LETTER

CONFEDERATION OF INDIAN TEXTILE INDUSTRY

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News Highlights

NATIONAL

INDIA MULLS 1-YEAR DELAY FOR NEW PAYMENT RULE AMID INDUSTRY CONCERNS

India is considering deferring the implementation of a new payment rule for one year following concerns in the trade and industry sectors. The government may delay the enactment of Section 43B(h) of the Income Tax Act 2013, which requires timely payments to micro and small enterprises, for a period of one year. This provision is slated to take effect from fiscal 2025-26 (Assessment Year). The apprehension surrounding economic activities in the final month of the current fiscal, 2023-24, coupled with ongoing opposition and demands, has prompted the government to reassess the provision.
According to sources in the textile industry, the Ministry of Finance was considering various options to provide relief to the industry and trade. Currently, the provision is set to come into effect from April 1, 2024, when the next assessment year, 2024-25, begins. However, the government can defer the rule for one year, meaning it would come into effect from April 1, 2025. However, there has been no official announcement yet on the matter.

Last month, Finance Minister Nirmala Sitharaman assured trade organisations of a solution to the issue. Representatives of several trade and industry organisations had met with minister Sitharaman to demand a postponement of the provision.

The provision was made in The Finance Act 2023, which came into effect from fiscal 2023-24. Therefore, buyers will have to face the heat in the coming assessment year, 2024-25.

As per the provision, buyers will have to make payment within 45 days at maximum to sellers who are registered as micro or small enterprises as per the MSMD Act. The 45-day period began on 16 February 2024 for the current fiscal 2023-24, which restricted buyers from placing any orders with micro and small enterprises. Such restrictions have led to unease in trade and industry in the country. Economic activities slowed down in the last 45 days of the fiscal, which remains crucial for achieving maximum business in a particular fiscal.

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FTA talks: India begins hard bargain on non-tariff barriers with EU

In an effort to get non-tariff barriers eliminated in the ongoing free trade agreement negotiations with the European Union, Indian negotiators have prepared an elaborate list of such roadblocks in key sectors such as pharma, engineering, electrical and agri items and have begun taking it up with their European counterparts, two people aware of the developed told The Indian Express.

This comes as India-EU concluded their seventh round of negotiations last month dealing with goods, services, market access, investment protection agreement (IPA) and a separate proposed pact on geographical indications (GIs). India and the EU had relaunched the negotiations in May 2021 after a gap of over nine years, at a time when western firms are looking at India as an alternate supply chain source to China.

The talks on non-tariff barriers (NTB) come in a backdrop of multiple environment and labour regulations brough by EU such as Carbon Border Adjustment Mechanism (CBAM) and Deforestation-free Regulation (EUDR) which is threatening to obstruct about 8 to 10 per cent of the Indian agri, steel and aluminum exports going into the 27-bloc union.

Barring Indian petroleum exports, India’s exports to EU- a key trading partner – have seen little gain over the last five years largely due to a slew of non-tariffs barriers in tea, agriculture, engineering and electronic items. While India has brought up the issues in negotiations, both parties continue to disagree on the definition of non-tariff barrier causing friction in the negotiations.

“The problem is that what we call the non-tariff barriers are referred to by them as non-tariff measures. They say that as a society we have high standards. Sometimes these standards are at par with the World Trade Organization (WTO) and sometimes they are WTO plus. They say that it’s an internal lookout that EU manufacturers are subjected to those high standards and are not meant to target India,” a senior government official said.

“We are not able to meet those standards and it is becoming a barrier to us. So the prism is changing. All that is required is standards and quality consciousness that needs to be there in India. But then comes the challenge of affordability. We are a developing nation with a large population and there is a cost associated with conformity to those high standards.That is the fundamental difference where per capita GDP comes into play. That is where they are able to use the deep pockets and insulate themselves, build and maintain those standards," the official added.

The official further said that Indian chemicals and fertilizers face major disruption in exports because the domestic industry cannot match it and Indian consumers will not bear the high cost.

"Quality unfortunately [is a concern]..that is the reason why China was able to penetrate the Indian market because …their compliance level is high. So what you call an NTB is a major sticking point. It differs from one economy to another. That is a challenge that we are facing," the official further added.

Council on Energy, Environment and Water (CEEW) in its report released last year said that the chemical exports from India were met with stringent regulations in the form of Registration,

Evaluation, Authorisation and Restriction of Chemicals (REACH), implemented by the European Union (EU) in 2007. The regulation resulted in approximately 40 per cent of exporters withdrawing from the market.

Moreover, India's rice exports have suffered due to the imposition of maximum residue level (MRL) limits, which is the highest level of pesticide residue that is legally acceptable in or on food or feed when pesticides are applied following good agricultural practices. In 2017, the European Commission (EC) reduced the MRL limit for a fungicide used in rice cultivation, which led to a sharp drop in rice exports from India. India's agriculture exports to the EU have declined in the last five years to $3.12 billion in FY23 from $3.36 billion in FY18.

"The European Union has got completely paranoid about maximum residue level (MRL). And they are actually using in the name of food safety, they are using pesticides and MRL laws as a non tariff trade barrier. So, they are setting laws for pesticide, but in the category of pesticide they are including naturally occurring pollutants and hydrocarbons which are in the environment, which are not being sprayed by anyone and they are putting limits for that under the pesticides category," Chairman of Indian Tea Exporters Association (ITEA) Anshuman Kanoria told The Indian Express.

Notably, Indian tea export to Europe has slid to $166.08 million in FY23, down nearly 6 per cent from $176.47 million in FY18. Indian tea exports already face stiff competition from Sri Lanka and Africa who have been gaining market share globally.

"The other most important thing is they [European Union] has put Indian organic tea in a high risk category, because of which they are requiring a lot of testing and certification. The government is very keen to promote organic cultivation and export but the EU with its tough laws towards India is actually placing roadblocks to the cultivation and export of organic tea. We are losing the market because a lot of people are reluctant to export due to these laws. Lots of tea we know doesn't pass the laws of tea anymore. Africa and Sri Lanka are exporting but India has its own market in the EU. And what these laws are doing is damaging the market of Indian tea in the EU completely," Kanoria added.

"There are different kinds of market access barriers for example, the pharmaceutical sector faces the barrier of registration. The registration of drugs is taking enormous time in the European Union because of the huge influence the multinational drug companies have. Secondly, we have challenges in the electrical field, where standards different from what is globally followed is imposed. In agriculture, phytosanitary standards issue and traceability is an issue," Ajay Sahai, Director General & CEO of the Federation of Indian Export Organisations (FIEO) said.

Sahai stressed that unless the issue of market access is addressed, the FTA will not make much headway because if the items are not freely allowed to be accessed in the country, there's no point in having a tariff advantage. Globally, Indian exporters are also seeing that non trade issues are emerging and we feel that the environment and labor are the two non trade issues which are going to be extremely vital for global trade in this decade, Sahai added.

"Non trade issues are definitely emerging because probably the advanced economy feels that they have not much to restrict, either through the tariff or through the licensing and they want to regulate it through these non trade issues only," he further said.

Indian textile exporters said that the problem with textile exports are not only the standards sought by the EU but also the private standards which differ from one multinational company to another. Notably, India's textile exports to the EU have remained stagnant over the years. India's textile exports in FY18 stood at $10.84 billion while in FY23 it fell to $10.48 billion.

"The problem in textile is the private standard issues which cannot be brought in negotiations. Each company in the EU has different standards that we need to meet. There are a slew of reporting requirements that are coming in which is becoming a market access issue for us," Chandrima Chatterjee, Secretary General of Confederation of Indian Textile Industry (CITI) said.

Chatterjee added that the EU has increased reporting norms which are detailed in nature and are not easy to comply with without divulging sensitive information. She added that the government should bring in one reporting standard which the EU accepts.

"One is the Corporate Sustainability Reporting Directive (CSRD) which sets the framework for sustainability reporting. Another is Corporate Sustainability Due Diligence Directive (CSDD) aims to ensure responsible corporate conduct. For us a lot of data is sensitive and sharing it is a business risk for us. The government can bring in reporting standards that the EU accepts. That convergence in standards will help us in aligning ourselves with standards," she added.

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As India gets poll ready, FTA talks with UK in last leg

Read more at : India UK FTA: As India gets poll ready, FTA talks with UK in last leg - The Economic Times (indiatimes.com)

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UK negotiators fly to India in last-ditch effort to seal free-trade deal

British negotiators have flown to India in a last-ditch attempt to clinch a trade deal amid concerns that Narendra Modi's administration intends to hold out for a Labour government. A team of negotiators led by a senior civil servant flew out on Monday with a mandate to resolve the goods and services chapters, which are among the thorniest outstanding issues in the talks.

Boris Johnson and Liz Truss also sought to secure a multibillion pound free-trade agreement (FTA) with India, a booming economy of 1.4 billion people. It is seen as one of the biggest Brexit prizes.

A UK government official said the British delegation was making a "last-gasp attempt to clinch an FTA before the Indian election campaign pauses talks".

But they added: "UK negotiators are hearing from India that they will get more out of Labour on visas and social security. That has been the impact of Labour's trip to India and meeting with trade minister, Piyush Goyal."

The shadow business secretary, Jonathan Reynolds, met Goyal during a trip to Delhi last month. His visit rankled with government figures who are concerned that India may decide to hold out until after the UK general election in the hopes of getting a better deal from Keir Starmer's government. Labour is projected to win a majority.

Visas and social security are among the most politically sensitive parts of the proposed deal. India wants to secure more visas for Indian workers and an agreement to claw back social security payments they make while working in the UK.

Visas are especially tricky for Rishi Sunak, because Conservative MPs are deeply concerned about net migration into the UK, which hit a record high in 2022.

Some figures around the business and trade secretary, Kemi Badenoch, are increasingly pessimistic about the India deal and see a free-trade agreement with the Gulf Cooperation Council as being within closer reach. Badenoch met trade ministers from all six GCC countries – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates – in Abu Dhabi last week.

The UK-India negotiations have been in the final stages for weeks, and both sides are now privately warning that time is running out before India's general election campaign begins.

India's election is expected to take place in April or May. The electoral commission is expected to set an exact date in the next few weeks, and trade talks will be suspended once the campaign begins.

If the UK election happens this spring, the next few weeks may be Sunak's last chance to finalise an agreement. But if, as expected, it happens in the autumn, there is a narrow window for a deal to be agreed over the summer.

The UK and India are currently in their 14th round of negotiations, which began on 10 January. Johnson had originally hoped to sign an agreement by Diwali in October 2022.

A spokesperson for the Department of Business and Trade said: "We have always been clear we will only sign a deal that is fair, balanced and ultimately in the best interests of the British people and the economy. The UK and India continue to work towards an ambitious trade deal that works for both countries."

A Labour spokesperson said: "No negotiations have taken place between the Labour party and the Indian government. If the UK government fail to deliver on another one of their promises, they have only themselves to blame. Labour will always value and seek to deepen the connections between our two great trading nations."

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India Inc's inflation expectation settling around 4.3%, shows IIM survey

Inflation expectations of Corporate India seem to be settling around 4.3 percent, with the latest Business Inflation Expectations Survey (BIES) of the Indian Institute of Management-Ahmedabad (IIM-A) showing that it declined to 4.37 percent in January.

As per the results of the survey, released on March 5, India Inc's one-year-ahead view of inflation is down 21 basis points from 4.58 percent in December 2023. One basis point is a hundredth of a percentage point.

"Average inflation expectation of the firms for the past six months works out to be around 4.3 percent," the survey noted, with Abhiman Das, professor of economics at IIM-A who conducts the survey, saying firms expecting "moderation in cost pressures".

Respondents to the BIES are primarily manufacturing firms. The latest round of the survey is the 81st and is based on responses mostly received in the second half of February.

Inflation expectations are keenly eyed by policymakers, as anchoring them is critical to ensuring price stability. On February 8, the Reserve Bank of India's Monetary Policy Committee (MPC) said monetary policy must continue to be "actively disinflationary" to ensure inflation expectations are anchored.

As per the IIM-A survey, the number of businesses that reported a 6-percent plus increase in costs in January edged down to 31 percent from 33 percent in December. Further, 25 percent of firms felt their costs had increased by 3.1-6.0 percent. In December, this figure stood at 29 percent.

The findings seemingly corroborate other high-frequency indicators that are also suggestive of easing inflation expectations. As per India's Purchasing Managers' Index

(PMI), the input cost inflation faced by the manufacturing sector in February was the lowest since August 2020. Even service providers' operating expenses rose at the second-weakest rate since August 2020, as per the services PMI released on March 5.

At the same time, headline retail inflation measured by the Consumer Price Index (CPI) cooled to a three-month low of 5.10 percent in January. The RBI has predicted it will fall to 4.0 percent in July-September before edging up to 4.6-4.7 percent subsequently.

Reducing the inflationary pressures will be of great comfort to the central bank, which has found it difficult to tame the retail price hike. Buffeted by multiple global shocks, CPI inflation has stayed above the RBI's medium-term target of 4 percent for 52 months in a row. Consequently, the MPC said last month it remains "resolute in its commitment to aligning inflation to the target".

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India Fastest-Growing G-20 Economy

India is making remarkable strides in becoming a top economy. According to Moody's Investors Service, India's 2024 GDP growth estimate has been raised to 6.8% from the earlier forecast of 6.1% in November 2023. This after the Indian economy grew by 8.4% during the October-December quarter of FY24 driven by construction and the manufacturing sector. This upward revision is attributed to capital spending by the government and strong manufacturing activity. Moody's also predicts that India's GDP growth will be 6.4% in 2025. The government's capital spending initiatives and robust manufacturing activity have significantly contributed to these favourable outcomes. Additionally, policy continuity after the general election and a continued focus on infrastructure development are expected to sustain India's economic growth. Despite inflation being above the 4% target, policy easing is not anticipated in the near future1.India's economic soar is indeed impressive, positioning it as the world's fastest-growing major economy, outshining even China in terms of growth projections.

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GLOBAL

Slow Regional Integration Affects Africa's Global Trade Share: Report

Africa's share in global trade has steadfastly remained below 3 per cent, primarily driven by merchandise trade, indicating a stronger inclination for African countries to engage with the wider world rather than within the continent itself, according to the Economic Commission for Africa (ECA)'s latest report on regional integration. This finding was presented by Stephen Karingi, director of the regional integration and trade division at the ECA, during the precursor to the COM 2024 ministerial conference.
Despite noticeable efforts, the pace of Africa's regional integration appears sluggish. The report highlights mixed outcomes in infrastructure development under the Programme for Infrastructure Development in Africa, noting advancements in roads and ICT against limited progress in rail transport and energy infrastructure, with financing emerging as a significant hurdle.

A notable achievement in the realm of regional integration has been the adoption of the Agreement Establishing the African Continental Free Trade Area and the creation of the Single African Air Transport Market as part of the initial ten-year implementation plan of Agenda 2063 by the African Union. However, ratification of crucial protocols and advancements in peace, governance, and security have lagged behind expectations, as per the report.

Trade integration under the African Continental Free Trade Area, initiated in January 2021, has yet to significantly impact intra-African trade, which saw a decline from 14.5 per cent of global trade in 2021 to 13.7 per cent in 2022. Similarly, intra-African exports and imports as percentages of their total exports and imports respectively have seen a downturn.
Monetary and financial integration show that the inflation criterion remains unmet, with inflation rates soaring across many African countries in 2023. The report cites a general government gross debt average of 65.2 per cent of GDP for Africa in 2023, slightly up from the previous year.

The Single African Air Transport Market, now comprising 36 African Union members, is expected to increase flight frequencies and significant economic benefits. However, the energy sector faces challenges, with the proportion of the global population without electricity access residing in Africa increasing to 77 per cent in 2020. Renewable energy sources, including green hydrogen, present viable solutions for 39 African countries to offer affordable and reliable energy.

“The rising number of unconstitutional changes of government highlights the ongoing challenges afflicting African countries, including weak governance, persistent poverty and limited employment opportunities,” said *Stephen Karingi*.

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Environmental Challenges Impacting Europe's Apparel Industry: Report

The European apparel industry's environmental challenges are becoming increasingly pronounced, with the sector's critical issues such as waste management, carbon emissions, circularity, and physical climate risks, according to the Sustainability Insights report by S&P Global. This comes at a time when the industry, known for its high-volume and low-cost model, faces potential disruptions from new environmental taxes, regulations, or supply chain complications.
Environmental risks, largely unaccounted for in pricing, have not yet significantly impacted credit ratings within the sector. However, the report suggests that as these risks become financially more significant, fast-fashion brands could face the most exposure. With regulatory scrutiny expected to rise, particularly regarding waste management and physical climate risks affecting supply chains, the industry may need to adapt swiftly.

Over recent decades, the apparel sector has undergone substantial changes, including the rise of fast fashion and the shift to online sales, leading to increased environmental externalities across its value chain. Despite the growing consumer and governmental focus on environmental issues, the industry has made minimal progress in mitigating its negative impacts, as per the report.

The report underscores the significant environmental footprint of the apparel industry, which is responsible for about 4 per cent to 8 per cent of global greenhouse gas emissions and about 20 per cent of global clean water pollution due to its high use of energy, water, and chemicals in textile production. The sector also contributes notably to microplastics pollution, with polyester-based textiles accounting for 8 per cent of global microplastics.

Moreover, more than 90 per cent of used clothes end up in landfills or are incinerated, as the industry's recycling ecosystem remains underdeveloped. This situation is exacerbated by the fast-fashion model, which continues to grow, especially in developing economies, further deepening the industry's environmental footprint and challenging its sustainability.

Clothing supply chains face significant physical climate risks, with most apparel production occurring in countries highly exposed to climate-related events such as cyclones, typhoons, and flooding. This could potentially lead to production yield drops due to rising temperatures in key locations.

While environmental risk management has yet to significantly impact European apparel companies' earnings, the report highlights the complexity of reducing emissions, especially scope 3 emissions linked to production and waste management. Fast-fashion businesses have made strides in reducing direct emissions, but controlling emissions associated with cotton and polyester production and garment manufacturing remains a significant challenge.

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