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Looking Through The Smoke Into The Mirror

The Needle's Eye

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On Tuesday came news that India's exports contracted for the first time in 13 months in October. Our trade deficit has widened to a near three-year high of $86 billion.

Ready-made garment exports in October shrank 39% from a year earlier to $829.44 million. Apparel exports in April-October 2017 totalled $10 billion, rising just two percent year-on-year. More significantly, apparel exports declined by nearly six percent in the July-October period after the Goods and Services Tax was introduced.

Our apparel industry is in deep trouble. It employs about 12.9 million people, most of them in small and unorganised units; the textile sector as a whole employs 44 million. A study just published by the Indian Council for Research on International Economic Relations (ICRIER) says grimly that total employment declined by 12.8 million between 2013-14 and 2015-16. ICRIER says the apparel industry accounted for 19% of the total 13.25 million workers in the organized sector. These were 'good jobs' and deserved encouragement.

Apparel exports have hovered around $17 b annually for the past few years. This is only 3.8% of the global garment-export market. China, with $148 b in garment exports last year, alone accounted for one-third of the world market of $442 b. Vietnam does about $28 b and Bangladesh $32 b. Our wages are lower than China's, and we are self-sufficient in cotton and other raw materials. The garment industry is one of the best value creators in India: an investment of just ₹1 cr generates about 70 jobs, and 70% of those jobs go to women. So you would think it's a no-brainer to help this industry. Right?

Wrong. The government is trying, but most of the time it seems to build new tax and procedural labyrinths for exporters and then struggles to map an escape route for them. It has recently announced a number of steps to try and mitigate the situation, but there is no sign of the Textile and Commerce & Industry ministries joining hands on a war footing.

For instance, 40% of India's garment exports go to the European Union but we do not have a Free Trade Agreement (FTA) with the EU. The Europeans want us to open our markets to their wines, cheeses and automobiles. Is that a big ask? Garment exports from India face a 9% import duty in the EU, which has FTAs with competitors of ours like Bangladesh, Vietnam, Sri Lanka and Pakistan.

The GST has wreaked havoc. Many large garment makers farm out operations among units in different states. Activities like cutting, sewing, embroidery, washing and packing can take place, say, in five different GST jurisdictions. This means each unit has to pay the Integrated GST (IGST) and file multiple tax returns. Technically the IGST paid will be refunded, but this has tied up valuable working capital. Several exporters I spoke with complained that their GST problem had severely affected Christmas orders from overseas buyers, so you can expect a further export contraction through the winter.

The ameliorating steps announced in October include an 'e-wallet' that would be filled by the government with a notional tax refund; this can be used to offset payments of IGST and GST. Interestingly, India ranked 146th among 190 countries in trading across borders in the World Bank's Doing Business 2018 survey released on October 31. The Bank noted that the average time taken by exporters was 38.4 hours for documentary compliance, and 106 hours for border compliance.

It is not just slow processes and paperwork that are problems. We need to carry out urgent and drastic reforms to help our manufacturers and exporters. Commerce and Industry Minister Suresh Prabhu has promised a new foreign-trade policy soon, but world markets are not waiting for us. Last month the World Trade Organization (WTO) issued a strong upward revision of its 2017 forecast, predicting that world trade would grow by a robust 3.6% this year after a lacklustre 1.3% in 2016. India should be cashing in on this improved sentiment.

July-September GDP data are due out at the end of November. This is just before voting takes place on December 9 and 14 in Gujarat. If GDP growth slows further from the 5.7% in April-June and 6.1% in January-March, Prime Minister Narendra Modi will have to buckle down to real reform in the final 18 months of his term. Last week the National Council for Applied Economic Research projected that real GDP will grow at 6.2% in 2017-18.

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THE TIME IN NOW

World trade predicted to rise by 3.6% this year and India should cash in on this improved sentiment

POST-GST FIGURES

Apparel exports fell by nearly 6% in the July-Oct period

The Index of Industrial Production (IIP) rose by a weaker 3.8% in September after 4.3% in August and by only 2.5% in the first half of 2017-18. Manufacturing grew 3.4% in September, up only slightly from 3.1% in August. But the Nikkei Manufacturing Purchasing Managers' Index fell to 50.3 in October—barely above the level at which an economy is seen to be contracting—from 51.2 in September. There was worse to come. Consumer price index (CPI) inflation rose by 3.6% in October after 3.3% in September; food prices are very likely to shoot up as winter progresses and bad weather affects vegetables.

Nothing daunted, however, the ecstasy unleashed by India's rise of 30 notches in the World Bank's Doing Business survey, which was announced just a week before the first anniversary of demonetisation, has not fully dissipated. Finance minister Arun Jaitley called a late-evening press conference as the news embargo was lifted in Washington D.C. to celebrate "the highest jump any country has made" – from 130 to 100 out of 190 countries. An Ease of Doing Business event was quickly organised four days later; Modi said: "I sense a well-deserved mood of celebration here...India has Walked the Talk."

The EODB ranking is by no means a blanket endorsement of India's economic policies. The World Bank noted that although India had made substantial changes in areas like getting electricity, getting credit, and paying taxes, it still ranked poorly on several fronts: 156th in starting a business, 181st in dealing with construction contracts, 154th in registering property, and 164th in enforcing contracts. "In fact, the time taken to enforce a contract is longer today, at 1,445 days, than it was 15 years ago (1,420 days)," the Bank said.

"Over the last three years, we have systemically evaluated regulations. We have tried to understand the pain points of businesses with regard to interface with government. We engaged with businesses on a regular basis, understood their concerns and sought to modify regulation to address their concerns," Modi told the Nov.4 audience. Such optimism is not shared by our beleaguered exporters.

Global crude oil prices are now close to $63.50 a barrel, up nearly 24% from their levels in April, putting an end to a three-year bonanza for our foreign-exchange reserves. But is our cash-strapped government racing to grease the wheels of business quickly enough to counter these trends? You be the judge.