which would be achieved by creating an enabling framework, establishing the required institutions, removing bottlenecks, and incentivizing exports, Rajiv Kumar added.

Source: financialexpress.com– Aug 26, 2020

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