FUNG BUSINESS INTELLIGENCE

November 2022

COUNTRY SOURCING REPORT

Issue 20

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EXECUTIVE SUMMARY

Preparing for a Highly Uncertain Future: Stay Resilient and Flexible

While the negative impacts of COVID-19 are receding, the Russia-Ukraine war that started in February this year has created new and difficult challenges to the already fragile global supply chains. The war has caused severe disruptions to traditional logistics routes, impeding the flow of goods and adding to inflationary pressures for energy, food, and other commodities. In the US, for example, inflation remains persistently high, and hit an annualized rate of 9.1% in June, the highest level in more than 40 years.

The apparel and footwear supply chain is under pressure from soaring manufacturing and sourcing costs. Most notably, global shortage of cotton has driven the spikes in cotton prices, which, as measured by the Cotlook A Index (Far East), climbed to an 11-year high in early May, before falling back in recent months due to weakened global demand and increased cotton production.

Many apparel sourcing destinations have also substantially raised minimum wages to support their low-paid workers through the rising cost of living. As of October 2022, 19 out of 23 garment-producing countries monitored by Fung Business Intelligence had increased minimum wages, including Cambodia, China, Egypt, Guatemala, Haiti, Honduras, India, Indonesia, Kenya, Lesotho, Malaysia, Mauritius, Mexico, Nicaragua, Pakistan, the Philippines, Thailand, Turkey, and Vietnam. Among them, Turkey raised its minimum wage twice this year, up 94.7% from the level a year ago, while Haiti raised its minimum wage by 37% from its previous level set in 2019.

On the currency front, the hawkish monetary policy stance of the US Fed to curb inflation has pushed the US dollar, as measured by the US dollar Index, to hit a 20-year high in late September. Over the first eight months of 2022, Asian currencies had depreciated sharply against the US dollar, including the Turkish lira (-28.8%), the Bangladeshi taka (-9.7%), the Chinese yuan (-7.8%), the Indian rupee (-5.5%) and the Indonesian rupiah (-3.9%). Apparel makers may face increasing cost pressures from imported raw materials, as well as price bargaining from buyers.

Meanwhile, heightened geopolitical tensions between China and the US continue to cast a shadow over the global recovery. While the scheduled four-year review of Section 301 tariffs on imports from China is undergoing, the so-called "Uyghur Forced Labour Prevention Act" of the US came into force on 21 June, banning cotton and other products from Xinjiang to the US. Against this backdrop, many fashion companies have continued to make effort to diversify their sourcing base. China accounted for about 37% of US textiles and apparel imports in 2018, when the China-US trade war began. The share has declined to 28% in 2021, and 25% in the first eight months of 2022, while other Asian countries such as Vietnam and Bangladesh have filled the gap. Despite this, China has continued to diversify its export destinations and remained an important sourcing base for apparel.

On the positive side, the re-opening of the world from the COVID-19 pandemic has not only helped ease supply-chain bottlenecks, but also fuelled post-pandemic spending sprees in many countries. Fashion retailers have enjoyed booming sales for the year so far. Nevertheless, consumers are starting to become more cautious amid the persistent inflation, and are likely to cut back on fashion spending in the months ahead.

The establishment of a modern and comprehensive multilateral trading system has made some progress as many bilateral/multilateral free trade agreements (FTAs) have come into effect throughout the year. In particular, the Regional Comprehensive Economic Partnership (RCEP) entered into force on 1 January, which will create the world's largest free trade bloc in terms of GDP, population, and trade, upon full ratification. Other important developments of the year include: the China-Cambodia FTA came into force on 1 January; the India-UAE CEPA came into effect on 1 May; the US-led Indo-Pacific Economic Framework (IPEF) was launched on 23 May; the UK's Developing Countries Trading Scheme (DCTS) was launched on 15 August; the EU and India relaunched bilateral negotiations to forge a free trade agreement.

Individual countries have also implemented favourable domestic policies to strengthen their positions in global supply chains, including infrastructure development, tax reductions and other business incentives. For example, China unveiled the National Highway Network Planning to build 79,000 kilometres of highways by 2035; Bangladesh extended the existing reduced 15% corporate tax for the textile sector for another three fiscal years to increase the global competitiveness of the "Made in Bangladesh" brand; the Philippines is preparing to set up a new Regional Yarn Production and Innovation Centre (RYPIC) in Northern Luzon to promote textile research and development activities in the region.

Looking ahead, global economic growth will slow further amid tightening financial conditions triggered by high inflation worldwide and the escalation of the Russia-Ukraine war in recent months. While prices are increasing with no end in sight, consumers may tighten their belts on non-essential spending and businesses may also struggle with increasing costs. Navigating the "new normal" of volatility, apparel supply chains will need to be enhanced with increasing speed, flexibility, and resilience. On one hand, some fashion companies may turn to nearshoring or onshoring for improved speed to market and greater certainty about compliance; others may continue to diversify their sourcing destinations in response to supply chain disruptions.

In any case, Asia will remain a manufacturing powerhouse for fashion products, not only because of its comparative advantage in labour and overhead costs, but also because of the integrated regional supply chains that provide sourcing flexibility and agility. As the largest exporter of textiles and clothing in the world, China will maintain its leading position as a textile supplier for apparel-exporting countries in the region. The "China plus one", or even "China plus many", sourcing strategy will remain dominant over the near term and present enormous opportunities to Asia as a whole.

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This report is brought to you by Fung Business Intelligence and Li & Fung's business unit contributors located in the following production countries. It gives an "our people on the ground" perspective of what is happening in those countries. This report covers country and sourcing updates, major multilateral/bilateral free trade agreements, input price trends, macroeconomic indicators and foreign exchange rates.

COUNTRY OVERVIEW

	Population (million), 2021	Median age, 2021	Literacy rate (%), 2020 or most recent year	Real GDP growth (%), 2021	Inflation (%), 2021	Share in world clothing exports (%), 2020	Monthly base wages for manufacturing workers (US$), 2021*
China	1,412.4	37.9	96.8	8.1	0.9	31.5	557.6
Bangladesh	166.3	26.3	74.9	6.9	5.6	6.1	123.3
India	1,393.4	27.6	74.4	8.7	5.5	2.9	286.2
Pakistan	225.2	20.2	58.0	5.7	8.9	1.4	172.9
Turkey	85.0	30.9	96.7	11.4	19.6	3.4	349.7
Cambodia	16.9	26.5	80.5	3.0	2.9	1.7	230.0
Indonesia	276.4	29.4	96.0	3.7	1.6	1.7	374.8
Philippines	111.0	24.5	96.3	5.7	3.9	0.1	282.1
Thailand	70.0	39.3	93.8	1.5	1.2	1.0	459.5
Vietnam	98.2	32.0	95.8	2.6	1.8	6.3	262.8
Mexico	130.3	29.0	95.2	4.8	5.7	0.8	258.3
El Salvador	6.5	26.3	90.0	10.3	3.5	0.3	359.2
Guatemala	17.1	22.1	80.8	8.0	4.3	0.3	378.8
Honduras	10.1	23.4	88.5	12.5	4.5	0.7	385.3
Nicaragua	6.7	24.5	82.6	10.3	4.9	0.3	208.6
Haiti	11.5	23.0	61.7	-1.8	15.9	0.1	172.7

Source:
Population (2021): World Bank database, accessed on 28 October 2022
Median age (2021): *United Nations World Population Prospects 2022*
Literacy rate (2020 or most recent year): World Bank database, accessed on 28 October 2022
Real GDP growth and inflation (2021): *IMF World Economic Outlook*, October 2022
Share in world clothing exports (2020): WTO database, accessed on 28 October 2022
Monthly wages (2021): *JETRO Survey of Japanese-Affiliated Companies in Asia and Oceania*, December 2021
* Wages of Asian countries were estimated using the monthly base wages for manufacturing workers in 2020 and the year-on-year wage increase rates in 2021 for the manufacturing sector; wages of Central American and Middle Eastern countries are monthly minimum wages as of mid-Oct 2022. Turkey's wage is the gross minimum wage nationwide effective in 2022 before taxes and social security deductions. All wage rates are converted to US dollar terms based on official exchange rates or Bloomberg's spot exchange rates on 15 September 2022.

BANGLADESH

Country & sourcing updates

Macroeconomic trends

- In the 2021-22 fiscal year (July 2021 – June 2022), Bangladesh's **exports** reached US$52.1 billion, up 34.4% year-on-year (yoy). It is the first time in Bangladesh's history that its export earnings crossed the milestone of US$50 billion. For the current fiscal year, the country sets an ambitious export target at US$67 billion.
  - During the first quarter of the current fiscal year (July 2022 – June 2023), the country's exports grew by 13.4% yoy to US$12.5 billion.
  - However, Bangladesh saw a negative export growth of 6.3% yoy in September 2022. Exports in this September was US$3.9 billion, down from US$4.2 billion in September of the previous year.
- **GDP** grew 7.2% yoy in the 2021-22 fiscal year, exceeding the 6.9% projection made by the Asian Development Bank. The growth was mainly driven by the industry sector (up by 10.4% yoy) and the service sector (6.3% yoy).
- **Inflation** in August escalated to 9.5%, the highest in the last 135 months, due to the rising commodity prices and the record hike of fuel prices. The inflation rate eased slightly in September and stood at 9.1%.
- Foreign direct investment (**FDI**) in Bangladesh increased by 39% yoy to US$4.7 billion in the 2021-22 fiscal year, compared with US$3.4 billion in the 2020-21 fiscal year. The increase in FDI was mainly due to the resumption of global economic activities after the COVID-19 disruption. However, global inflation, the Russia-Ukraine war and the resultant supply chain disruptions may hinder FDI growth in the country in the second half of 2022. The significant depreciation of the local currency could also pose a heavy drag on FDI inflow.
- As of 29 September, the **taka** has depreciated by 20% against the US dollar since 1 January 2022.

Policies and Regulations

- The Bangladeshi government unveiled the **budget** for the current fiscal year (July 2022 – June 2023) on 9 June. The government set a 7.5% GDP growth target for the current fiscal year and made several proposals on taxation, including:
  - To encourage export diversification, the government proposed to reduce corporate tax for all export sectors from 30% to 12% and introduce a 10% tax rate for green factories exporting goods and services. In the previous fiscal year, the corporate tax rate for the export oriented **ready-made garment** (RMG) sector was set at 12%.
  - To increase the global competitiveness of the 'Made in Bangladesh' brand and strengthen the apparel supply chain, the government extended the current 15% corporate tax for the textile sector to another three fiscal years.
  - The government doubled the tax deduction at source (TDS) for all export items from the existing 0.5% to 1%.
- According to the Index of Economic Freedom released by The Heritage Foundation in mid-February 2022, Bangladesh slipped 17 positions to become **the 137th freest economy**. The country was in the 120th position in 2021, 122nd in 2020, 121st in 2019, and 128th in both 2018 and 2017.
  - The Heritage Foundation measures the Index of Economic Freedom for 177 countries based on four aspects: the rule of law, government size, regulatory efficiency, and open markets.
  - The slip in 2022 indicates that Bangladesh failed to maintain the momentum to become a freer economy.
  - Among the 39 countries in Asia-Pacific region, Bangladesh ranked 29th in 2022, and its overall score of 52.7 was below the regional average of 58.5 and the world average of 60.

BANGLADESH

Country & sourcing updates

Industry & sourcing developments

- During the 2021-22 fiscal year, the **RMG exports** reached US$42.6 billion, up by 35.5% yoy and contributing nearly 82% to the total export values of the country. In the first quarter of the current fiscal year, the RMG exports were US$10.3 billion, up by 13.4% from the same period of the previous fiscal year. However, the RMG exports in September 2022 reduced to US$3.2 billion from US$3.4 billion in September 2021, down by 7.5% yoy.
    - The Bangladeshi RMG exporters have to prepare for potential order reductions from its major importers in the US and the EU due to the severe inflation faced by the importing countries.
    - Major RMG importers from the US, such as Walmart, Macy's, and Gap, saw a 30-40% increase in unsold inventories and planned to sell them at discounted prices. The US importers are therefore expected to lower their buying prices or reduce orders for RMG imports in the coming months.
    - To reduce the country's foreign exchange expenditure, the Bangladeshi government stopped buying liquified natural gas from the spot market in June. The government also suspended the power generation of power plants running on expensive diesel, leading to an electricity shortage. As a result, many manufacturers have to halt production for hours daily – Some production lines may even remain idle for up to 12 hours daily. To cope with the situation, some RMG manufacturers and exporters resort to using their own diesel generators. However, this would incur additional costs.
    - Due to the lower demand from RMG manufacturers, prices of local yarns have been falling over the past few months.
- On 19 December 2021, the commerce ministry revised the **maximum wastage rates*** from 16% to 27% for the production of basic knit items, including t-shirts, polo shirts, trousers, shorts, skirts, and pajamas. Apart from the basic items, the ministry, for the first time, created separate categories and set a wastage rate of 4% for sweaters, socks, jumpers, pullovers, cardigans, vests, socks, and gloves, and 30% for special items including rompers, gowns, tank tops, dresses, lingerie, and hoodies.
  **The wastage rate refers to the permissible amount of wastage of apparel items made from yarn and fabrics. If the actual wastage rate is higher than the prescribed rate, the government imposes duty on the extra wastages.*
- During two inter-ministerial meetings held in Bangladesh in mid-April, participants from Bangladesh and the US discussed withdrawing the requirements of double fumigation of cotton imported from the US. Currently, all imported cotton from the US is required to go through a compulsory fumigation process at Chittagong port, though all US cotton has already gone through pre-shipment fumigation in the US.
    - **The double fumigation requirement of US cotton** increased the operating cost and handling time of local manufacturers. It is expected that the withdrawal of compulsory double fumigation of US cotton will encourage the use of US cotton in Bangladesh.
    - Currently, domestically grown cotton in Bangladesh comprises less than 2% of the country's total cotton consumption, according to a report released by the Foreign Agricultural Service of the US Department of Agriculture (USDA) this April. Due to its high demand for yarn and fabric, Bangladesh has to import cotton from overseas. The USDA forecasts that Bangladesh may import one million bales of cotton from the US during August 2022 to July 2023.

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Country & sourcing updates

Labour & workplace compliance

- The Ministry of Labour and Employment (MOLE), in collaboration with the International Labour Organization (ILO) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, launched the first-ever pilot **employment injury scheme** (EIS) for the Bangladeshi RMG sector in June.
    - ➢ Bangladesh is upgrading its social protection systems for the benefit of workers. Bangladesh's government and industry partners have been working with the ILO and the GIZ to ensure workers' social and financial security since 2013.
    - ➢ The EIS is expected to contribute to the social well-being of workers and employers and improve the social security system of Bangladesh. The EIS provides income protection for occupational injuries, disabilities, and deaths in the RMG industry.
- In a gazette notification published on 1 September 2022, The MOLE has made 101 amendments and additions to the *Bangladesh Labour Rules 2015*. The amended **Labour Rules** 2015 will empower trade unions in factories and make more provisions to prevent sexual harassment in workplaces.
- The youth **unemployment rate** of Bangladesh stood at 10.6%, more than twice the overall national unemployment rate of 4.2%, announced by the ILO in mid-August.

FTAs, trade preferences & facilitation

- Australia made a commitment to Bangladesh at a meeting of the first Joint Working Group (JWG) on trade and investment held in Canberra in February.
    - ➢ Exports from Bangladesh will officially continue to get **duty- and quota-free access to the Australian market**, even after Bangladesh's graduation from the least developed country (LDC) status in 2026.
    - ➢ During the JWG meeting, Australia and Bangladesh discussed on various trade issues, trade facilitation, and promotion of investment, energy and defence collaboration.
    - ➢ The two countries agreed to enhance industry connections between Australian exporters of raw materials like cotton and wool, and Bangladeshi importers and manufacturers. Australia also expressed its willingness to explore investment opportunities in infrastructure, energy, mining, information, communications, and technology sectors in Bangladesh.
    - ➢ The next JWG meeting will be held in Bangladesh early next year.
- The Canadian Minister for International Development and the Bangladeshi Foreign Minister held a virtual meeting in mid-February, marking the 50th anniversary of the establishment of diplomatic ties between the two countries. In the meeting, the two ministers discussed several issues including the Rohingya crisis, Bangladesh's graduation from LDC status, and promotion of bilateral trade and investment. **Canada expressed its willingness to consider an extension of duty-free quota-free (DFQF) facilities to Bangladesh** until 2030 and signing either a free trade agreement (FTA) or a preferential trade agreement (PTA) with Bangladesh.
- The **PTA among the Developing Eight (D8)** member countries has become fully operational in October 2022.
    - ➢ The D8 Organization for Economic Cooperation, officially launched in 1997, is an organization for promoting development and cooperation of eight developing countries, namely Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey.
    - ➢ The volume of intra-trade among the D8 member countries has reached around US$129 billion today, compared with US$14 billion in 1997, when the organization was established.

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Country & sourcing updates

- Bangladesh and India have decided to start the negotiations on the proposed Comprehensive Economic Partnership Agreement (CEPA) this year.
  - A joint-feasibility study, initiated in 2018, showed that the **Indo-Bangla CEPA** would boost Bangladesh's export earnings by 190% and India's by 188%.
  - If the CEPA comes into force, it will be the first comprehensive bilateral economic and free trade deal for Bangladesh.
- In August, the **UK** announced a new scheme named 'Developing Countries Trading Scheme' (**DCTS**) in place of the existing Generalized Scheme of Preferences (GSP).
  - After graduating from the least developed countries (LDC) status, 98% of Bangladesh's exports, including garment exports, to the UK will continue to enjoy zero-duty entry under the DCTS.

Infrastructure & environmental sustainability

- The **Chattogram Port** is one of the key drivers of the Bangladeshi economy. In 2021, the port handled a record 3.2 million TEUs (twenty equivalent units), attaining double digit growth in container handling (13.2% yoy), cargo handling (14.1%) and ship handling (12.6%) amid the COVID-19 pandemic.
  - The **New Mooring Overflow Container Yard** at the Chattogram port started operations on 2 January. The yard can accommodate 4,000 TEUs of containers, increasing the port's container capacity from 49,000 TEUs to 53,000 TEUs.
  - On 21 July, the new **Patenga Container Terminal (PCT)** at the Chattogram port started trial operations. The PCT, with a quay length of 600 metres, will increase the port's annual capacity to 500,000 TEUs. It is the deepest terminal at the port and is able to handle vessels up to 4,500 TEUs.
- Prime Minister Hasina inaugurated the country's new landmark, **the Padma bridge**, on 25 June. The 6.15-km multipurpose bridge links the southern region with Dhaka and major ports of Chattogram.
  - People crossing the Padma River no longer need to wait for a ferry boat but can drive through the Padma bridge in 6 minutes.
  - The bridge also carries a gas pipeline which expands the gas network to the south-western districts of the country.
  - This December, the bridge will be ready for rail movement connecting Dhaka with greater Barishal, Jashore, and Khulna. The bridge, as part of the envisaged Trans-Asian Highway and Trans-Asian Railway, will help facilitate trading between Bangladesh, India, Nepal, and Bhutan.
- The US Green Building Council has recognized 3 more garment factories in Bangladesh as '**Leed-certified green factories'** in October 2022. According to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), the Leed-certified green factories are expected to help reduce energy use by 40%, water consumption by over 30%, and carbon dioxide emissions, and ensure environmental safety.
  - As of 12 October 2022, there have been 176 Leed-certified green garment factories in Bangladesh, of which, 57 are platinum rated, 105 gold, 10 silver, and 4 have no rating.
  - Another 550 factories are in the process of obtaining the Leed certification.

BANGLADESH

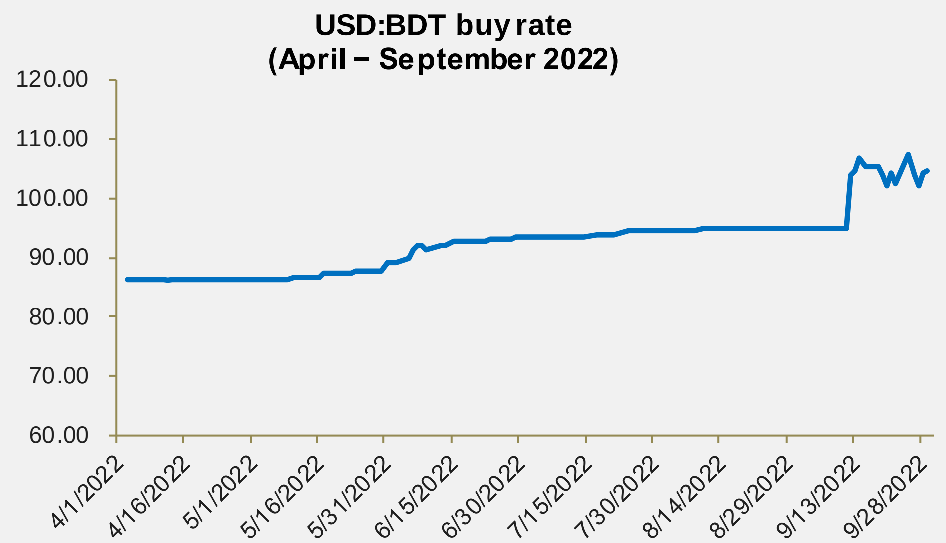
Macroeconomic data

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Quantum index of medium and large-scale manufacturing (Base: 2005-06=100, yoy growth %)	4.3	2.6	11.2	12.2	-	-
Consumer price index (yoy growth %)	6.3	7.4	7.6	7.5	9.5	9.1
Exports (yoy growth %)	51.2	23.2	37.2	14.7	36.2	(6.3)
Exports (US$ mn)	4,738.7	3,830.3	4,908.0	3,984.8	4,607.0	3,905.1
Of which:						
- Knitwear (US$ mn)	2,122.7	1,743.3	2,228.4	1,854.2	2,061.5	1,733.8
- Woven garments (US$ mn)	1,811.5	1,415.3	1,863.6	1,512.8	1,684.2	1,427.9
- Home textile (US$ mn)	173.6	135.8	154.7	96.0	172.6	85.0
- Footwear* (US$ mn)	104.1	99.3	124.2	96.5	125.1	114.8
- Leather products (US$ mn)	31.2	29.5	35.0	25.1	28.4	29.0
Imports (yoy growth %)	40.3	38.5	26.5	57.1	-	-
Imports (US$ mn)	6,958.9	6,881.4	7,706.4	7,153.5	-	-

* Includes leather footwear

Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Export Promotion Bureau of Bangladesh

EXCHANGE RATES



Source: Bangladesh Bank

CAMBODIA

Country & sourcing updates

Macroeconomic trends

- The Cambodian government has successfully managed the latest wave of COVID-19 outbreak caused by the Omicron variant. The country has sporadic infection cases after it re-opened its border in November 2021 and has had no death case since April 2022.

- The World Bank has raised its growth forecast for Cambodia to **4.8% in 2022**, up from its previous projection of 4.5%, despite worsening global demand and rising commodity prices. Traditional export-oriented growth drivers, especially the garment, footwear and travel goods (GFT), electronics and bicycle manufacturing industries, and agriculture continue to underpin Cambodia's economic recovery, says *the World Bank East Asia and Pacific Economic Update* released on 26 September.

- Cambodia's merchandise **exports increased by 22.1% yoy** to US$17.3 billion in the first nine months of 2022, according to the General Department of Customs and Excise.

  - During this period, **garment**, the largest export category of Cambodia, **increased by 23.1% yoy** to US$7.2 billion, accounting for 41.6% of Cambodia's total goods exports.

  - The **US remained the biggest market** for Cambodia's exports during the period, with an export value of US$7.0 billion, followed by Vietnam (US$1.6 billion), Japan (US$897.7 million), China (US$895.5 million), and Canada (US$874.9 million).

  - While exports have grown strongly since the start of this year, garment manufacturers in the country are worrying that **export orders for textile-related goods** from the US and the EU, two Cambodia's key buyers, **would decline in the coming months**. Negative factors affecting export orders include a potential economic slowdown in major developed countries amid global situation and rising inflation worldwide. On the other hand, the implementation of two regional free trade agreements (FTAs), the Regional Comprehensive Economic Partnership (RCEP) and the Cambodia-China FTA (CCFTA), both effective on 1 January 2022, will give a boost to Cambodia's trade growth.

Policies & regulations

- On 20 June 2022, Prime Minister Hun Sen issued a sub-decree on the **establishment of the Capital-Provincial Investment Sub-Committees** (CPISCs). According to this sub-decree, 25 CPISCs have been established in place of the existing investment sub-committees.

  - The CPISCs, as units of the Council for the Development of Cambodia (CDC), will review and approve registrations, incentives, guarantees, mergers, sales and purchases, cancellations and dispute resolutions of private **investment projects under US$5 million** (up from US$2 million for the former investment sub-committees) within their respective capital and provincial jurisdictions, while larger ventures will still be subject to the approval of the CDC's Cambodian Investment Board (CIB).

  - The sub-decree was the first legal document drafted based on Cambodia's new investment law promulgated on 15 October 2021, which aims to improve and modernize Cambodia's investment environment, bring regulations closer in line with ASEAN's best practices, and diversify the locations of investment across the country and thus reduce inequality among different regions.

- On 15 October 2021, Cambodia promulgated its **new Law on Investment**. From its promulgation date, the new investment law replaces the existing 1994 Law on Investment and the 2003 Law on the Amendment to the Law on Investment.

  - The law brings a new legal framework to

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Country & sourcing updates

foreign investment, notably by establishing an important investment incentive scheme for 19 sectors, covering investment in digital infrastructure; environmental management, protection, and energy efficiency; tourism; training and upskilling; logistic supply chains; research and development; infrastructure; and many others.

- ➢ The law consists of 12 chapters and 42 articles. It is designed to provide a comprehensive, transparent and predictable legal framework to attract both domestic and foreign investment to support the socio-economic development of the country.

- Cambodia's **first Law on Competition** was approved by the Senate on 20 September 2021 and came into effect on 6 October 2021.

  - ➢ The law is composed of seven chapters and 41 articles. It addresses three key prohibitions: anti-competitive agreements, abuses of a dominant position, and anti-competitive business combinations (behaviours that significantly prevent, restrict, or distort competition in the market). The law also sets the framework for investigations, decisions, penalties and the regulatory authorities.

  - ➢ Adopting a competition law was one of Cambodia's key commitments to the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization. Cambodia has been working on its competition law since 2006. With the passage of Cambodia's competition law this year, all ten members of the ASEAN now have competition laws in place.

<u>Industry & sourcing developments</u>

- Cambodia has approved **150 fixed-asset investment projects** worth about US$3.45 billion in the January-September period of 2022, according to a CDC report released on 6 October. The number of new projects increased by 16 while the investment value surged by US$100 million as compared to the same period last year. The approved projects, which include GFT factories, tire factories, hotels, hospitals, automobile assembly factories, electronic factories and fruit processing and packaging factories, are expected to generate tens of thousands of new jobs for locals. Domestic investment accounted for a large part (50.9%) of the total approved investment projects in the period, while investment from China accounted for 43.9%.

- The garments, footwear and travel goods **(GFT) sector** is Cambodia's largest export sector. In January-September 2022, exports of GFT products increased by 25.8% yoy to US$9.98 billion, accounting for **57.8% of Cambodia's total export** in the period, according to the General Department of Customs and Excise of Cambodia.

- On 22 March 2022, Cambodia launched the '**Cambodia Garment, Footwear and Travel Goods (GFT) Sector Development Strategy 2022-2027'**, aiming to further strengthen and support the development of the GFT sector.

  - ➢ The vision of the strategy is 'to develop the GTF industry in Cambodia into an environmentally sustainable, high value-added industry, focusing on products that can be sold at high prices, competitive and fundamentally supportive of economic diversification by 2027,' according to Phan Phalla, Secretary of State at the Ministry of Economy and Finance.

  - ➢ Five key measures are launched under the strategy to achieve the vision, including further strengthening human resource capabilities to increase productivity and create viable career paths for workers; continuing to improve working conditions and worker welfare; promoting domestic and foreign investment in high value-added industries and focusing on high-value and unique products; attracting investment in connected industries; and promoting market diversification for GTF exports.

CAMBODIA

Country & sourcing updates

- The Cambodian GFT sector is currently at the low-value segment of the global supply chain. The sector is heavily dependent on imported raw materials, equipment, and designs. It also relies on a low-skilled workforce and a labour-intensive model driven by low wages. The strategy shows Cambodia's ambition to transform its low value-added manufacturing into high value-added and sustainable production, so as to meet the upcoming competition and environmental requirements.

- On 16 March 2022, the Garment Manufacturers Association in Cambodia (GMAC) and the European Chamber of Commerce in Cambodia (EuroCham) signed in Phnom Penh **a memorandum of understanding (MoU)** to foster closer cooperation between the two associations and their members, and **to support European garment companies and fashion brands in Cambodia**.
  - Under the MoU, EuroCham will set up a public training programme with the Cambodian Garment Training Institute in Phnom Penh, focusing on sustainable textile sourcing, occupational safety and health and compliance.
  - Other areas of cooperation include sustainable production-related issues and environmental awareness along the production chain, exploring opportunities of Industry 4.0, and assisting European brands with responsible sourcing from Cambodia.
  - The EU is a key destination of Cambodian textile-related exports. In 2021, Cambodian exports of textile-related products to the EU was US$2.7 billion, accounting for 23.6% of Cambodia's total textile-related exports in the year.
  - However, as the GMAC chairman Kong Sang points out, the success and export growth of the Cambodian garment industry are in large part attributed to the preferential market access to the EU market granted by the Everything But Arms (EBA) scheme under the Generalised System of Preferences (GSP) of the EU, which was partially withdrawn from Cambodia on 12 August 2020. Therefore, it is important for Cambodian exports to further strengthen its competitiveness, so as to maintain its growth momentum. This MoU is considered to be an important step towards this goal through capacity building in specific areas and through joint advocacy to influence relevant policies.

Labour & workplace compliance

- On 21 September 2022, the Ministry of Labour and Vocational Training announced that the **minimum wage** for workers/employees in the textile, garment, footwear, travel goods and bag industries for 2023 was officially set at **US$200 per month**—up from this year's US$194. The new minimum wage will take effect from 1 January 2023.

- On 21 January 2022, the Ministry of Labour and Vocational Training of Cambodia announced that it decided to **stop providing the US$40 monthly allowance** for textile, garment, footwear, and travel goods workers whose contracts had been suspended due to the COVID-19 pandemic. This allowance is still available to workers in the tourism sector.
  - This subsidy measure was unveiled by the Cambodian government in April 2020 to mitigate the impact of the COVID-19 pandemic. The subsidies were available to workers in textile, garment, footwear, travel goods and tourism sectors. Furloughed workers in the above-mentioned sectors could receive up to US$40 of financial aid.
  - The government made this decision based on the fact that factories in the country had adopted a number of measures to successfully control the spread of the pandemic, which enabled the majority of factories to resume their activities. Many workers can therefore go back to work and get their normal salary as usual.

CAMBODIA

Country & sourcing updates

FTAs, trade preferences & facilitation

- The **Cambodia-Korea Free Trade Agreement (CKFTA) will enter into force on 1 December 2022**.
  - The CKFTA was signed on 26 October 2021 and was then waiting for the two countries to complete their respective domestic procedures for the agreement to enter into force. It is the second bilateral free trade agreement (FTA) for Cambodia following the bilateral FTA it signed with China.
  - Under the CKFTA, Cambodia is expected to import over 95% of the tariff lines from South Korea and export 92% of all of its goods to the latter at zero customs duty. The CKFTA is expected to foster Cambodia's exports to South Korea, such as garments, textiles, footwears, bags, accessories, electronic devices, rubbers and agricultural products.
  - The agreement will also present opportunities for value-added investments in Cambodia's downstream processing industries through a 'plus one business model', in which South Korean companies could expand their supply chain network developed in Vietnam and Thailand to Cambodia. help attracts South Korean investment to Cambodia's manufacturing industries.
- The bilateral **Cambodia-China Free Trade Agreement (CCFTA)**, which was signed on 12 October 2020, **came into force on 1 January 2022**.
  - According to the Agreement, both sides enjoy zero tariffs on over 90% of their tariff lines, and the two sides will strengthen cooperation in trade in services, investment, the Belt & Road Initiative, e-commerce, technology, etc.
  - China is the largest trading partner of Cambodia. Trade with China accounted for 21% of Cambodia's total trade value of US$32.8 billion during the January-July period this year.

Infrastructure & environmental sustainability

- Cambodia is active in improving its transport infrastructure to enhance its investment, trade, and tourism potential. Just in last few months, several major port construction, expansion, and improvement projects were either completed, underway, or being planned in Sihanoukville, Phnom Penh, Kampot, and Koh Kong.
- On 7 October 2022, the US$20 million **Kampot tourist port**, which will play an important role in connecting sea tourism in Cambodia to neighbouring countries, has been **completed**. Necessary infrastructure has also been built to serve the needs of cruise ships and tourists. The infrastructure includes: a port with a wharf of more than 123 meters long and more than 11 meters wide, passenger and restaurant buildings, roads, garbage collection facilities, technical buildings, public bathrooms, reservoirs, ponds and other facilities. Kampot tourist Port was built under a loan of more than US$18 million from the Asian Development Bank. The Kampot tourist port can be connected to the port in Sihanoukville, Koh Kong, Koh Rong, and also to the port of Koh Tral and other ports in Vietnam and Thailand.
- On 2 October 2022, the Chinese-invested **Phnom Penh-Sihanoukville Expressway in Cambodia was opened to the public for one month's free trial** use to attract motorists driving on the first-ever expressway in Southeast Asia. Invested by the China Road and Bridge Corporation, the two-billion-US dollar expressway, with a total length of 187 km, connects the capital Phnom Penh to the deep sea port Sihanoukville of Preah Sihanouk province.
- On 17 August 2022, the **Port Electronic Data Interchange (Port EDI) system made a soft launch** to navigate large-scale inbound and outbound traffic control at the Sihanoukville Autonomous Port (SAP) and Phnom Penh Autonomous Port (PPAP). This pilot system aims to put an end to the paper-based procedures for private sector's vessels using the two ports.

CAMBODIA

Country & sourcing updates

- The Port EDI system was developed using a grant by Japan via the Japan International Cooperation Agency (JICA). Cambodia entered into an agreement for the grant—over US$12 million—on 20 February 2019 to start the Port EDI project and signed another agreement with JICA on 26 February 2019 to conduct financial management and project implementation monitoring.

- According to the figures of the Ministry of Public Works and Transport (MPWT), there are about 6,000 foreign vessels entering and leaving sea and river ports annually in Cambodia. The switch of the navigational control of the ship clearance procedures from manual to online systems will substantially improve the effectiveness, efficiency, and transparency of the procedure, reduce costs of shippers, and significantly reduce port congestion as well

- On 5 May 2022, Cambodia started to build a US$1.5 billion **logistics and multi-purpose seaport in the southwestern Kampot province**. This multi-purpose port in Kampot will be the third largest port in Cambodia after the Sihanoukville Autonomous Port and the Phnom Penh Autonomous Port, according to Sun Chanthol, the Senior Minister of the Ministry of Public Works and Transport. It is connected to Phnom Penh and other Cambodian provinces through National Roads No. 3, 41, 4 and 48 and the Phnom Penh-Sihanoukville Expressway. It is also connected to the north of the country by the southern railway. It will be a new international gateway to facilitate Cambodia's trade with other countries and will enhance Cambodia's logistics and transportation sector.

  - Built on a total area of 600 hectares, this mega-port with a depth of 15 metres will be able to accommodate vessels weighing up to 100,000 tonnes. It will include a container terminal, a special economic zone, a free trade area, a logistics hub, an oil refinery, and a terminal for tourist vessels, among others.

  - The port is planned to be constructed in three phases over a time span of 15 years and is expected to create about 10,000 direct and indirect jobs when put in use.

  - The first phase will take three years with an investment of US$200 million. By 2025, when the first phase is completed, the port will be able to handle 300,000 TEUs (Twenty-Foot Equivalent Unit) annually. It is hoped that the port will be able to handle up to 600,000 TEUs annually in 2030.

- In October 2021, Cambodia's Ministry of Economy and Finance entered into a consultancy contract with the Urban Planning and Design Institute of Shenzhen, China for **the transformation of the Preah Sihanouk province into a multi-purpose special economic zone** (SEZ), after Cambodian Prime Minister Hun Sen signed a sub-decree to upgrade the Preah Sihanouk province to a multi-purpose SEZ on 9 June 2021.

  - The multi-purpose SEZ aims to become a major economic zone in Southeast Asia, empowered by smart technology, as well as an advanced industrial zone serving regional and global production chains.

  - It reflects the Cambodian government's ambitions to further develop the Preah Sihanouk province into a major player in export-driven manufacturing and trade.

  - It is noteworthy that the existing Sihanoukville SEZ located inside the Sihanoukville city, the capital of Preah Sihanouk province, is currently Cambodia's largest SEZ, contributing to the Sihanoukville city's emergence as an economic centre alongside Phnom Penh, the capital city, and Siem Reap, the second-largest city of the country.

  - With greater investments in infrastructure and incentives by the government, the Preah Sihanouk province stands to become one of the most attractive locations for foreign investment into Cambodia.

CAMBODIA

Country & sourcing updates

Environmental sustainability

- On 31 August 2022, the Cambodian government and the United Nations Development Program (UNDP) jointly launched **the Cambodia Sustainable Development Goals (SDGs) Investor Map**, a market intelligence tool that identifies viable investment opportunities aligned with the Cambodia SDGs. According to a joint press statement, the Cambodia Map is added to the SDG Investor Maps of another 22 countries accessible on the SDG Investor Platform.
    - The Cambodia Map highlights 15 investment opportunity areas across six SDG priority sectors– agriculture and allied industries, financial services, infrastructure, renewable energy, education, and healthcare.
    - It also identifies another 10 'white spaces' aligned with national development needs. These areas have potential for growth but would require more private sector participation or more policy support.

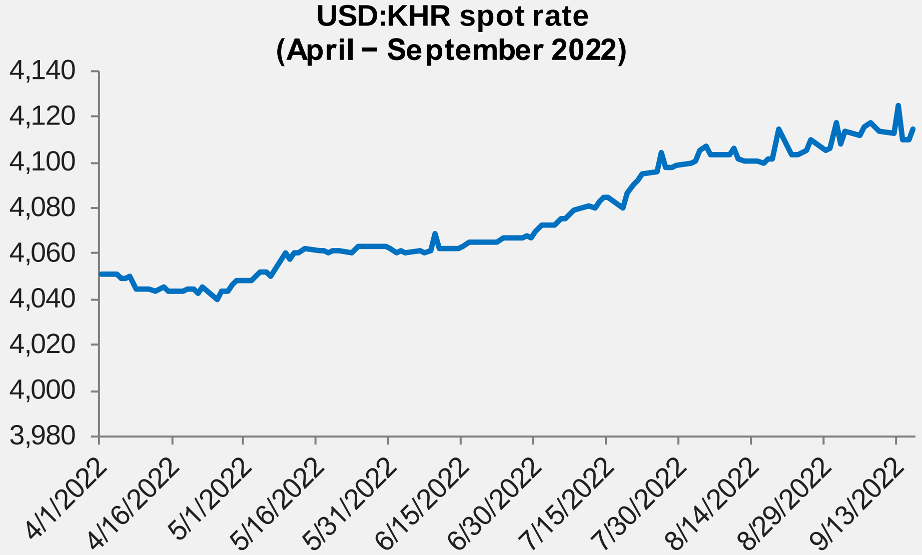
CAMBODIA

Macroeconomic data

	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Consumer price index (yoy growth %)	7.2	7.3	7.2	7.8	5.4	-
Exports (yoy growth %)	33.1	65.1	49.1	32.1	18.7	2.1
Exports (Cambodian riel billion)	6,815.8	6,818.0	7,007.7	7,736.6	9,311.0	7,253.5
Of which:						
- Garments (Cambodian riel billion)	2,747.6	2,974.8	3,123.9	3,527.5	4,533.2	3,480.1
- Footwear (Cambodian riel billion)	580.1	603.6	533.4	587.5	811.5	564.1
- Electrical parts (Cambodian riel billion)	349.2	400.0	396.5	354.8	540.4	500.6
- Bicycles (Cambodian riel billion)	371.7	323.7	290.9	354.6	362.6	398.3
Imports (yoy growth %)	-19.7	29.1	34.2	16.1	36.8	44.2
Imports (Cambodian riel billion)	9,279.4	10,511.2	12,228.6	11,408.5	13,010.5	11,122.5

Source: National Bank of Cambodia

EXCHANGE RATES



Source: Bloomberg

CHINA

Country & sourcing updates

Macroeconomic trends

- China's foreign trade sector has delivered a better-than-expected performance so far this year. In the first nine months of 2022, **merchandise exports** rose by 12.5% yoy to US$2,698.6 billion. Merchandise exports totalled US$322.8 billion in September, up by 5.7% yoy.
  - In the first nine months of 2022, textile and garment exports totalled US$248.3 billion, up by 9.1% yoy. Of which, **exports of garments** reached US$134.0 billion, up by 9.5% yoy, while **exports of textiles** amounted to US$114.3 billion, up by 8.7% yoy.
  - In the nine-month period, **exports of shoes** reached US$43.0 billion, up by 27.5% yoy.
  - Meanwhile, **exports of toys** totalled US$36.9 billion, up by 14.6% yoy.
- **China's trade and investment with countries along the Belt and Road** (B&R) maintained robust growth in the first nine months of 2022.
  - China's trade with B&R countries jumped by 20.7% yoy to 10.0 trillion yuan in the period.
  - Meanwhile, Chinese companies made outward direct investment (ODI) of US$14.9 billion in B&R countries, up by 14.2% yoy, and signed contracts of new projects worth US$80.8 billion.
- **Consumer prices**: CPI growth increased to 2.8% yoy in September from 2.5% yoy in August. In the first nine months of 2022, China's CPI growth was 2.0% yoy.
- **Midstream prices**: Ex-factory prices of industrial products have retreated lately after a significant rise in the first half of 2022. The producer price index (PPI) fell by 1.2% mom in August and 0.1% mom in September. In the first nine months of 2022, China's PPI growth was 5.9% yoy.
- **Upstream prices**: Domestic prices of production inputs have declined lately after a surge in the first half of 2022. The purchaser price index of industrial products went down by 1.4% yoy in August and 0.5% yoy in September. In the first nine months of 2022, the growth in China's purchaser price index was 8.3% yoy.
- **Real GDP growth** accelerated from 0.4% yoy in 2Q22 to 3.9% yoy in 3Q22. In the first nine months of 2022, China's economy expanded by 3.0% yoy.
- **Total profits of industrial companies** with annual revenue over 20 million yuan declined by 2.3% yoy to 6.2 trillion yuan in the first nine months of 2022. Among the industries, profits of the textile manufacturing industry dropped by 15.3% yoy to 62.7 billion yuan, while profits of the wearing apparel and ornament manufacturing industry climbed 1.8% yoy to 49.6 billion yuan in the period.
- **Industrial production by the textile industry** declined by 2.0% yoy in the first nine months of 2022, compared to a growth of 1.4% yoy in full year 2021.
  - In the first nine months of 2022, China's **fabric production** reached 26.8 billion metres, down by 5.5% yoy.
- **Fixed asset investment** (excluding rural households) in the textile industry rose by 6.3% yoy in the first nine months of 2022.
- **Foreign direct investment** (FDI) into China jumped by 15.6% yoy to 1,003.8 billion yuan (US$155.3 billion, up by 18.9% yoy in US dollar terms) in the first nine months of 2022. China is witnessing a new trend in foreign investment activities, with FDI in high tech industries expanding rapidly with a growth rate of 32.3% yoy in the period.
- China's **total retail sales of consumer goods** reached 32.0 trillion yuan in the first nine months of 2022, up by 0.7% yoy, of which, retail sales of

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garments, footwear, hats and knitwear amounted to 927.3 billion yuan, down by 4.0% yoy. In the period, online retail sales of physical goods grew 6.1% yoy to 8.2 trillion yuan, accounting for 25.7% of total retail sales of consumer goods.

- Due partly to the tightening monetary policy of the US, the **Chinese yuan** depreciated by 10.7% against the US dollar in the first nine months of 2022. The USD-CNY spot exchange rate depreciated from 6.3561 on 31 December 2021 to 7.1159 on 30 September 2022, according to Bloomberg.

- From January to October 2022, the **minimum wage levels** in Fujian, Hunan, Sichuan, Chongqing and Yunnan were adjusted upward.

- China's **job market** has improved in recent months after sharp deterioration earlier this year. The surveyed urban unemployment rate in 31 major cities in China jumped from 5.4% in February to 6.9% in May, before dropping to 5.8% in September.

- The high **freight rates** that have plagued Chinese exporters since late 2020 have tumbled more than 40% since its peak in February. However, freight rates remain twice the pre-pandemic levels.

  - ➢ The China Containerized Freight Index, which reflects the freight rates paid by shippers for containers leaving from China, dropped from an all-time high of 3,587.91 on 11 February to 1,959.96 on 21 October.

Policies & regulations

- A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee was held on 28 July to make arrangements for the **economic work for the second half of the year**. The meeting urged efforts to consolidate the upward trend of economic recovery, keep employment and prices stable, keep the economy running within an appropriate range, and strive for the best possible outcome. It stressed that macro policies should play an active role in expanding demand, and fiscal policies should effectively make up for the lack of social demand. Monetary policies should seek to ensure reasonably sufficient liquidity, credit to firms should be boosted, and new loans from policy banks and investment funds for infrastructure construction should be better leveraged, the meeting said.

- China's State Council issued on 31 May **a wide-ranging package of policies aimed at boosting the economy**. The new package includes 33 administrative measures in six areas, including fiscal support, investment, consumption, food and energy security, and supply chain stability, in an effort to stabilize the economy while maintaining effective pandemic control.

  - ➢ China will accelerate the issuance of local-government special bonds, speed up investment on transportation infrastructure, and promote spending on major purchases such as automobiles and home appliances. China will also extend more loans to micro and small businesses, provide more support for logistics hubs and enterprises, and help ease the burden on sectors and industries severely affected by the pandemic.

- The Chinese government has implemented various **measures to promote foreign trade** this year. For example,

  The State Council, in a circular on 19 January, unveiled measures to advance the **integrated development of domestic and foreign trade**. China will further align domestic trading rules and standards with global ones. Efforts would be made to help enterprises to navigate operations in markets at home and abroad. New business models, such as customer-to-manufacturer (C2M) production and smart factories backed by advanced information technology, will be nurtured. China will also promote the development of free trade ports and pilot free trade zones, which can act as pioneers in integrating domestic and foreign trade in line with international economic and trade rules.

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- On 26 May, the State Council announced 13 measures to **support foreign trade enterprises through challenges** and help the sector maintain steady and high-quality development. Local governments should establish services and safeguard systems for key foreign trade enterprises to support their production and operation. Support from government departments will be provided to stabilize foreign trade supply chains for enterprises affected by the COVID-19. Smooth logistics for foreign trade goods will be ensured, and marine logistics services will be strengthened. Policies facilitating export goods return and exchange will be put in place to accelerate and upgrade cross-border e-commerce trade. China will also expand short-term export credit insurance and export credit, while further enhancing financial support to micro, small and medium-sized enterprises.

- On 27 September, China's Ministry of Commerce issued a circular on **stabilizing foreign trade** to help companies navigate current difficulties. China will strengthen the capability of foreign trade companies to deliver contracts and further expand their presence in the international market. Efforts will be made to enhance services for companies to participate in overseas exhibitions and conduct business negotiations. The government will pilot market procurement trade on a new list of markets, develop a new group of innovation demonstration zones for the import trade and establish a number of new integrated pilot zones for cross-border e-commerce. Moreover, measures are in place to improve the efficiency and speed of domestic transportation of goods as well as the inbound and outbound transport of goods.

- The Chinese authorities have unveiled a series of **measures to promote consumption** this year, in a bid to stimulate the domestic economy. For example,

  - On 14 January, the National Development and Reform Commission (NDRC) released a notice aimed at boosting **consumption for the Chinese New Year holiday and the Olympic Winter Games**. It set out measure to meet people's festive needs, upgrade online festival consumption, and expand consumption in rural areas. Consumption related to the ice-and-snow industry was also encouraged.

  - On 7 July, China's 17 key departments, including the Ministry of Commerce and the National Development and Reform Commission, jointly issued a notice aimed at promoting **new-energy vehicle sales**. As part of the plan, the Chinese government will extend the tax exemption given for buying new-energy vehicles, promote new-energy vehicle sales in rural regions, and accelerate development of the charging infrastructure.

  - On 28 July, 13 departments jointly issued a guideline to promote the consumption of **green and smart home appliances**. Measures will be taken to promote sales of green and smart home appliances in rural areas. Efforts will be made to improve after-sales services and recycling facilities for home appliances. China will also propel new infrastructure such as 5G services networks and gigabit fiber-optic networks, providing a solid foundation for the use of smart home appliances.

Industry & sourcing developments

- The pace of **industrial automation** across China has been accelerating rapidly in the past couple of years. In 2021, China installed almost as many robots (243,000) in its factories as the rest of the world combined. Data show that robot installations by electronics manufacturers and auto makers rose by 30% yoy and 90% yoy in 2021. Other sectors that make significant investment in robotics include plastics, rubber, metals and machinery. Automation not only helps Chinese factories adapt to the shrinking labour force and rising wages, but also allows them to shift to higher-end manufacturing tasks.

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Country & sourcing updates

- China's manufacturing industry took a hit from the **COVID-19 outbreaks in Guangdong and Shanghai**, two of the top manufacturing regions in China.
  - A one-week lockdown of Shenzhen and Dongguan in March mainly disrupted the production of mechanical and electrical products, such as autos, consumer electronics and mobile phones. Since the lockdown was short term and targeted (i.e., districts and industrial parks with no new COVID-19 cases could continue production or resume production earlier), the impact on the manufacturing sector was rather short-lived.
  - However, the two-month lockdown of Shanghai during April to May, which is a major producer of autos, machinery, integrated circuits and mobile phones, had a much more significant impact. Shanghai suffered drops of 61.5% yoy and 27.6% yoy in industrial production in April and May, respectively. As one of the highest profile consequences of the lockdown, the Tesla Gigafactory Shanghai was forced to halt its production for 22 days.
  - The Yangtze River Delta, which contributes a quarter of national industrial production, was also hit hard by Shanghai's lockdown, as Shanghai is a hub for local supply chains and logistics networks. Take the textile and apparel industry for example. Overall freight costs for textile/apparel enterprises in the region increased as restrictions and delays on trucks entering and exiting ports or traveling between regions limited transport and delivery options. The logistics challenges, in turn, led to delays in receiving raw materials, manufacturing equipment, and other apparel components. These challenges, combined with worker shortages due to lockdowns, led to a reduction in textile and apparel production. According to a survey conducted in mid-April, 25.1% of textile/apparel enterprises in Jiangsu reported a production decline of 50%; 18.1% reported a production decline of 30% to 50%; and 32.7% reported a production decline of 20% to 30%.

FTAs, trade preferences & facilitation

- On 1 November last year, China submitted an official application to join the **Digital Economy Partnership Agreement** (DEPA), a trade agreement among Chile, New Zealand and Singapore to bolster digital trade. On 18 August this year, the DEPA Joint Committee established a working group to formally commence the accession process for China.
- China aims to further open up the country and form a high-standard FTA network by **signing more FTAs and upgrading existing ones**. The China-Cambodia FTA came into effect on 1 January, while the China–New Zealand FTA upgrade protocol took effect on 7 April. China is also negotiating a number of FTAs with its trade partners, such as the China–Japan–Republic of Korea FTA, China–Gulf Cooperation Council FTA, China–Norway FTA, and China–Israel FTA.

Politics & geopolitics

- The so-called '**Uyghur Forced Labor Prevention Act**' of the US took effect on 21 June. The law, which presumes that all products from China's Xinjiang autonomous region have been tainted by 'forced labour' unless importers can prove otherwise, effectively bans imports from Xinjiang.
  - The US ban on Xinjiang cotton and cotton products caused a drop in China's domestic cotton prices, as many yarn producers shift to imported cotton. Domestic cotton prices underperformed international cotton prices by 30% during March to June as the US ban approached. The price gap has narrowed significantly since late August. As of mid-October, the prices of domestic cotton in China were about 5% lower than that of imported cotton.

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- To help stabilize the cotton market, the Chinese government announced on 8 July that it intends to buy up to 500,000 tonnes of Xinjiang cotton for its state reserves. About 69,400 tonnes of cotton had been bought as of 20 October.

- On 7 October, the US Department of Commerce announced **new export controls on advanced computing and semiconductors** to China. The export controls will restrict China's ability to both purchase and manufacture certain high-end chips. Both US companies and companies from a third-party country that sell US-made chips to China will be affected.

- On 2 September, the Office of the US Trade Representative (USTR) announced it would continue the **Section 301 tariffs against Chinese products**. The USTR said that it made the decision based on requests from domestic businesses. As a legal requirement, USTR will launch a full review of Section 301 tariff action in the coming months.

  - On 23 August, the US Department of Commerce added seven Chinese entities to the Entity List and severely restricted their access to US software and technologies. Currently, the Department of Commerce has approximately **600 Chinese entities on the Entity List** – more than 110 of which have been added since the start of the Biden administration.

Infrastructure & environmental sustainability

- On 12 July, the NDRC and the Ministry of Transport unveiled the ***National Highway Network Planning***, which is an upgrade of the country's national highway plan released in 2013. The new plan involves highways with a total length of 461,000 kilometers, of which 162,000 kilometers will be expressways. The highway networks will cover cities and counties with populations of more than 100,000 and important land border ports. Links between national highways and railway terminals, airports and ports will be strengthened.

- From late July to late August, record high temperatures and drought led to **power shortages** and factory shutdowns in some regions. Regions that implemented electricity rationing include Sichuan, Chongqing, Zhejiang, Jiangsu and Anhui. Among these provinces, Sichuan and Chongqing, which rely mostly on hydropower, had the most intense power rationing. All industrial enterprises in Sichuan were ordered to suspend production from 15 August to 25 August, while industrial enterprises in Chongqing halted production from 17 August to 29 August. The power supply and industrial production has returned to normal since September.

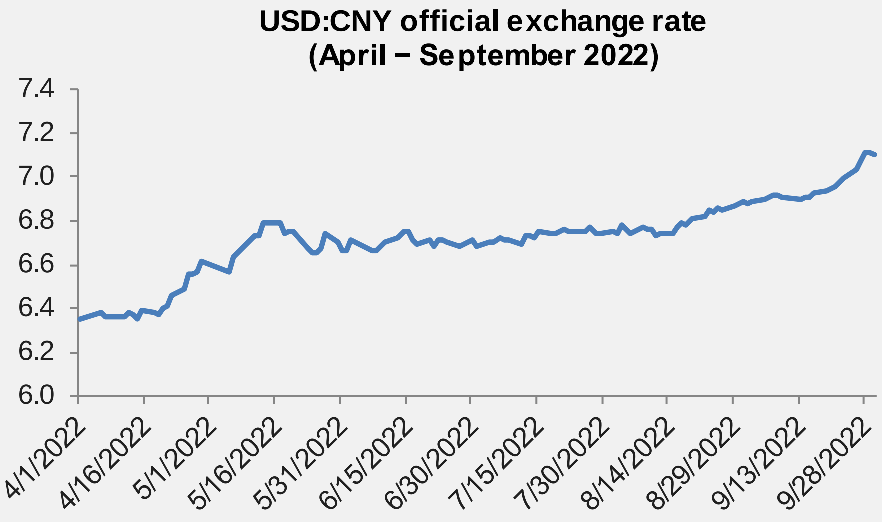
CHINA

Macroeconomic data

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Quarterly GDP (real yoy growth %)	0.4 (2Q22)			3.9 (3Q22)		
Manufacturing PMI (seasonally adjusted)	47.4	49.6	50.2	49.0	49.4	50.1
Purchaser price index of industrial products (yoy growth %)	10.8	9.1	8.5	6.5	4.2	2.6
Producer price index of industrial products (yoy growth %)	8.0	6.4	6.1	4.2	2.3	0.9
Consumer price index (yoy growth %)	2.1	2.1	2.5	2.7	2.5	2.8
Exports (yoy growth %)	3.5	16.3	17.4	17.8	7.1	5.7
Exports (US$ bn)	272.7	306.6	330.0	332.6	314.9	322.8
Of which:						
- Garments (US$ bn)	11.3	15.2	18.0	19.6	18.5	16.0
- Footwear (US$ bn)	3.8	5.1	5.8	6.0	5.5	4.7
- Toys (US$ bn)	3.6	4.2	4.7	5.2	5.3	5.2
Imports (yoy growth %)	0.2	3.9	0.7	2.1	0.3	0.3
Imports (US$ bn)	223.1	229.1	232.6	231.2	235.5	238.0

Source: National Bureau of Statistics, PRC; China Customs; China Federation of Logistics & Purchasing

EXCHANGE RATES



Source: State Administration of Foreign Exchange

INDIA

Country & sourcing updates

Macroeconomic trends

- India's **exports** rose by 4.8% yoy to US$35.5 billion, and **imports** jumped by 8.7% yoy to US$61.2 billion in September 2022. The country became a net importer for the month with a trade deficit of US$25.7 billion, compared to the trade deficit of US$28 billion in the previous month and of US$22.5 billion in September 2021.
    - In September, exports of engineering goods, ready-made garments of all textiles, plastic, cashew, and carpet recorded negative growth. The exports of RMG of all textiles dipped by 18% yoy to US$1 billion. In contrast, exports of gems and jewellery, petroleum products, leather, pharmaceutics, chemicals, and rice recorded positive growth.
- India's gross domestic product (**GDP**) in the April-June quarter grew by 13.5% yoy, compared to the 20.1% yoy growth in the same period of 2021. For the entire fiscal year (April 2021-March 2022), GDP growth of the country was 8.7%.
- The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index (**PMI**) edged up from 55.1 in September to 55.3 in October, showing signs of resilience of the manufacturing sector.
- India's **consumer price index (CPI)** rose to 7.4% in September 2022, a five-month high, while the **wholesale price index (WPI)** inched down to 10.7%. This is the ninth straight month that the inflation rates were above the target levels set by the Reserve Bank of India. In terms of year-on-year growth, fuel inflation softened in September, while both food and core inflations went up. However, all three inflation rates showed positive month-on-month changes in September.
- During the 2021-22 fiscal year, **foreign direct investment (FDI)** inflows to India reached US$83.6 billion, up by 2% yoy.
    - Singapore remained the largest FDI source, accounting for 27% of the total FDI inflow, followed by the US (18%) and Mauritius (16%).
    - The computer software and hardware sector was the top recipient of FDI equity inflows in the fiscal year, accounting for 25% of the total FDI equity inflows, followed by the services sector (12%) and the automobile sector (12%).
- The strong US dollar, together with expensive oil prices and weakened demand in developed markets, continues to put pressure on the currencies of emerging markets. The **Indian rupee** closed at 81.55 per US dollar on 30 September, depreciating by 7.61% since 1 January this year, according to the International Monetary Fund.

Policies & regulations

- On 31 December 2021, the Goods and Services Tax (GST) Council announced to **defer the proposed rise in tax rate for the textile and apparel sector** from the current 5% to 12%.
    - Earlier in November 2021, the Finance Ministry announced a uniform 12% rate for manmade fibre, yarn, fabrics and apparels, along with a 12% uniform rate for footwear. The rate hikes were scheduled to be effective from 1 January 2022.
- In October 2022, the ministry of textiles released a draft on the **second round of production-linked incentive (PLI 2.0) scheme for the textile sector**. The remaining funds from the PLI 1.0, about 40 billion Indian rupees, will be used for launching the PLI 2.0.
    - The notification for the PLI 1.0 was issued in September 2021 and operational guidelines for the PLI 1.0 were issued in December same year. The PLI 1.0 for textile sector, particularly in the production of 14 categories of manmade fabrics, 10 categories of technical textiles and manmade apparel, was aimed at enhancing the manufacturing capabilities and promoting

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exports of the sector.

- Under the PLI 1.0, 64 out of 67 applications were approved with an investment potential of 197.98 billion Indian rupees and projected turnover of 1.94 trillion Indian rupees in the next five years.
- Under the PLI 2.0, participating companies, including the textile units producing apparel, home textiles and textile accessories like embellishments, zippers, trimmings, and elastic tapes, have to complete their investment during the two-year gestation period, i.e., 2022-23 and 2023-24; and these companies have to achieve the required minimum turnover from the subsequent year, i.e., 2024-25.

Industry & sourcing developments

- The textiles committee (TC) of the Indian government has signed an agreement with the United Nations Environment Programme (UNEP) and the Cotton Corporation of India (CCI) In October 2022 to **promote sustainability and circularity** in the textile sector. The agreement is aiming at minimizing the negative environmental impacts of the Indian Textile Industry by promoting sustainable practices and best practices of circular production in the textile and apparel sector.

Labour & workplace compliance

- According to a report, named '*Youth in India 2022*', released by the Ministry of Statistics and Programme Implementation (MOSPI), the proportion of the youth population* to the total population of India was 26.6% in 1991, increased to 27.9% in 2016, then dropped to 27.2% in 2021, and would further reduce to 22.7% by 2036. On the contrary, the proportion of the elderly population* was 6.8% in 1991, increased to 9.2% in 2016, then rose to 10.1% in 2021, and is projected to reach 14.9% in 2036.
  *(*According to the MOSPI, the youth population refers to the age group of 15 and 29 years, and the elderly population refers to the people aged 60 and above.)*
  - Due to a dip in fertility, the total youth population in India was 371.4 million in 2021, which is projected to fall to 345.5 million by 2036. This **changing demographic structure and the ageing population** may put pressure on India's labour supply and economic development.

FTAs, trade preference & facilitation

- Commerce Minister Piyush Goyal and US Trade Representative Katherine Tai held the twelfth ministerial-level meeting of the India-US Trade Policy Forum (TPF) in New Delhi in November 2021. The two ministers discussed building stronger linkages in critical sectors of both countries, including cyber space, semiconductors, AI, 5G, 6G and future generation telecommunications technology.
  - At the **India-US TPF**, India emphasized the importance of restoring the Generalised System of Preferences benefits, which may help industries from both sides to efficiently integrate their supply chains.
  - The India-US TPF was established in 2005, aiming at resolving trade concerns and investment issues between the two countries. It has five focus groups: agriculture, investment, innovation and creativity (intellectual property rights), services, and tariff and non-tariff barriers. A regular engagement between the two countries under the India-US TPF mechanism will help remove barriers to trade and facilitate higher levels of investment. The previous India-US TPF was held in October 2017, and the forum was then replaced by negotiations between the two sides on a trade deal.
  - The next TPF ministerial meeting has been rescheduled for the first quarter of 2023.

INDIA

Country & sourcing updates

- In mid-February 2022, **India and the United Arab Emirates (UAE)** signed an FTA, named the Comprehensive Economic Partnership Agreement (CEPA), effective 1 May. The two sides formally launched the FTA negotiations in September 2020. The pact covers various areas including goods and services, rules of origin, customs procedures, government procurement, intellectual property rights, and e-commerce.
    - The agreement will enhance market access and reduce tariffs for the two countries. The CEPA is expected to boost the bilateral trade from the current US$60 billion to US$100 billion in the coming five years.
    - The CEPA will particularly help the Indian exporters from various labour-intensive sectors, including textiles and garments, leather and footwear, and agriculture. The UAE will allow 90% of the Indian exports to enter its market at zero tariffs, immediately after the CEPA comes into force. And the duty-free access will further increase to 99% in 5 to 10 years.
    - Similarly, India will allow 80% of goods from the UAE into the country at zero tariffs, immediately after the CEPA comes into force. The duty-free access will further go up to 90% in 10 years.
- Indian Commerce and Industry Minister Piyush Goyal and his Australian counterpart Dan Tehan signed the **India-Australia Economic Cooperation and Trade Agreement** (ECTA), an interim deal between the two countries, simultaneously in New Delhi and Canberra on 2 April.
    - Under the ECTA, Australia offers duty free access for 96.4% of Indian goods immediately after the pact comes into effect and for all Indian goods in five years. On the other hand, 85% of Australian goods (from 70% to start with) will get duty free access to the Indian market in 10 years.
    - In 2021, bilateral trade in goods and services between the two countries stood at US$27.5 billion. According to Goyal, the ECTA will boost the bilateral trade to US$40-50 billion in the next five years. The ECTA is expected to benefit many Indian manufacturers, who can source cheaper raw materials and intermediate goods from Australia.
    - Besides, the ECTA is paving the way for a full trade pact, the India-Australia Comprehensive Economic Cooperation Agreement (CECA), which is expected to be signed by the end of 2022. The CECA will cover government procurement, digital trade, rules of origin, etc.
- **India and the UK launched formal FTA negotiations** on 13 January 2022 and the fifth round of negotiations was concluded on 29 July. According to negotiators from both sides, the negotiations are progressing well, although the difficult topics include liquor, automobiles, and intellectual property rights, and both sides are working intensively towards reaching a conclusion.
    - The FTA will ultimately cover more than 90% of tariff lines. With the FTA, the two countries aim to double bilateral trade of goods and services to around US$100 billion by 2030.
    - Indian exporters are expecting to gain more access to the UK market under the FTA, particularly in the pharma and healthcare, textiles and clothing, food and drink, and information and communications technology sectors.
    - UK businesses have strong confidence in India's economy. They are willing to increase trade with and investment in India and build partnerships with Indian companies, such as sharing and co-creating new technology and intellectual property. The FTA is an important driver to realise the huge potential of the India-UK bilateral trade relationship.

INDIA

Country & sourcing updates

- **India and Canada resumed FTA negotiations** on 22 April 2022 after a gap of almost five years, and the two countries targeted at achieving an interim trade deal first. The two countries launched negotiations towards a Comprehensive Economic Partnership Agreement (CEPA), as the FTA is formally known, in 2010. The previous round of negotiations was held in August 2017.
    - Both sides agreed to consider an interim agreement, the Early Progress Trade Agreement (EPTA), that are easier to negotiate as a transitional step towards the CEPA. The EPTA should include high-level commitments in goods and services, rules of origin, sanitary and phytosanitary measures, technical barriers to trade, and dispute settlement.
    - India and Canada have committed to enhance their partnership and cooperation in certain areas, such as agro-products, chemicals, footwear, textiles, automobiles, energy, electronics, minerals and metals, urban development, information technology, and tourism.
    - The fourth round of negotiations on the EPTA was concluded on 26 September, bringing both parties one step closer to the full-fledged CEPA.
- On 25 April, the European Union (EU) and India announced the decision to establish a trade and technology council to step up cooperation.
    - During a meeting between President of the European Commission Ursula von der Leyen and Indian Prime Minister Narendra Modi in April, the two leaders reviewed progress in the India-EU strategic partnership and the FTA negotiations. Both sides decided to further deepen cooperation in trade, climate, digital technology, etc.
    - This June, **India and the EU restarted the FTA negotiations** after a gap of nine years. The second round of negotiations was held in Brussels in October, and the third round will be held in India from 28 November to 2 December. According to the Indian Minister of Commerce and Industry Piyush Goyal, India will be able to conclude the FTA with the EU by next year.
    - The negotiations of the India-EU FTA were launched in 2007 but have been stalled since May 2013. Both parties were reluctant to accept all requests raised by its counterpart. For instance, the EU demanded India to scrap or slash heavy import duties on certain products such as automobiles, alcoholic beverages and dairy products; and the EU wanted India to open up its legal and accountancy services; meanwhile, India was seeking greater access for its skilled professionals to the EU market.

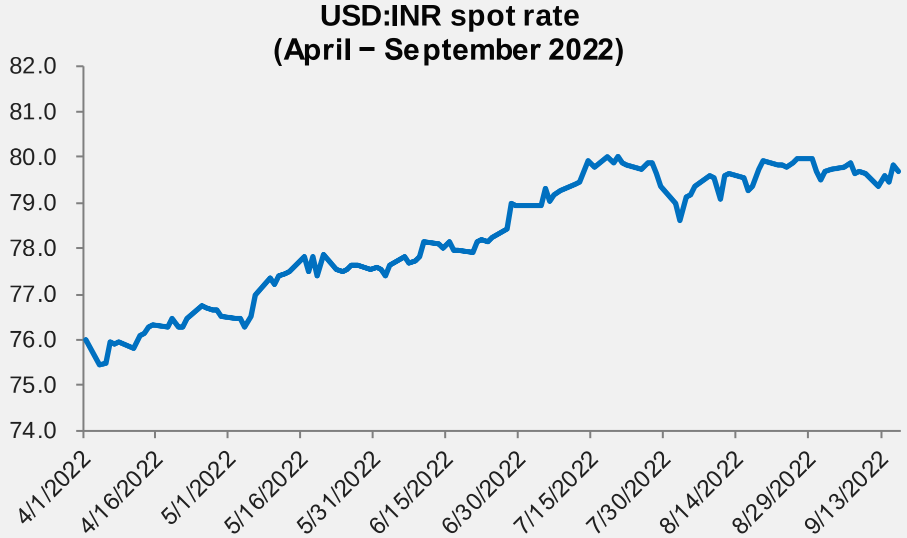
INDIA

Macroeconomic data

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Quarterly GDP (real yoy growth %) ^	13.5 (1Q22)			–		
Index of industrial production (yoy growth %)	7.1	19.6	2.4	2.2	(0.8)	-
Manufacturing PMI (IHS Markit)	54.7	54.6	53.9	56.4	56.2	55.1
Wholesale price index (yoy growth %)	15.4	15.9	15.2	13.9	12.4	-
Consumer price index (yoy growth %)	7.8	7.0	7.0	6.7	7.0	7.4
Exports (yoy growth %)	31.2	20.7	23.5	8.7	1.9	4.9
Exports (US$ mn)	40,186.9	38,937.0	40,133.7	38,492.6	33,923.0	35,445.4
Of which:						
- Knitwear (US$ mn)	728.5	711.9	787.9	737.9	637.4	-
- Woven garments (US$ mn)	847.5	704.1	713.8	645.3	597.2	-
- Footwear (US$ mn)	239.4	248.7	272.1	297.7	267.3	-
- Furniture (US$ mn)	227.3	222.2	218.8	205.1	195.6	-
Imports (yoy growth %)	31.9	64.0	58.4	42.8	31.5	8.5
Imports (US$ mn)	60,295.8	63,222.6	66,311.9	66,253.8	61,901.5	61,158.4

^ Financial year in India starts in April.
Source: Ministry of Statistics and Programme Implementation, Ministry of Commerce and Industry, IHS Markit PMI reports

EXCHANGE RATES



Source: Bloomberg

INDONESIA

Country & sourcing updates

Macroeconomic trends

- In the second quarter of 2022, the Indonesian **economy** grew by 5.4% yoy, despite global economic uncertainty and price hike in the country. In late August, the Indonesian government predicted the economy will grow 5.2% for the full year of 2022.

- Indonesia's **exports** in August 2022 reached US$27.9 billion, while imports were US$22.2 billion. A **trade surplus** of US$5.7 billion was recorded in the month, the 28th consecutive month that the country had a trade surplus since May 2020.

  - The largest non-oil and gas exports were shipped to China with an export value of US$6.2 billion, followed by the US (US$2.6 billion) and India (US$2.5 billion).

- The S&P Global Indonesia Manufacturing Purchasing Managers' Index (**PMI**) edged up from 51.7 in August to 53.7 in September, the highest level since this January. The expansion of the manufacturing sector was mainly driven by the motor vehicle industry and food processing industry.

- **Foreign direct investments** (FDI) in Indonesia jumped by 39.7% yoy to 163.2 trillion rupiah in the second quarter of 2022, according to the Investment Ministry/Investment Coordinating Board (BKPM). During the same period, domestic direct investments also increased to 139 trillion rupiah, up by 30.9% yoy.

  - The FDI inflow mainly went to the basic metal, metal goods, non-machinery, and equipment industries (48.2 trillion rupiah), followed by the mining sector (33 trillion rupiah), the housing, industrial estates, and offices sector (26.7 trillion rupiah), the transportation, warehouse, and telecommunications sectors (25.6 trillion rupiah), and the food industry (22.4 trillion rupiah).

- **Inflation** in September 2022 reached 5.95%, the highest level since October 2015. The high inflation rate in the month was attributable to the hike in subsidized fuel price in early September, which has led to an increase in energy and transport costs.

  - The Indonesian government raised subsidized fuel price by 30% starting 3 September, aiming at controlling the costly energy budget. As a result, the price of subsidized gasoline per litre increased from 7,650 rupiah to 10,000 rupiah. The price of subsidized diesel per litre rose from 5,150 rupiah to 6,800 rupiah.

  - Due to the rising global oil prices and the depreciation of rupiah, Indonesia's energy subsidies in 2022 had already been jacked up to 502 trillion rupiah (US$34 billion), triple the original budget.

- The aggressive interest rate hikes in the US have led to massive capital outflows from emerging markets, prompting the rupiah to weaken against the US dollar. The **Indonesian rupiah** closed at 15,232 per US dollar on 30 September, depreciating by 6.3% since 1 January this year.

Policies & regulations

- The Ministry of Finance **adjusted the value-added tax** (VAT) rate from 10% to 11%, effective 1 April. The increase in VAT is aimed at redistributing wealth from the rich to the poor and reducing the economic gap. Considering the current situation of the domestic economy, the government raised the VAT rate by only 1 ppt.

  - The VAT rate adjustment has been accompanied by a reduction in personal income tax rate (from 15% to 5%) for individuals with income below 60 million rupiah.

  - Certain goods and services are not subject to VAT, such as basic foodstuff, water, electricity, health services, education services, social services, insurance services, financial services, public transportation services, labour services, etc.

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Country & sourcing updates

- The government also lowered taxes for micro-, small- and medium-sized enterprises (MSME) with a turnover of up to 500 million rupiah, and applied a final VAT at certain smaller rates, specifically 1%, 2% or 3%.

- The Indonesian government decided to **postpone the imposition of carbon tax**, which should have been effective on 1 April. The government will make the new carbon tax scheme synchronize with the country's roadmap for reaching the zero-emission goal by 2060. Under the initial plan, the government had wanted to introduce a US$2.1 tax per metric ton of carbon dioxide equivalent (CO2e) emission, starting with the coal-fired power factories.

Industry & sourcing developments

- On 8 June, President Joko Widodo officially inaugurated the second development phase of the Batang Integrated Industrial Estate (KITB) for **electric battery production**.
  - The Korean consortium, the LG Energy Solution, is set to invest in the KITB and produce batteries for electric vehicles (EVs) with a capacity of 3.5 million units and 200 gigawatts annually. The consortium has invested US$9.8 billion, and its electric battery factory will be able to employ 20,000 workers.
  - The Indonesian president claimed that the LG investment is the first in the world to integrate EV's upstream and downstream productions, starting from nickel mining, smelting, precursor and cathode plant to EV's electric power units.

FTAs, trade preferences & facilitation

- Indonesia attended a session held by the World Trade Organization in November 2021 as a follow-up to a **lawsuit filed by the EU against Indonesia's nickel ore export ban**. As nickel ore is a vital ingredient for stainless steel production, the nickel ore export ban may affect the overseas stainless steel industry.
  - Nickel is one of the important strategic commodities for Indonesia's national economy. Indonesia bans the exports of nickel ore, effective on 2 January 2020, and requires nickel to be processed in Indonesian smelters before being sold overseas.
  - Indonesia's President claims that the nickel ore export ban is aimed at developing the country's nickel downstream industry for the sake of its people and sustainability. Instead, he welcomes foreign businesses to establish or invest in smelter facilities in Indonesia.
  - The President also notes that Indonesia will also ban raw material exports of bauxite and copper in the future, once the installation of the refining and processing smelters has been completed.

- Bank Indonesia (BI) and the People's Bank of China (POBC), China's central bank, renewed **the Bilateral Currency Swap Arrangement** (BCSA), effective from 21 January 2022. The BCSA agreement between BI and POBC, first signed in March 2009, has gone through several rounds of amendments and extensions.
  - The BCSA allows the partnered central banks to exchange payments in one currency for equivalent amounts in the other currency to facilitate bilateral trade settlements and provide liquidity support for financial markets. The BCSA targets at encouraging bilateral trade and direct investment in the local currencies of the partnered countries. Furthermore, the agreement represents that both central banks commit to maintain financial market stability.
  - Under the BCSA, the maximum amount for exchanging the two currencies is 250 billion Chinese yuan (equivalent to about 550 billion rupiah).
  - Apart from the POBC, BI and the Reserve Bank of Australia have agreed to renew their BCSA, effective from 18 January 2022. Also, BI has also sought cooperation with central banks of

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other countries, such as South Korea, Malaysia, and Singapore.

- In late August 2022, BI and the Monetary Authority of Singapore (MAS) agreed to initiate a **cross-border quick response code-based payment linkage** between the two countries to encourage payment connectivity in trading, e-commerce, and other financial transactions. The cooperation will be launched in the second half of 2023.

Infrastructure & environmental sustainability

- Indonesian President Joko Widodo announced a **relocation plan of the Indonesian capital** in 2019. However, due to the COVID-19 disruption, the project, with an estimated cost of over US$30 billion, was put on hold. In mid-January 2022, the Indonesian House of Representatives approved the shift of capital from Jakarta to Nusantarain East Kalimantan, a jungle-covered area on the east of Borneo Island.
    - The new capital will be developed in five stages, of which, the first stage from 2022 to 2024 will be the most critical one. The last stage will be completed by 2045.
    - Since most of the economic activities in the country have been concentrated at the current capital and in the Java Island, the relocation will assist the development of Kalimantan as well as the eastern part of Indonesia. The government also envisions the new capital as a low-carbon "super hub", which will support the growth of pharmaceutical, healthcare and technology sectors and promote sustainable growth beyond the Java Island.
    - As Indonesia's capital, Jakarta is the gateway between Indonesia and the rest of the world. In the future, Jakarta will no longer be the capital of the country, but will continue to be the center of economy, culture and cross-ethnic activities.
    - On 28 March, Jakarta's provincial government announced ten development goals for Jakarta in 2023, including reduction of inequality, improvement of public services, urban health and urban infrastructure, economic growth, digital transformation, empowerment of the workforce, and low-carbon development.

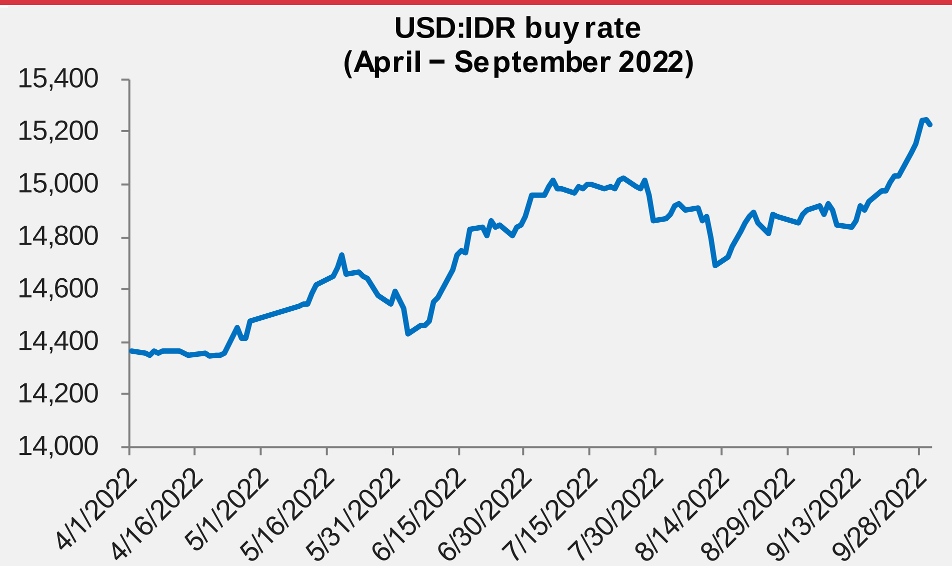
INDONESIA

Macroeconomic data

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Quarterly GDP (real yoy growth %)	5.4 (2Q22)			–		
Manufacturing PMI (IHS Markit)	51.9	50.8	50.2	51.3	51.7	53.7
Real retail sales index (yoy growth %)	8.5	2.9	4.1	6.2	4.9	5.5
Consumer price index (yoy growth %)	3.5	3.6	4.4	4.9	4.7	6.0
Exports (yoy growth %)	47.8	27.0	41.0	32.0	30.0	20.4
Exports (US$ mn)	27,321.7	21,509.8	26,150.1	25,563.2	27,862.1	24,801.3
Of which:						
- Textile and textile products (US$ mn)	1,311.0	972.4	1,269.9	1,241.8	1,247.9	-
- Footwear (US$ mn)	718.4	523.9	710.9	654.5	672.1	-
- Furniture (US$ mn)	252.1	149.5	222.1	188.8	189.2	-
- Sports requisites (US$ mn)	68.8	51.4	73.7	72.1	71.4	-
Imports (yoy growth %)	21.9	30.7	22.0	39.8	32.8	22.0
Imports (US$ mn)	19,757.4	18,609.3	21,003.9	21,345.0	22,150.6	19,808.1

Source: Statistics Indonesia, Bank Indonesia, IHS Markit PMI reports

EXCHANGE RATES



Source: Bank Indonesia

PAKISTAN

Country & sourcing updates

Macroeconomic trends

- In its *October 2022 Pakistan Development Update*, the World Bank sets Pakistan's **economic growth in the current fiscal year** (July 2022 to June 2023, hereafter FY2023) **at 2%.** The slower growth will reflect damages and disruptions caused by catastrophic floods, a tight monetary stance, high inflation, and a less conducive global environment. The World Bank expects that recovery will be gradual, with real GDP growth projected to reach **3.2% in the next fiscal year**.

- Pakistan's **exports increased by 26.6% yoy in FY2022** (July 2021 to June 2022) to US$31.8 billion. In the **first quarter of FY2023** (July-September 2022), exports stood at US$7.2 billion, a growth of **2.7% yoy**.

  - In FY2022, **textile exports** increased by **26.0%** yoy to US$19.4 billion, accounting for 61.9% of Pakistan's total export value in the fiscal year. In the first quarter of FY2023, textile exports rose **3.7%** yoy to US$4.6 billion, accounting for 63.8% of Pakistan's total export value in the period.

  - In FY2022, **the US remained the top export destination** of Pakistani products, followed by China and the UK. Exports to the US during this period were 1,201.9 billion rupees (about US$5.9 billion), accounting for 21.2% of Pakistan's total exports in the period. This was followed by China, where Pakistan exported 567.1 billion rupee (about US$2.8 billion) worth of goods (10.0% of total exports). UK was the third top export destination, where Pakistan exported 382.7 billion rupees (about US$1.9 billion) worth of goods, accounting for 6.8% of total exports.

  - Some Pakistani exporters have reported cancellation of export orders by international buyers against the backdrop of global recession fears. Textile and technology sectors in Pakistan have also reported job cuts amid dim economic prospect of the country.

  - **Imports in the first quarter of FY2023 dropped 21.4% yoy** to US$16.3 billion; it is the result of the government's efforts in reducing the soaring trade deficits of the country.

- Net FDI inflows into Pakistan were US$1,867.8 million in **FY2022, a 2.6% yoy increase** from US$1,820.5 million in the previous fiscal year. However, in the **first two months of FY2023** (July and August 2022), net FDI inflows into Pakistan **dropped by 26.1% yoy** to US$169.5 million, from US$229.5 million in the same period of the previous fiscal year.

  - In July-August 2022**, the power sector** (thermal, hydro, and coal generation) attracted the highest FDI of US$80.4 million (47.4% of the total value of net FDI inflows), followed by the financial business sector (US$50.7 million, 29.9%), communications (US$25.0 million, 14.8%), cosmetics (US$9.2 million, 5.4%), and trade (US$7.6 million, 4.5%), as data from the State Bank of Pakistan showed.

  - **China** was the largest foreign investor in Pakistan during this period: its investment was US$32.7 million, accounting for 19.3% of the total value of net FDI inflows. United Arab Emirates was the second largest foreign investor during this period (US$25.5 million, 15.0%), followed by Switzerland (US$23.3 million, 13.7%), the Netherlands (US$16.8 million, 9.9%), Germany (US$11.9 million, 7.0%), and Malaysia (US$11.1 million, 6.5%).

- The **Pakistani rupee** closed at 227.839 against the US dollar on 30 September, a year-to-date **depreciation of 22.6%.**

Policies & regulations

- On 13 January 2022, the National Assembly of Pakistan passed the Finance Supplementary Bill 2021 (the Bill), in which the **exemption of 17% sales tax** on imported machinery, equipment and materials to be utilized in the Export Processing

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Country & sourcing updates

Zones (EPZs) is withdrawn.

- Passing of the Bill is a requisite condition for release of the next tranche of US$6 billion Extended Fund Facility by the International Monetary Fund (IMF), as IMF believes that the numerous exemptions in the tax laws, especially in the sales tax regime, of Pakistan have been creating distortions in the country's economy.

- The Bill proposes to impose a 17% sales tax, worth 360 billion rupees, on nearly 144 items. These goods are currently either completely exempted from General Sales Tax (GST) or being taxed at a 5% to 12% rate.

- Before the Bill was sent to the National Assembly for approval, representatives of the EPZs suggested exempting the tax on sales at the import stage in the EPZs, arguing that collecting sales tax upon importation stage in a free trade zone is not applicable anywhere in the world. It does not benefit the government in anyway as 100% of the tax collected would be refunded, making it a tedious exercise with no actual benefit to the government. However, their suggestions were not accepted in the final procedure.

- This extra tax burden on manufacturers and firms in the EPZs will make foreign and local investors more cautious when considering investing in the EPZs in Pakistan.

Industry & sourcing developments

- The textile industry is the **pillar exporting sector** of Pakistan, contributing more than **60% to the country's exports** in value. It also provides employment to 40% of the country's labour force, according to estimations by the Lahore Chamber of Commerce and Industry.

- While the textile sector is the largest export sector of Pakistan, it is not a key target of FDI. The FDI investment in this sector only accounted for **0.2% of the net FDI inflows in FY2022**, even though the value of FDI investment attracted to this sector increased by 37.4% yoy to US$3.6 million in the fiscal year.

Labour & workplace compliance

- Since April 2022, **three of the five provinces** in Pakistan have **raised the monthly minimum wage** in their respective provinces. These decisions came after Pakistan Prime Minister Shehbaz Sharif, in his speech on the floor of the national assembly on 11 April, announced to increase Pakistan's **national minimum wage to 25,000 rupees per month**, effective 1 April 2022.
  - The **Punjab** province increased its monthly minimum wage from 20,000 rupees to 25,000 rupees, effective since 1 July.
  - The **Sindh** province increased its monthly minimum wage for unskilled workers from 19,000 rupees to 25,000 rupees, effective since 1 June.
  - On 24 June, the Chief Minister of the **Khyber Pakhtunkhwa** province Mahmood Khan announced to raise the monthly minimum wage in the province from 21,000 rupees to 26,000 rupees, effective immediately.

FTAs, trade preferences & facilitation

- On 12 August 2022, **Pakistan and Turkey** signed a **Preferential Trade Agreement** (PTA) to promote trade liberalization and enhance bilateral trade.
  - The PTA includes comprehensive provisions on bilateral safeguards, balance of payment exceptions, dispute settlement, and periodic review of the agreement.
  - Under the PTA, Turkey offers concessions to Pakistan on 261 tariff lines, while Pakistan offers concessions to Turkey on 130 tariff lines.
  - It should be noted that the total trade between

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Pakistan and Turkey was US$883 million in FY2022, with Pakistan's exports to Turkey amounting to US$366 million and Pakistan's imports from Turkey amounting to US$517 million.

- On 9 June 2022, **South Korea** signed a Framework Arrangement with Pakistan in Islamabad to **provide long term highly concessional financing of up to US$1 billion** to Pakistan within five years from 2022 to 2026. Under the signed Framework Arrangement (2022-26), this capital will be used in supporting development projects in health, communications, agriculture, and energy, with a special focus on information technology.
    - ➢ The Ambassador of South Korea Suh SangPyo, who signed the Framework Arrangement on behalf of the South Korean government, hoped that this Framework Arrangement would be instrumental in backing up the economic policies and initiatives being pursued by the new government of Pakistan, which would be conducive to promoting the two country's bilateral relations in the years ahead.
    - ➢ This is at least the third such framework agreements signed between South Korea and Pakistan. Two similar framework arrangements have been signed in 2015 and 2019 respectively, with each providing US$500 million to help Pakistan develop projects in the agriculture, hydropower, road infrastructure, power distribution system, communications, information technology, and health sectors.
- On 4 February 2022, **Pakistan and China** signed a **Framework Agreement on Industrial Cooperation under the CPEC**, during Prime Minister Imran Khan's visit to Beijing.
    - ➢ Under the Framework Agreement, the two parties reaffirm prioritized development and operations of the nine CPEC Special Economic Zones (SEZs) in Pakistan and agree to facilitate relocation of industries and investments from China and other parts of the world to the SEZs.
    - ➢ The agreement also emphasizes the development of a business-to-business matchmaking mechanism that will enhance the people-to-people and institution-to-institution linkages between the two countries.
    - ➢ The signing of this Framework Agreement is considered a milestone of the second phase of the CPEC, which is an all-round economic cooperation plan between China and Pakistan. Unlike the first phase of the CPEC, which focused on infrastructure and energy projects, the second phase is much broader in scope and focuses on industrial relocation, agricultural modernization, science and technology cooperation, job creation and socio-economic well-being of people.
- On 8 March, **Pakistan and the US** announced that they have **relaunched the process of the Trade and Investment Framework Agreement (TIFA)** during a two-day intersessional meeting at Islamabad between Muhammad Sualeh Ahmad Faruqui, Federal Secretary Commerce, and Christopher Wilson, Assistant United States Trade Representative (AUSTR) for South and Central Asia.
    - ➢ The TIFA between Pakistan and the US was signed in 2003 and aimed at providing a platform to discuss bilateral trade issues. The goal of the framework is to expand bilateral trade and investments in both goods and services. The last TIFA intersessional meeting was held in Islamabad in May 2019. By relaunching meetings under TIFA, the US hopes to reinforce trade and economic relationships with Pakistan.
    - ➢ Issues discussed at the meeting included cooperation in the agriculture, textile and healthcare sectors, the protection of intellectual property, the promotion of digital trade, e-commerce and labour rights, as well as the economic empowerment of women.

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- During the meeting, the Pakistani representatives also suggested to revive the talks on the Bilateral Investment Treaty (BIT) between the two countries but got few echoes from the US delegation. Pakistan and the US began negotiating the BIT in 2004 and 'closed the text' in 2012, but the agreement has not been signed due to reservations from Pakistani stakeholders.

<u>Infrastructure & environmental sustainability</u>

- Shortage in gas and power supply has long been a bottleneck to Pakistan's economic growth. The Pakistani government has made a great effort to tackle this problem. FY2022 also saw a large number of power generation projects planned, implemented, and completed.
  - By the end of FY2022, about **3,275 MW installed capacity** has been added to the national grid, with nuclear power plants topping the list with a contribution of 1,145 MW and increasing the cumulative capacity to 37,951 MW. However, the energy generation mix in the country is currently dominated by fossil fuels - including oil, RLNG, gas, local and imported coal - with a gross share of 66%.
  - Pakistan's first ever **Matiari-Lahore HVDC Transmission Line project** developed by the private sector with a capacity of ±660 kV became operational on a commercial basis during FY2022.
  - **Karachi Nuclear Power Plant Unit-3** (K-3) with installed capacity of 1,145 MW has also been connected to the National Grid in the fiscal year.
- The Government of Pakistan also tried to improve its transport and logistics systems. Besides the investments from the Pakistani government, transport and logistics projects were also supported through foreign funding or investments, including the CPEC program, the Central Asia Regional Economic Cooperation program and other foreign-assisted initiatives. Alternative or innovative modes of investments such as PPP and BOT have also been initiated to meet the funding gap especially for road infrastructure and urban mass transit projects. Major ongoing projects in FY2022 include the construction of Eastbay Expressway, procurement of Port Allied equipment, jetties in Gwadar, and development projects undertaken by the Korangi Fisheries Harbour Authority.

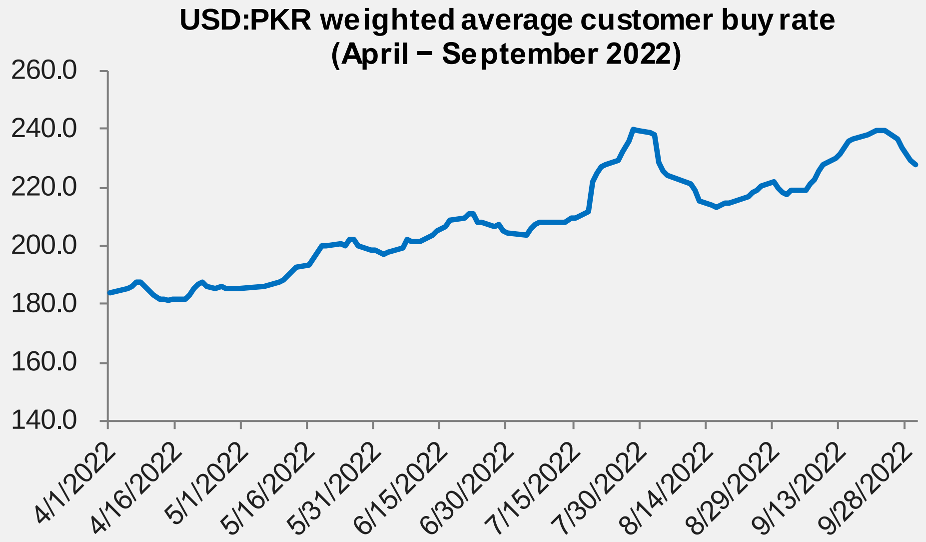
PAKISTAN

Macroeconomic data

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Quantum index of large-scale manufacturing (yoy growth %)	15.4	21.4	11.5	-1.4	0.6	–
Consumer price index (yoy growth %)	13.4	13.8	21.3	24.9	27.3	23.2
Exports (yoy growth %)	30.6	57.2	7.0	-3.6	10.4	1.5
Exports (US$ mn)	2,897.4	2,626.5	2,918.4	2,254.5	2,482.4	2,446.0
Of which:						
- Garments (US$ mn)	838.8	749.9	843.6	739.5	779.9	713.3
- Bed linen (US$ mn)	278.6	281.4	284.0	254.0	258.3	267.4
- Sporting goods (US$ mn)	35.9	32.8	36.3	29.2	34.5	38.4
Imports (yoy growth %)	27.1	28.0	21.6	-10.4	-7.7	-18.5
Imports (US$ mn)	6,660.9	6,777.5	7,722.0	4,993.4	6,071.1	5,347.0
Balance of trade (US$ mn)	-3,763.5	-4,151.0	-4,803.6	-2,738.9	-3,588.7	-2,901.0

Source: Pakistan Bureau of Statistics

EXCHANGE RATES



Source: State Bank of Pakistan

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Macroeconomic trends

- The country's **gross domestic product (GDP) slowed to 7.4% in the second quarter of 2022** from the previous quarter's 8.2%, bringing the first half average to 7.8%.
  - The growth rate is still at the higher end of the government growth target for the year. The continued reopening of the economy, spending related to the May national polls, as well as the accommodative monetary policy that buoyed consumption and investment were ascribed as major contributors to the good growth performance in the first half of the year.
  - While government officials are still confident of achieving their **growth target of between 6.5% to 7.5%** for this year, they acknowledged that headwinds like a slowdown in the world economy and tightening global monetary conditions will weigh on the country's economy in the second half of the year.
- The Philippines' **exports** in the first eight months of 2022 **increased by 4.4%** yoy to US$51.2 billion.
  - During this period, **electronic products** continued to be the country's top exports, with an export value of US$28.2 billion, accounting for 55.2% of the country's total exports. This was followed by other mineral goods (US$2.7 billion, accounting for 5.3% of the total export value); other manufactured goods (US$2.6 billion, 5.1%); coconut oil (US$1.7 billion, 3.2%); ignition wiring set and other wiring sets used in vehicles, aircrafts and ships (US$1.5 billion, 3.0%); and machinery and transport equipment (US$1.48 billion, 2.9%).
  - **The US** was the Philippines' largest export market, accounting for 15.7% of the total export value of the Philippines in the first eight months of 2022 (US$8.0 billion), followed by Japan (US$7.4 billion, 14.4%), China (US$7.2 billion, 14.1%), Hong Kong SAR, China (US$6.4 billion, 12.5%), and Singapore (US$3.4 billion, 6.6%).
- The Philippines' **net inflow of foreign direct investment** (FDI) in the first seven months of 2022 **decreased by 12.0%** yoy to US$5.1 billion.
  - **Japan** was the largest foreign investor of the Philippines during this period, with a net FDI inflow of US$297.3 million; followed by Singapore (US$162.1 million), the US (US$149.1 million), Malaysia (US$104.5 million), and Kuwait (US$38.4 million).
  - The net FDI inflows were directed mainly to manufacturing (US$301.5 million), construction (US$151.1 million), real estate activities (US$116.0 million), financial and insurance activities (US$111.5 million), and information and communications (US$76.4 million).
- The **Philippine peso** closed at 58.910 against the US dollar on 30 September 2022. It represented a year-to-date **depreciation of 13.8%** against the greenback.

Policies & regulations

- On 27 June 2022, the Philippine government issued the Executive Order (EO) no. 175 to promulgate the **12th Regular Foreign Investment Negative List** (RFINL). The 12th RFINL replaced the 11th RFINL approved in 2018.
  - The drafting of the RFINL is required under the Foreign Investments Act of 1991. An RFINL enumerates the areas or activities open to foreign investors and those that are reserved only to Filipino nationals.
  - The 12th RFINL is aligned with the amendments to the Public Service Act (PSA), the Retail Trade Liberalization Act (RTLA), and the Foreign Investment Act (FIA) newly passed since 2021, reflecting the Philippine government's policy to ease restrictions on foreign participation. Specifically,

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  - It reflects the full foreign ownership liberalization for telecommunications, domestic shipping, railways and subways, and air transport as provided under the amendments to the PSA.
  - It incorporates the amendments to the RTLA, which reduces the minimum paid-up capital requirements for foreign retail enterprises from US$2.5 million to US$500,000.
  - It also reflected the amendments to the FIA which allows for a lower minimum paid up capital of US$100,000 for non-Philippine nationals if the enterprise involves advanced technology as determined by the Department of Science and Technology, is endorsed as a startup by the lead host agencies pursuant to the Innovative Startup Act, or employs no less than 15 Filipino employees.

- On 24 May 2022, President Duterte signed the Memorandum Order No. 61 to approve **the 2022 Strategic Investment Priority Plan (SIPP).** The SIPP identifies the industries in which the government hopes to attract investment by offering tax incentives.
  - ➢ The SIPP classifies activities into three tiers. Activities listed in the 2020 Investment Priorities Plan (IPP) are retained and included under Tier I of the newly formulated SIPP. New activities identified by the SIPP are included in Tier II and Tier III.
  - ➢ Tier II defines the activities envisioned to promote a competitive and resilient economy and fill in gaps in the Philippines' industrial value chains. These activities include those deemed critical in promoting green ecosystems, ensuring a dependable health system, achieving robust self-reliance in defense systems, and realizing modern, competitive, and resilient industrial and agricultural sectors.
  - ➢ Tier III includes activities that are projected to accelerate the transformation of the economy primarily through the application of research and development and attracting technology investments. It also includes activities involving the production of equipment, parts, and services that embed new technologies, and the commercialization of research and development outputs.
  - ➢ The 2022 SIPP will be a companion document to the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act and therefore activities in the SIPP are eligible for tax incentives under the CREATE. The CREATE Act, which took effect from 11 April 2021, reduces corporate income tax (CIT) from 30% to 25% for large corporations and to 20% for small and medium enterprises that have net taxable income not higher than 5 million pesos.
  - ➢ The SIPP could be seen as an expanded version of the 2020 IPP in terms of activities included. Duterte signed the IPP on 18 November 2020 and it took effect from 6 December 2020. IPP is the Philippine government's blueprint of priority economic activities that qualify for fiscal incentives. It covers the production or manufacturing of medicines, medical equipment and devices, personal protective equipment (PPE), surgical equipment and supplies, among others.

- On 2 March 2022, President Rodrigo Duterte signed into law the Republic Act (RA) 11647, which **amends the Foreign Investments Act**.
  - ➢ The new law allows, for the first time, international investors to set up and fully own domestic enterprises (including micro and small enterprises) in the Philippines.
  - ➢ Under the new law, an Inter-Agency Investment Promotion Coordination Committee (IIPCC) will be set up and tasked with integrating and coordinating all promotion and facilitation efforts

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to encourage foreign investments and developing both a medium-term and a long-term comprehensive and strategic Foreign Investment Promotion and Marketing Plan (FIPMP) that would operate as the national framework for the promotion of foreign investments in the country.

- ➢ This is another effort by the Philippine government to relax its controls on foreign investment and further open its economy to foreign investors. The OECD FDI Regulatory Restrictiveness Index based on 2020 data shows that the Philippines has the most restrictive foreign investment laws among ASEAN countries.

- On 2 February, the House of Representatives ratified the bicameral conference committee report on the proposed **amendments to the Public Service Act (PSA)**, which seek to ease the restrictions on foreign investments in public services.
  - ➢ The amended PSA effectively **opens up to 100% foreign equity** on all economic sectors in the country except the transmission and distribution of electricity, water pipeline and sewerage, seaports, petroleum pipeline, and public utility vehicles.
  - ➢ The amended PSA was hailed by Philippine officials as a monumental reform that liberalized the 85-year-old restrictive policy of the PSA. It is believed that the amended PSA will further strengthen the government's economic recovery efforts and significantly improve the country's investment climate.
  - ➢ The amended PSA is also lauded by the foreign business groups in the Philippines, as it is regarded as a game-changer that will create new investment opportunities for foreign investors in telecommunications, most forms of transportation, and other public services. It is believed that allowing foreign investment in those sectors will lead to increased competition and cheaper prices, thereby bringing benefits to the public.

Industry & sourcing developments

- In March 2022, the face mask manufacturer Medtecs International Corp. Ltd. (Medtecs) discussed with the Philippine Board of Investments (BOI) about its plan to develop a US$1.9-billion **industrial town for textile manufacturing and electric vehicle** (EV) **assembly**. The development will be located at the Medtecs Compound in Mariveles City and is expected to generate around 125,000 jobs in seven years.
  - ➢ The planned industrial town would include production facilities for EVs, personal protective equipment, and integrated textile manufacturing (using tropical fibers, particularly abaca, bamboo and banana), among others.
  - ➢ This project will fill the gaps in the country's textile supply chains by bringing yarn production, spinning, and weaving into the country, including the production of recycled polyester textile or a mix of polyester with recycled materials from post-consumer bottles.
  - ➢ According to the Philippines' current incentive policies, the planned business activities of Medtecs are all listed in the Strategic Investment Priority Plan and, as such, are eligible for incentives under the Corporate Recovery and Tax Incentives for Enterprises Act, in which highly desirable projects with minimum investment capital of 50 billion Philippine pesos or at least 10,000 job generation may be entitled to incentives for up to 40 years.
- The Department of Science and Technology (DOST) announced in December 2021 that the Philippine government is preparing to set up **a new Regional Yarn Production and Innovation Center** (RYPIC) in Northern Luzon, after one was set up in Iloilo. The government has also planned to set up four more such centers across the country in the next four years.
- The RYPIC project is part of the DOST Inclusive

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Innovation Textiles Empowering Lives Anew (i2TELA) program, led by the DOST and the Philippine Textile Research Institute (DOST-PTRI). The RYPIC is a microscale yarn spinning facility, which aims to produce crafted yarns from different blends of natural textile fibers.

- Aside from yarn production, the RYPIC in Northern Luzon will also serve as an innovation hub to promote textile research and development activities in the region and provide technical support to micro, small, and medium enterprises in the fashion industry.

Labour & work compliance

- In May 2022, the Regional Tripartite Wages and Productivity Boards (RTWPBs) of 14 out of the 17 Philippine regions approved the minimum wage increases for workers in their respective regions. These regions include the National Capital Region (NCR), the Cordillera Administrative Region, the Ilocos Region, Cagayan Valley, Central Luzon, Calabarzon, Mimaropa, the Bicol region, Western Visayas, Central Visayas, Northern Mindanao, the Davao Region, Soccsksargen, and Caraga. All new minimum wages have become effective by 1 September.
  - The increases in daily minimum wages range from 32-110 pesos, or 6-31% of the old minimum wages. For non-agriculture sectors, these increases bring the new daily minimum wages to 329-570 pesos.
  - This round of minimum wage increases was the first time in the Philippines since the COVID-19 pandemic started. In March 2022, the Philippine Labour Secretary Silvestre Bello III ordered the RTWPBs across the country to speed up the review of the minimum wages to help workers and their families cope with the looming oil crisis. The latest actions taken by the RTWPBs are a response to the Labour Secretary's call.
  - According to the preliminary estimation by the Philippines' Department of Labour and Employment (DOLE), the pay rises in the NCR and Western Visayas alone will protect more than 1.2 million minimum wage earners from undue low pay and will help to restore the purchasing power of minimum wage earners who are suffering from escalating prices of basic goods, commodities, and petroleum products.
  - However, the new minimum wage rises are opposed by some business groups. For example, five business groups from Capiz and Iloilo have appealed to recall the minimum wage hike decision for Western Visayas. They complain that the decision disregards the capacity of the employers to pay the higher wages and the economic repercussions of the minimum wage hike for Western Visayas.

Infrastructure & environmental sustainability

- The Metro Manila Subway project — the country's first underground railway system — started construction on 3 October 2022. The 33-kilometer subway runs from Valenzuela City to Bicutan, with 17 stations. The Department of Transportation estimated that the subway will be completed by 2028 or 2029. Once in operation, it can accommodate at least 519,000 passengers daily and will reduce travel time from Valenzuela to Bicutan to 35 minutes.
- Also in early October of 2022, the Philippine government signed four civil works contracts with the Asian Development Bank totalling US$1.9 billion for the South Commuter Railway Project (SCRP). The 55-kilometer SCRP will connect Metro Manila with Laguna province and will also connect to the above-mentioned Metro Manila Subway system. Construction will begin in February 2023, while full operations are expected to start in 2029. The SCRP is part of the 147-kilometer North-South Commuter Railway network that will connect Calamba, Laguna and the Clark International Airport.

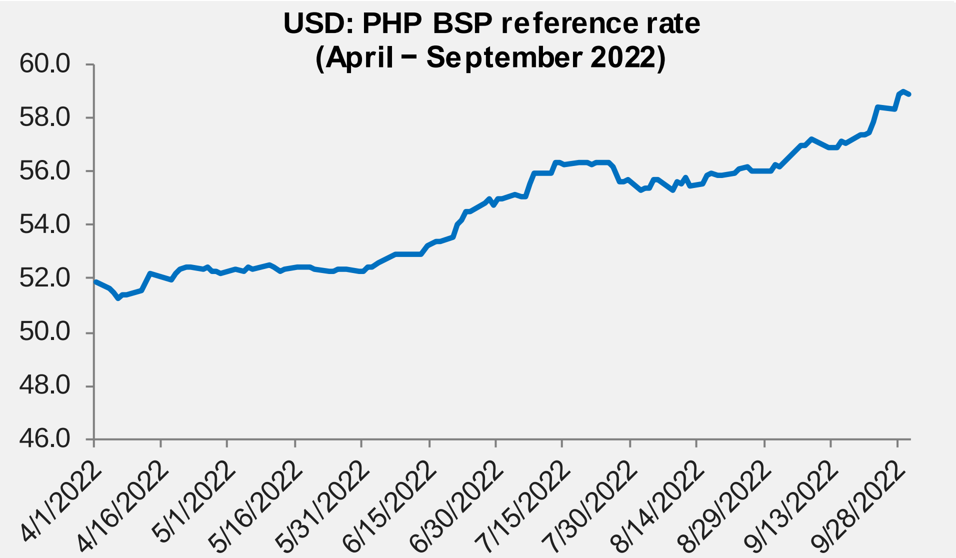
PHILIPPINES

Macroeconomic data

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Quarterly GDP (real yoy growth %)	7.4 (2Q22)			–		
Value of production index, manufacturing (yoy growth %)	7.6	8.0	8.3	10.6	11.0	–
Volume of production index, manufacturing (yoy growth %)	1.2	0.9	0.7	2.4	3.5	–
Manufacturing PMI (S&P Global)	54.3	54.1	53.8	50.8	51.2	52.9
Producer price index for total manufacturing (yoy growth %)	-3.9	-4.1	-2.6	-1.7	-1.8	–
Consumer price index (yoy growth %)	4.9	5.4	6.1	6.4	6.3	6.9
Exports (yoy growth %)	6.2	6.4	1.0	-4.2	-2.0	–
Exports (US$ mn)	6,141.6	6,319.3	6,644.0	6,212.0	6,410.2	–
Of which:						
- Woodcrafts and furniture (US$ mn)	38.4	39.6	40.2	38.5	39.2	–
- Garments and accessories (US$ mn)	58.2	68.7	81.1	75.5	92.4	–
- Travel goods and handbags (US$ mn)	49.4	59.0	71.7	69.3	68.1	–
Imports (yoy growth %)	29.0	30.2	26.0	21.5	26.0	–
Imports (US$ mn)	11,451.0	11,875.1	12,487.3	12,139.1	12,412.9	–

Source: Philippine Statistics Authority, S&P Global reports

EXCHANGE RATES



Source: Bangko Sentral ng Pilipinas (BSP)

THAILAND

Country & sourcing updates

Macroeconomic trends

- Thailand's **gross domestic product** increased by **2.5%** yoy in the **second quarter of 2022**, following a rise of 2.2% yoy in the first quarter. Manufacturing sector expanded for the ninth straight month in September, according to the S&P Global Thailand PMI data.
  - ➢ It is expected that a recovering tourism industry and the world's booming demand for Thai food will support Thailand's continuous economic and export growth in the second half of the year. The Bank of Thailand predicts that the economy will grow **3.3% this year**.
- Thai **exports increased by 11.0%** yoy to US$196.5 billion in January-August of 2022.
  - ➢ **The US** is Thailand's biggest export market, accounting for 16.2% of Thailand's total export value in the first eight months of 2022, followed by China (12.2% of total export value), Japan (8.5%), Vietnam (4.6%), and Malaysia (4.5%).
  - ➢ Key export products during the period included **agro-manufacturing products** (US$27.6 billion, 14.1% of total export value), automotive (US$26.9 billion, 13.7%), electronics (US$22.2 billion, 11.3%), electrical appliances (US$17.7 billion, 9.0%), and chemicals & petro-chemical products (US$17.4 billion, 8.9%).
- In the first half of 2022, Thailand's Board of Investment (BoI) has received applications for **395 foreign investment projects** with a total investment value of **130.1 billion baht** (about US$3.7 billion). Comparing with the same period last year, the number of projects increased by 3%, but the value was down by 53%.
  - ➢ The foreign direct investments (FDI) pledged during the period were mainly in **the metal products and machinery sector** (51.7 billion baht), electrical appliances and electronics sector (22.0 billion baht), and the agriculture and food processing sector (18.5 billion baht).
  - ➢ The top five foreign investors applying for investment during this period were **Taiwan, China** (38.6 billion baht, 19 projects), Japan (16.9 billion baht, 97 projects), the Chinese Mainland (15.5 billion baht, 45 projects), the US (11.3 billion baht, 17 projects), and Singapore (8.7 billion baht, 77 projects).
  - ➢ The Electric Vehicle (EV) industry is one of Thailand's fast-growing sectors. According to Duangjai Asawachintachit, the BoI's secretary-general, EV applications contributed to placing the automotive sector on top in terms of investment value in the first half of 2022, with domestic investment and FDI combined amounting to 42.4 billion baht, up by 212% yoy.
- The **Thai baht** closed at 37.915 against the US dollar on 30 September 2022, representing a **depreciation of 11.95%** in the year to date.

Policies & regulations

- On 2 March 2022, the Thai cabinet approved additional **special incentives for seven economic zones** in its Eastern Economic Corridor (EEC).
  - ➢ The EEC covers a combined 30,000 rai (4,800 hectares) in the provinces of Chon Buri, Rayong and Chachoengsao to accommodate investment in targeted industries, focusing largely on advanced technology. The EEC is regarded as the Thai government's flagship development project and part of the government's strategy to move Thailand towards a high-tech economy.
  - ➢ The seven economic zones comprise: EEC for aviation (EECa), EEC for innovation (EECi), EEC for digital (EECd), EEC for the medical hub (EECmd), EEC of genomics (EECg), EEC of high-speed rail (EECh), and the Digital and High Technology Centre, Ban Chang, Rayong.
  - ➢ The EEC Office is allowed to offer privileges to

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investors in the seven zones on a case-by-case basis. Thailand's investment promotion and facilitation policies are usually handled by the BOI. The delegation of the authority to issue incentives to the EEC Office would increase flexibility in implementing these incentives and thus increase the attractiveness of the seven economic zones to investors.

- On 9 August, the Cabinet approved the allocation of 1,032 rai (1.65 hectare) of land in the EECa project to create **a free-trade zone**. Special incentive measures in the zone include corporate income tax exemption of up to 15 years for businesses in the area and tax exemption for dividends.

Industry & sourcing developments

- Textile and apparel are not a key export sector of Thailand, but Thailand is one of the few countries in the world that provides the whole value chain of textile and apparel industry. Thailand hosts a full range of activities ranging from the production of fibre and fabric, to the design, manufacturing and sales of apparel and functional textiles.
- There are 4,829 textile and apparel factories in Thailand with approximately 460,000 people working in the industry in 2021.

Labour & workplace compliance

- On 13 September 2022, the Thai cabinet approved a plan to **raise the minimum wages by 5% to 8%**, the first hike since January 2020. After the adjustment, the new minimum wages will be divided into nine groups of provinces, ranging from 328 baht (about US$9.05) to 354 baht (about US$9.77) per day. The new rates took effect on 1 October. The decision came as the country's consumer inflation rate stood at 7.86% yoy in August, the highest level since July 2008, fuelled by rising energy prices.

FTAs, trade preferences & facilitation

- On 28-30 June 2022, Thailand hosted the first round of **free-trade agreement (FTA) talks with the European Free Trade Association** (Efta) in Bangkok.
  - Efta comprises Iceland, Liechtenstein, Norway and Switzerland. It is Thailand's 17th largest trade partner. In 2021, Thailand-Efta trade volume stood at US$7.5 billion, representing 1.4% of Thailand's total trade. Commerce Minister Jurin Laksanawisit said that the agreement, once implemented, is expected to double the bilateral trade value.
  - In the meetings, the two parties agreed to discuss 16 topics: trade in goods, rules of origin and customs cooperation, trade facilitation, trade remedy measures, sanitary and phytosanitary measures, technical trade barriers, trade in services, investment, e-commerce, intellectual property, competition, government procurement, trade and sustainable development, technical cooperation and capacity building, general provisions, final and institutional arrangement and dispute settlement.
  - Thailand has proposed setting a target to conclude the negotiations within two years and the Efta will host the next round of bilateral meetings from 31 Oct to 4 Nov 2022 in Geneva, Switzerland.
- On 13 January 2022, Thailand's Deputy Prime Minister Supattanapong Punmeechaow and Japanese Minister of Economy, Trade and Industry Koichi Hagiuda witnessed the signing of two **memoranda of cooperation (MoC) on green industry and advanced technological development between Thailand and Japan**.
  - One of the MoCs was an agreement between the Japan External Trade Organization (Jetro) and the Eastern Economic Corridor Office, aiming at encouraging Japanese companies

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operating in Thailand to invest more in the EEC, especially in advanced technology and R&D activities, and in targeted industries including health and well-being, digital, decarbonisation and logistics.

- The other MoC was signed between Jetro and the Board of Investment of Thailand (BoI), aiming to further promote investment by Japanese companies in Thailand to develop more resilient supply chains in industrial sectors, including through investing in bio-, circular, and green (BCG) activities.
- The cooperation of the two countries on high-tech industries and BCG activities combines Japan's green growth strategy with Thailand's BCG economic model. As the cooperation can capitalize on Thailand's ample supply of bio-based raw materials, strong human resources, research capability, and good infrastructure and logistics facilities, it is expected to generate a significant amount of new investment by Japanese firms in Thailand's BCG sectors.
- Japan has had a strong interest in investing in Southeast Asian countries. In January this year, the Ministry of Economy, Trade and Industry of Japan announced the 'Asia-Japan Investing for the Future Initiative' (AJIF). The initiative focuses on strengthening investment in supply chains, connectivity, digital innovation, and human resources, with the goals of improving attractiveness of the ASEAN region as a hub of global supply chains, and creating innovation to enhance sustainability and solve social challenges.

- On 28 October 2021, Thailand **completed the ratification of the Regional Comprehensive Economic Partnership (RCEP)** upon depositing the instrument of ratification with the secretary-general of the Association of Southeast Asian Nations (ASEAN).
  - The RCEP is the 14th free trade agreement of Thailand. More than 29,000 Thai export items out of a total of 40,000 will become the first batch to receive a tariff waiver after the RCEP takes effect. The remainder will see their tariffs gradually reduced to zero in 10-20 years, based on the respective conditions of each RCEP member.

- In the recent two years, Thailand is actively **forming mini free trade agreements (mini-FTA) with regions in other countries** to deepen trade partnerships and boost investment.
  - The Ministry of Commerce of Thailand has signed **six mini-FTAs** with Japan's Kofu city, China's Hainan and Gansu provinces, India's Telangana state, and Busan and Gyeonggi provinces of South Korea, respectively.
  - In the remaining two months of this year, the ministry is scheduled to sign mini-FTA deals with Shenzhen and with Yunnan provinces of China.

Infrastructure & environmental sustainability

- On 5 May 2022, the Special Economic Zone Policy Committee chaired by the Thai prime minister approved **four new special economic corridors** covering 16 provinces.
  - The new zones comprise the Northern Economic Corridor (NEC), the Northeastern Economic Corridor (NEEC), the Central-Western Economic Corridor (CWEC) and the Southern Economic Corridor (SEC).
  - The NEC covers Chiang Rai, Chiang Mai, Lamphun and Lampang. This corridor focuses on developing infrastructure to support a creative economy, a telecommunications network to promote the North as a digital hub, as well as wellness, organic foods and smart city projects.
  - The NEEC spans Khon Kaen, Udon Thani, Nakhon Ratchasima and Nong Khai. This

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of the area's abundant raw materials, such as rice, tapioca and sugar cane.

- The CWEC covers Ayutthaya, Nakhon Pathom, Suphan Buri and Kanchanaburi. The corridor will be developed as a production base for organic foods, smart farming and a logistics network to link Bangkok, the Eastern Economic Corridor and Myanmar.
- The SCE comprises parts of Chumphon, Ranong, Surat Thani and Nakhon Si Thammarat provinces. This corridor aims to promote five areas of connectivity -- land, marine, energy, digital and people -- under the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation. The corridor is also designated for infrastructure development to support R&D and technology transfer in the farm sector, such as agribusiness, biochemicals and the bioeconomy, as well as wellness tourism. This corridor is projected to link the Andaman Sea, the Gulf of Thailand and countries including India, Sri Lanka and Bangladesh.

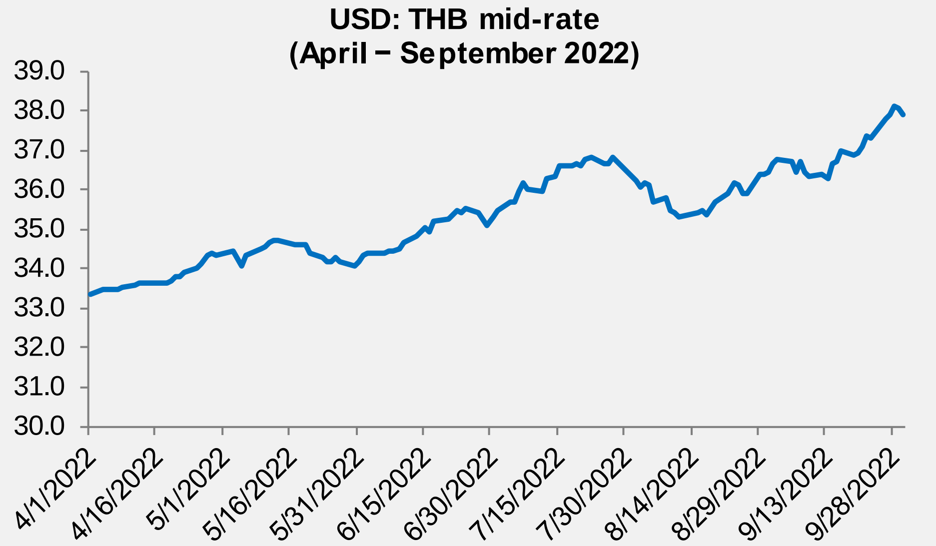
THAILAND

Macroeconomic data

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Quarterly GDP (real yoy growth %)	2.5 (2Q22)			–		
Industrial production index (value added weight, not seasonally adjusted, yoy growth %)	-0.03	-2.0	-0.2	6.4	–	–
Manufacturing PMI (S&P Global)	51.9	51.9	50.7	52.4	53.7	55.7
Producer price index, manufactured products (yoy growth %)	12.8	13.3	12.2	10.7	10.5	–
Consumer price index (yoy growth %)	4.7	7.1	7.7	7.6	7.9	6.4
Exports (yoy growth %)	9.9	10.5	11.8	4.3	7.5	–
Exports (US$ mn)	23,521.4	25,509.0	26,553.1	23,629	23,633	–
Of which:						
- Textiles and apparel (US$ mn)	562.7	618.7	633.6	591.04	598.21	–
- Furniture (US$ mn)	140.3	157.0	152.5	136.40	148.13	–
- Footwear (US$ mn)	47.9	54.4	59.9	61.20	60.80	–
Imports (yoy growth %)	21.5	24.1	24.5	23.9	21.2	–
Imports (US$ mn)	25,430	27,383.2	28,082.3	27,290	27,848	–

Source: National Economic and Social Development Council, Office of Industrial Economics, Bank of Thailand, Ministry of Commerce, S&P Global PMI reports

EXCHANGE RATES



Source: Bank of Thailand

TURKEY

Country & sourcing updates

Macroeconomic trends

- Turkey's **GDP** in the second quarter of 2022 expanded by 7.6% yoy. Net export was a significant contributor and accounted for about 2.7 percentage points, or 36.1%, of the GDP growth in the second quarter. The first quarter of 2022 also showed a strong GDP growth of 7.5% yoy. GDP growth figures in both quarters have beaten market forecasts.
  - Goldman Sachs has revised its full-year GDP growth forecast for Turkey to 5.5%, up from 3.5%; Moody's also adjusted upwards its forecast to 4.5%, up from 3.5%.
- From January to August, Turkey's **exports** increased by 18.2% yoy to US$165.6 billion, and imports shot up by 40.7% yoy to US$239.0 billion. The trade deficit for this eight-month period jumped by 146.3% yoy to US$73.4 billion.
  - During the first eight months of 2022, export values broke records. The increase in energy imports in the first eight months, however, surged by 138% yoy to US$64.3 billion and was the primary cause of the widened trade deficit.
  - Within the same period, the largest export markets for Turkey were Germany (US$13.8 billion), the US (US$11.4 billion), Iraq (US$8.6 billion), the UK (US$8.6 billion), and Italy (US$8.3 billion). These top five countries accounted for 31% of total exports of Turkey during this eight-month period.
  - By category, Turkey's exports of knitwear and woven garments increased by 12.3% yoy to US$13.0 billion in the first eight months of 2022.
  - Turkey's total exports for the full 2021 year were US$225.2 billion; government officials believe US$250 billion of exports will be achieved in 2022 despite global headwinds.
- The headline Purchasing Manager's Index (**PMI**) for Turkey in October was 46.4, the lowest since May 2020. The figure has been under the 50-point mark for eight consecutive months since March, indicating continuous slowdown of manufacturing activities in the country. The survey shows that new orders have slowed due to shrinking demand, while firms are scaling back production, purchasing and employment accordingly.
- Turkey's **FDI inflows** for the first half of 2022 was US$5.5 billion, a 21% yoy increase. The top source of investments came from the Netherlands (US$590 million), followed by Switzerland (US$513 million), and Germany (US$211 million). In terms of industry, the manufacturing and wholesale/retail trade sector was the top recipient of FDI and accounted for 31% of the total FDI during the period.
- Annual **inflation** in Turkey reached a 24-year-high of 83.5% in September 2022 and a month-on-month increase of 3.1% in September compared with August.
  - Amid the high inflation, the Turkish Central Bank, CBRT, reduced its one-week repo rate by 150 basis points from 12% to 10.5% in October. The CBRT explained that leading indicators pointed at a loss of economic momentum in the third quarter, and actions were necessary to provide for a financial environment that was supportive of growth.
  - Government officials forecast inflation to be around 65% at 2022 year-end and fall to 24.9% towards 2023 year-end.
- On 24 June 2022, Turkey's banking regulator, Banking Regulation and Supervision Agency (BRSA), announced a new directive to ban Lira-based commercial loans to certain companies in the country. If a company holds more than 15 million Liras in foreign exchange cash, and this exceeds 10% of its total assets or annual revenue, it will not be able to get a Lira-denominated loan.

TURKEY

Country & sourcing updates

- This is another move by the government to strengthen financial stability and support the Turkish Lira in the currency market. It is hoped that the measure will reduce foreign exchange demand which is 'unnecessary' or for speculative purposes.
- The **depreciated Lira** has caused an increase in imported inflation. The Turkish government has already instituted various mechanisms to strengthen the currency, including a Lira deposit protection scheme implemented in late 2021, and even requiring exporters to convert 40% of their foreign currency into Lira this April.
- As of 20 October 2022, The Turkish Lira had depreciated against the US dollar by about 30.1% year-to-date and had lost about 60.5% of value versus end-December 2020.

Policies & regulations

- Turkey's **minimum wage** was raised by 29%, which went into effect on 1 July 2022. The new monthly net minimum wage is 5,500 Liras per month, or approximately US$330. Currently, 40% of all workers in Turkey earn minimum wage.
    - Due to soaring inflation within the country, the Turkish government increased minimum wage to protect households from the hike in food and fuel costs, as announced by President Erdogan.
    - The latest 29% increase is a follow-up increase from the 50% hike in January of 2022, which brought the previous monthly net minimum wage up to 4,253 Liras.

Industry & sourcing developments

- During the annual result announcement of Hugo Boss on 10 March 2022, the fashion giant highlighted the importance of its strategy to near-shore their sourcing and manufacturing operations. Its aims included expanding factory operations (by buying more machinery/tools) and employing 1,000 additional workers in Turkey by 2025. Total investment in Turkey will be 10 million euros (approximately US$10.9 million).
    - Supply shortages, higher shipping cost and unpredictable shipping delays have pushed companies to implement near-shoring – the moving of production closer to the consumption market. Europe generates 67% of sales for Hugo Boss, and close to half of Hugo Boss's production takes place in Europe and regions within close proximity; this means the company can enjoy reduced shipping lead-times and shipping cost.
    - Turkey currently takes up 24% of Hugo Boss's total share of manufacturing. Moving more production to Turkey will reduce the company's dependency on their Southeast Asian suppliers and factories.
- Amazon, the technology and e-commerce giant from the US, invested more than US$100 million to open its first logistics centre in Turkey. The centre, which is located on the Asian side of Istanbul, was launched in October this year and plans to create over 1,000 jobs in its first year.
    - Amazon is gearing to capture the growing demand for e-commerce in Turkey. The facility will help to empower more small- and medium-sized enterprises (SMEs) to sell to the local market, as well as support their export operations of selling to other countries. This will further strengthen Amazon's e-commerce capabilities in Turkey and in foreign markets, as well as strengthen Turkey's position as a regional hub serving the EU and the Middle East markets.
- Seven well-known Turkish furniture giants (Adore, Çilek, Doğanlar Mobilya Group, Gündoğdu, Işbir, Kilim and Nurus) have formed a joint venture called f-tr Furniture Partners, seeking to establish a united strategic platform to support export growth, and to increase Turkey's global market share in the furniture industry.

TURKEY

Country & sourcing updates

- These seven furniture giants have a total annual revenue of approximately US$530 million and a combined production-warehouse area of 750,000 square metres. Synergies will come from joint activities such as research and development, market research, as well as joint logistics and after-sales services.

- f-tr will target to sell to large furniture importing countries such as the US, Germany, the UK, and France.

- Turkey is the eighth largest exporter of furniture in the world. Its furniture exports in 2021 was US$4.28 billion, up by 23.9% yoy. The Turkish furniture sector aims to enter top five in the world.

FTAs, trade preferences & facilitation

- The Trade Ministry is developing the 'Remote Countries Strategy' to support Turkey's exporting sector by increasing sales to countries beyond 2,000 kilometres from Turkey.

  - Currently, most exports are being sold to countries within 2,000 kilometres of Turkey, but the Trade Ministry aims to grow the remote markets of 18 target countries, namely, Australia, Brazil, Canada, Chile, China, India, Indonesia, Japan, Malaysia, Mexico, Nigeria, Pakistan, Philippines, South Africa, South Korea, Thailand, the US, and Vietnam. These countries are 8,500 kilometres on average away from Turkey. The ministry aims to grow sales to these markets to US$82 billion.

  - According to data from the Turkish Exporters Assembly, exports to these remote countries were US$18.9 billion in 2020 and US$27.2 billion in 2021, a 42.2% yoy increase. Among which, the countries with the highest year-on-year export growth rate in 2021 were Chile (up 122.2% yoy to US$593 million), Brazil (77.4% yoy, US$995 million), Canada (67.8% yoy, US$1.6 billion), Mexico (55.5% yoy, US$755 million), and South Africa (50.2% yoy, US$883 million).

- Turkey and the United Arab Emirates (UAE) plan to finalize and sign a free trade agreement within the 2022 timeframe. A Comprehensive Economic Partnership Agreements (CEPA) is aimed to achieve annual trade volumes of approximately US$15 billion between the two countries by eliminating tariffs and other trade barriers.

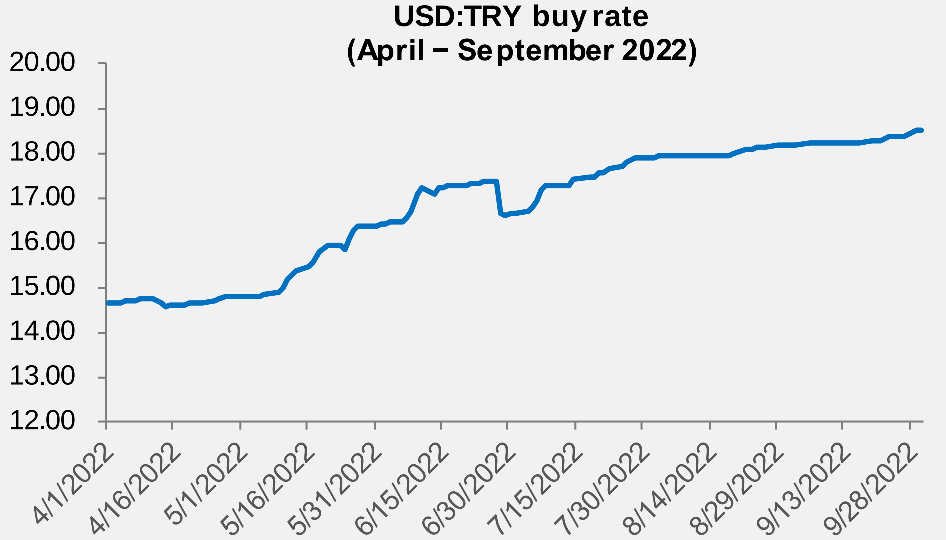
TURKEY

Macroeconomic data

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Quarterly GDP (real yoy growth %)	7.6 (2Q22)			–		
Industrial production index, manufacturing (yoy growth %, 2015=100)	12.0	10.5	10.4	4.3	2.2	-
Industrial turnover index, manufacturing (yoy growth %, 2015=100)	125.5	128.6	134.2	122.5	123.9	-
Manufacturing PMI (Istanbul Chamber of Industry)	49.2	49.2	48.1	46.9	47.4	-
Producer price index (yoy growth %)	121.82	132.16	138.31	144.61	143.75	-
Consumer price index (yoy growth %)	69.97	73.5	78.62	79.6	80.21	-
Exports (yoy growth %)	24.4	15.2	18.5	13.1	13.1	9.2
Exports (US$ mn)	23,332.8	18,979.4	23,385.3	18,502.2	21,337.3	22,612.0
Of which:						
- Knitwear (US$ mn)	1,012.8	686.8	1,016.1	889.1	956.6	-
- Woven garments (US$ mn)	861.5	547.8	783.6	629.3	713.3	-
- Furniture (US$ mn)	518.1	373.3	485.6	347.3	449.4	-
Imports (yoy growth %)	35.0	43.5	39.8	41.4	40.4	38.1
Imports (US$ mn)	29,479.4	29,587.9	31,599.6	29,240.3	32,531.0	32,207.5

Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

EXCHANGE RATES



Source: Central Bank of the Republic of Turkey

VIETNAM

Country & sourcing updates

Macroeconomic trends

- In the first nine months of 2022, Vietnam's **exports** hit US$282.5 billion, up by 17.3% yoy.
  - The US remained the largest export destination for Vietnam, with export figures valued at US$86.3 billion, up by 25.4% yoy. It was followed by China (US$40.1 billion, up by 3.2% yoy), and the EU (US$35.7 billion, up by 23.8% yoy).
  - During the same period, Vietnam's **imports** reached US$276.0 billion, up by 13.0% yoy. China was Vietnam's largest import origin with an import value of US$91.6 billion, up by 12.7% yoy, followed by Korea with US$48.5 billion, up by 19.8% yoy, and ASEAN with US$35.4 billion, up by 17.2% yoy.
- Vietnam's **economy** expanded by 8.8% yoy in the first nine months of 2022, the highest record in the past decade. This surpassed the government's GDP growth target at 6%-6.5%. The overall macro economy remained stable and inflation was under control. However, the growth slowdown in the major export markets, global inflation, global supply chain disruptions, and fuel price shocks may pose a risk to the recovery of Vietnam. Cautious policy actions are needed for the country to cope with rising external threats.
- According to the General Statistics Office, the **index of industrial production** (IIP) in the first ten months of 2022 was estimated to increase by 9% over the same period last year. Of which, the IIP of the manufacturing sector increased by 9.6% yoy, contributing 7.4 percentage points to the overall growth. Meanwhile, Vietnam's **Purchasing Managers Index** (PMI) slipped to 50.6 in October from 52.5 in September, but still pointing to a 13th straight month of growth in manufacturing activities.
- **Consumer price index** (CPI) in September increased by 3.94% yoy, and 0.4% over the previous month, mainly due to increases in prices of essential goods and services and tuition fees in certain localities. During the first nine months of 2022, CPI went up by 2.73% yoy, while core inflation rose by 1.88% yoy.
- In the first nine months of 2022, Vietnam attracted registered **foreign direct investment** (FDI) of US$18.75 billion, down by 15.3% yoy. However, during the same period, realized FDI was estimated at US$15.43 billion, up 16.3% yoy. This is the highest level of realized FDI in nine months for the past five years, according to the General Statistics Office.
  - Singapore was the largest investor with an FDI of US$4.8 billion, accounting for 25.3% of the total registered FDI, followed by Korea with US$3.8 billion (20.3%), and Japan with US$1.9 billion (10.2%), according to a report from the Foreign Investment Department (FIA).
  - According to the FIA report, the processing and manufacturing sector got the lion's share of FDI with over US$12.1 billion, accounting for 65% of the total registered FDI.

Policies & regulations

- In March, Vietnam's government has signed Decision No. 360/QD-TTg to deepen the **restructuring of state-owned enterprises** (SOEs) in 2021-25. The Decision aims to improve the operational efficiency and competitiveness of SOEs, with the aid of technology and innovative management.
  - Vietnam's SOEs play a dominant role in certain important sectors of the country, such as energy, telecommunications, and banking, contributing roughly 30% of the country's GDP.
  - At the start of 2021, approximately 500 firms in Vietnam were 100 percent owned by the government; and the state holds controlling shares of nearly 200 enterprises. SOEs currently hold a great amount of resources in Vietnam, including around 10% of equity in the market,

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Country & sourcing updates

26% of total production and business capital, and 23% of the value of fixed asset and long-term investments. However, the overall productivity and business efficiency of SOEs remain low.

- ➢ The newly signed Decision would focus on resolving the issues facing the weak and loss-making SOEs. At the same time, it would help profitable SOEs to further develop and enhance their business and production efficiencies.

Industry & sourcing developments

- TMX, a business transformation consulting firm in Asia Pacific, has released a report in end-November 2021 about doing business in Asia. The report assessed the **production competitiveness** of nine countries, including Cambodia, India, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. In the country competitiveness scoring, which is based on a country's business environment, talents, logistics and readiness for digitalization, Vietnam ranks fifth behind Singapore, Malaysia, India and Thailand.
  - ➢ The report also measures the costs of doing business in the nine countries. Among the nine countries, the average operating costs in Vietnam is the third lowest, after Cambodia and Myanmar.
  - ➢ Labour costs: Vietnam has the fourth lowest labour cost in the region, after Cambodia, Myanmar and the Philippines.
  - ➢ Warehouse rental costs: Vietnam offers the fourth lowest leasing costs, with a monthly average rent of US$5 per square meter, after Thailand, Myanmar and Cambodia.
  - ➢ Logistics costs: Vietnam was classified as a "high potential" market, representing that the country has relatively higher logistics costs but can potentially improve its 'logistics performance'.

- In the first six months of 2022, Vietnam's **exports of smartphones and parts** reached US$29.2 billion, up by 16% yoy. During the same period, the US has surpassed China to become the largest buyer of smartphones and parts from Vietnam with an import value of US$6.6 billion, up nearly 54% yoy. The exports of smartphones and parts to China from Vietnam were US$6.5 billion, up by 17% yoy and that to the EU was US$3.3 billion, down by 8% yoy.

- Vietnam attracts many manufacturers who relocated their supply chains from China, as Vietnam enjoys free or preferential market access granted by the many free trade agreements and preferential trade pacts the country participated in.
  - ➢ Apple and Samsung have relocated part of their assembly lines from China to Vietnam to reduce their dependence on a single country.
  - ➢ China's Xiaomi has also moved part of its production to Vietnam, as the company strives to meet the increasing domestic demand for smartphones and respond faster to demand from the Southeast Asian markets, including Malaysia and Thailand.
  - ➢ Google is considering producing smartphones in Vietnam to avoid risks posed by the China-US trade tensions and China's COVID-19 lockdowns.

- According to the Business Registration Management Department under the Ministry of Planning and Investment, the number of **newly established firms** in Vietnam were 89,407 in January-July this year, up by 17.9% yoy.
  - ➢ During the same period, the total number of new firms and companies resuming operations exceeded 130,000 for the first time, up by 26.8% yoy and 1.4 times the number of enterprises dropping out of the market.
  - ➢ Most of the new firms were in the service industry, accounting for 73.5% of all newly

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established enterprises, up by 21.7% yoy, followed by the industry and construction sectors, accounting for 25.1% of the total, up by 9.3% yoy.

Labour & workplace compliance

- According to a survey conducted by headhunting agency Adecco Vietnam in November 2021, over 43% of **fresh university graduates** expect a monthly salary of more than 10 million Vietnamese dong (around US$435), and 31% want 6 to 10 million Vietnamese dong (around US$261 to US$435). However, only 27.5% of employers are willing to offer a job with a salary of over 10 million Vietnamese dong.
  - Due to the pandemic, nearly 39% of enterprises have reduced recruitment demand, with nearly 19% reducing the demand by more than half.
  - Over 59% of fresh graduates believe there are fewer job opportunities than before; 41.8% are concerned about the lack of practical knowledge, and 40% say they have fewer chances to reach employers.
- On 23 March, Vietnam's government decided to raise workers' **monthly overtime cap** from 40 to 60 hours. The decision is effective from 1 April till the end of this year.
  - The annual overtime cap has also increased by 50% from 200 hours to 300 hours for almost all sectors. In the past, only selected sectors which are prioritized by the government for economic growth had an overtime cap of 300 hours.
  - Regarding the new overtime cap, some companies have urged to further raise the annual overtime cap to 400-500 hours, in view of the persistent labour shortages in Vietnam. Some point out that the unused overtime limit from the low season cannot be carried forward, while the overtime limit is not enough for the peak season or for fulfilling urgent orders.
  - Le Dinh Quang from the Vietnam General Confederation of Labour pointed out that many workers had resigned in the first quarter this year due to low pay. The postponement of raising minimum wage over the past two years amid COVID-19 is one of the factors leading to labour shortages in Vietnam. Many companies offer salaries a bit higher than the minimum wage, which are still not enough to cover the persistently rising costs of living.
- Vietnam's government issued a new order (Decree 38/2022/ND-CP) for **raising minimum wages** by 6%, effective from 1 July.
  - The monthly minimum wages in Regions 1, 2, 3 and 4 increased by 180,000 Vietnamese dong, 210,000 dong, 240,000 dong and 260,000 dong, respectively. The new monthly minimum wages ranged from 3.25 million dong to 4.68 million dong (roughly equivalent to US$135-US$195).
  - According to the National Wage Council, the minimum wage hike would increase the production costs of enterprises by an average of 0.5-0.6%; for textile and garment enterprises, costs would rise by 1.1-1.2%.

FTAs, trade preferences & facilitation

- Vietnam's Prime Minister Pham Minh Chinh visited the US from 11 to 27 May. During his stay in the US, he and US President Joe Biden held talks related to health, climate change, renewable energy, sustainable development, and the **Indo-Pacific Economic Framework** (IPEF).
  - On 23 May, Vietnam and 12 other countries joined the IPEF, an economic initiative launched by the US. Member countries of the IPEF include the US, Australia, Brunei, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam.

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- The IPEF is a loose framework that seeks to bring together the member countries to formulate rules on fair trade, supply chain resilience, infrastructure decarbonization, and tax and anti-corruption. As clarified by the US, the IPEF is perceived as an economic correlative of the US's Indo-Pacific strategy rather than a trade agreement.

- The IPEF is expected to bring some economic benefits to the member countries regarding investment and trade. For instance, Vietnam's textile and apparel and digital exports to the US might increase, as Vietnam might enjoy some policy bonuses under the IPEF.

Infrastructure & environmental sustainability

- In the Socioeconomic Development Plan 2022, the National Assembly (NA) sets the economic growth target of Vietnam in 2022 at 6-6.5%. In order to achieve the growth target, the government places a **focus on infrastructure development** and ensures the disbursement rate of public investment surpasses 90% this year.

    - Under the monetary and fiscal policy package adopted by the NA, the government sets to disburse 113.85 trillion Vietnamese dong (US$4.95 billion) for infrastructure development, of which 103.2 trillion dong (US$4.48 billion) is planned for road construction, and 5.69 trillion dong (US$256.5 million) will be used for digital transformation infrastructure.

    - The government will accelerate the construction of major infrastructure projects, such as the intersections of the eastern cluster of North-South Expressway, My Thuan-Can Tho Expressway, Long Thanh International Airport, and the metro lines in both Hanoi and Ho Chi Minh City.

- In July 2022, Vietnam approved a project on developing seven marine economic clusters and three to four leading regional maritime economic centres by 2030.

    - The project aims at making Vietnam a **strong marine country**.

    - The clusters will provide value-added services and products. They will also attract large-scale enterprises and high-tech project investments to facilitate green growth and to protect the marine ecological environment and the marine economy.

- In early October, the Deputy Minister of Transport revealed an objective of building a **modern merchant fleet** to handle about 20% of Vietnam's exports by 2030. The fleet development aims to improve the efficiency and quality of Vietnam's maritime industry and help the country better integrate into the international market.

    - The short-term focus would be building a fleet of container ships routing within Asia-Pacific region, with a goal to gain operational experience and set the foundation for long-distance routes in the future. The Vietnamese maritime authorities also hope to use the experience to improve their management capacity, legal framework, applications of science and technology, and administrative procedures to better support enterprises.

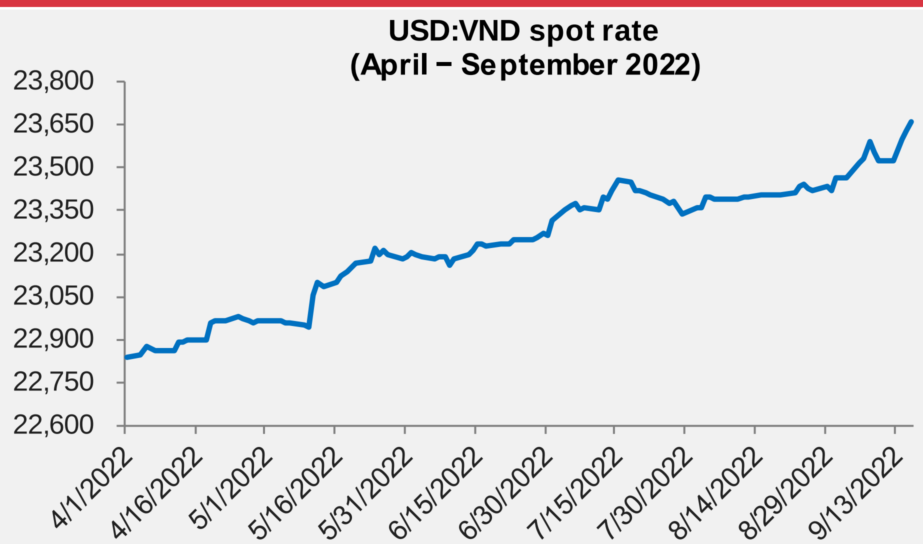
VIETNAM

Macroeconomic data

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Quarterly GDP (real yoy growth %)	7.7 (2Q22)			13.7 (3Q22)		
Industrial production index (yoy growth %)	10.7	9.5	9.1	9.5	11.3	13.0
Manufacturing PMI (IHS Markit)	51.7	54.7	54.0	51.2	52.7	52.5
Price index of materials used for production (yoy growth %)	6.4 (2Q22)			5.9 (3Q22)		
Producer price index for industrial products (yoy growth %)	5.1 (2Q22)			4.6 (3Q22)		
Consumer price index (yoy growth %)	2.6	2.9	3.4	3.1	2.9	3.9
Exports (year-to-date, yoy growth %)	25.5	18.0	20.7	9.8	28.2	10.3
Exports (US$ mn)	33,316.8	30,917.9	32,843.4	30,607.5	34,918.0	29,817.3
Of which:						
- Textiles & garments (US$ mn)	3,152.1	3,170.7	3,586.5	3,682.8	4,002.1	2,724.9
- Footwear (US$ mn)	2,019.5	2,111.1	2,364.8	2,272.8	2,293.6	1,791.6
- Toys and sports requisites (US$ mn)	413.8	322.6	402.3	365.2	398.6	312.8
Imports (year-to-date, yoy growth %)	16.9	15.4	16.5	4.9	13.6	6.5
Imports (US$ mn)	32,467.7	32,616.0	32,232.8	30,533.1	31,059.1	28,387.8

Source: General Statistics Office of Vietnam, Vietnam Customs, IHS Markit PMI reports

EXCHANGE RATES



Source: Bloomberg

CENTRAL AMERICA

Country & sourcing updates

Regional updates: Export data

Data from the US Office of Textiles and Apparel (OTEXA) show that US import volume of apparel, as measured by square metre equivalent (SME), increased by 20.9% yoy for the year ended 31 August 2022 (Exhibit 1). By region, apparel import volume from the Caribbean Basin Initiative (CBI) region and the Dominican Republic–Central America Free Trade Agreement (CAFTA–DR) region increased by 6.4% yoy and 9.3% yoy, respectively, in the period.

In SME terms, the CAFTA–DR countries represented 8.8% of total US apparel imports in the period. The top regional supplier of apparel to the US apparel import market was Honduras, followed by Nicaragua and El Salvador, with shares of 2.8%, 2.0% and 1.9%, respectively, in the period. In US dollar terms, imports from Nicaragua surged by 38.0% yoy in the period, while imports from Guatemala and Honduras also increased by 27.9% yoy and 22.0% yoy respectively, compared with the same period last year. Imports from El Salvador increased by 10.2% yoy.

Exhibit 1: US Apparel Imports for the Year Ended 31 August 2022

Region/ countries	Square Metre Equivalent (Million)				US Customs Value (Million US$)			
	Current Year	Previous Year	Percent		Current Year	Previous Year	Percent	
			YOY Change	Share			YOY Change	Share
World	33,321.244	27,571.637	20.85	100.00	100,425.554	74,117.042	35.50	100.00
Mexico	817.328	791.998	3.20	2.45	3,144.262	2,628.704	19.61	3.13
CBI	429.931	404.185	6.37	1.29	1,097.045	945.633	16.01	1.09
CAFTA-DR	2,925.863	2,677.739	9.27	8.78	10,052.024	8,118.400	23.82	10.01
Of which:								
- Honduras	934.573	851.054	9.81	2.80	3,049.171	2,500.125	21.96	3.04
- Nicaragua	675.049	560.813	20.37	2.03	2,488.907	1,804.083	37.96	2.48
- El Salvador	646.565	652.174	-0.86	1.94	1,944.701	1,764.662	10.20	1.94
- Guatemala	414.240	375.179	10.41	1.24	1,925.463	1,505.464	27.90	1.92
- Dominican Republic	253.636	237.337	6.87	0.76	628.622	534.668	17.57	0.63
- Costa Rica	1.801	1.181	52.48	0.01	15.160	9.397	61.32	0.02

Source: Compiled by Fung Business Intelligence based on data from the US Office of Textiles and Apparel (OTEXA), October 2022

CENTRAL AMERICA

Country & sourcing updates

Key sourcing countries highlights

1. Guatemala

- Stable – Expected to receive large investments in textiles in 2022-2025
- Strong 'diplomatic relations' with Taiwan
- Inflation rate in Guatemala increased to 8.36% yoy in July from 7.55% yoy in June this year, the highest in 14 years. An adjustment of 50 points to leading interest rate has been made (from 1.75% to 2.25%) by the Central Bank, as a mitigation policy.

2. El Salvador

- Caution – There are tense relations between government and private sector.
- The Government is strengthening relationships with China.
- El Salvador's President Nayib Bukele in September announced his intention to run for a second consecutive term. This decision is following ruling by the Salvadoran Supreme Court last year that abolished the country's one-term constitutional limit for the presidency.
- Adopted Bitcoin as legal tender

3. Honduras

- Stable – Friendly to investments
- The world's leading buyer of US yarn, with US$1.25 billion in imports for the year ended August 2022, equivalent to 28% of the total US yarn exports in the period.

4. Nicaragua

- Risk – Continuous US sanctions on government officials and companies for alleged human rights issues
- Nicaraguan president Daniel Ortega recognized the independence of Donetsk and Luhansk. Supporting Russia's military actions over Ukraine.

5. Haiti

- Politically unstable as dissatisfaction with security, inflation, and oil supply instability are leading to general discontent with the current government.
- Fuel shortages are impacting the country's economy after Prime Minister Ariel Henry's administration announced it would not continue to subsidize fuels, and raised the price of gasoline, diesel, and kerosene; followed by increases in food prices, all of which led to demonstrations, riots and blockage of roads demanding the resignation of the Prime Minister.
- Presidential elections which were expected to take place this year have not been announced and will be deferred to next year.
- Exports and imports had been paralyzed for four consecutive weeks as of mid-October by anti-government protests amid anger over rising fuel and food prices. A cholera outbreak in October has further worsened the chaotic situation.

Central America textile investments update

New regional investments in textiles and yarn production by major investors in Central America include the following:

Spinning

Guatemala

- **INT, S.A.** 22,000 Spindles – Ready by 2023
  11,000 Spindles - Ready by 2025
- **MT Textil** 59,000 Spindles – Ready by 2023
  109,000 Spindles – Ready by 2025
- **Hansae** enters a partnership with MT textiles (Imperial) – It has announced a major expansion project in Guatemala, with investment of US$500 million in the next five years. As the first stage it established a joint venture with MT Textiles (Imperial) to co-invest in spinning facilities for polyester and cotton yarns. Hansae is the first large

CENTRAL AMERICA

Country & sourcing updates

Korean company to engage in a long-term agreement with a local company.

Honduras

- **Karim's** 55,000 Spindles – Ready by 2022
- **Caracol Knits** 60,000 Spindles - Ready by 2023
- **Parkdale** 120,000 Spindles – Ready by 2024
- **Intradeco** 100,000 Spindles – Ready by 2022

Costa Rica

- **Sae-A Trading** 35,000 Spindles – Ready by 2022
  35,000 Spindles - Ready by 2024

Nicaragua

- **Texhong** 65,000 Spindles – Ready by 2024

Sewing

Honduras

- **Grupo Arena** 160 Sewing lines – Ready in 2021

El Salvador

- **Intradeco** New facility for recycled yarns – Ready by 2022

Costs of production

1. Updates on minimum wages

In 2022, five countries in the region adjusted their minimum wages, i.e. Haiti (up by 37.0% from the previous level, starting 21 February), Mexico (up by 22.0% from the previous level, starting 1 January), Nicaragua (up by 17.2% from the previous level, starting 1 March), Honduras (up by 7.5% from the previous level, starting 1 January), and Guatemala (up by 4.3% from the previous level, starting 1 January). The effective monthly minimum wage rates are 9,506.63 lempiras (US$386.8) for Honduras, 2,954.35 quetzals (equivalent to US$382.5) for Guatemala, 5,186.10 pesos (US$263.8) for Mexico, 7,498.46 córdobas (US$209.2) for Nicaragua, 20,550.00 gourdes (US$183.5) for Haiti, and US$359.2 for El Salvador, as of September 2022.

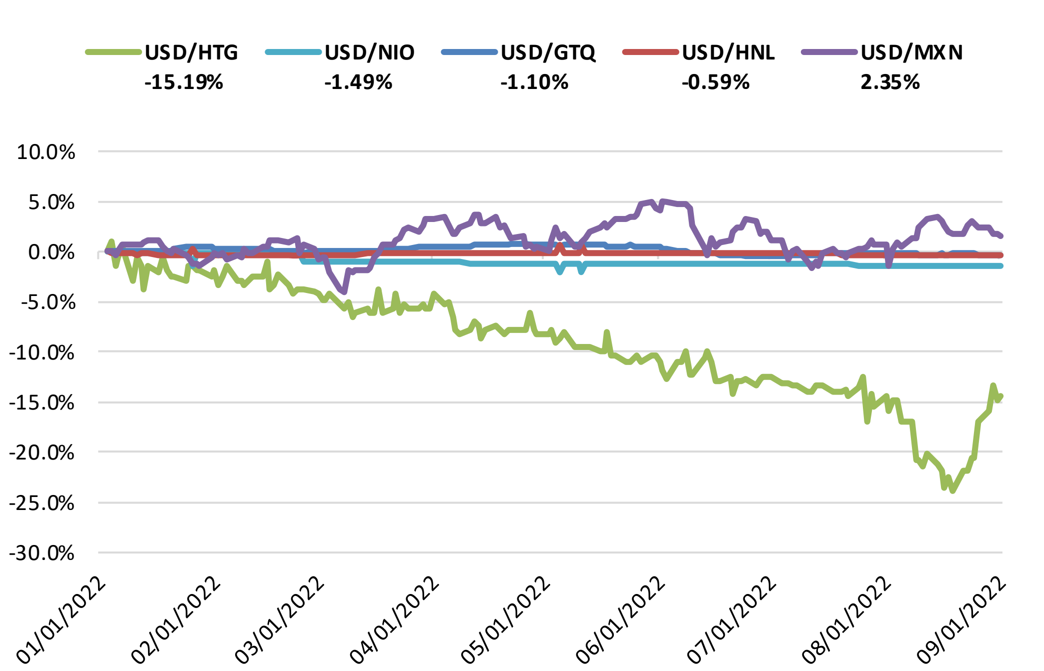
2. Exchange rates

For the first eight and a half months of 2022, all the currencies except Haitian gourde in the region remained relatively stable against the US dollar: The Haitian gourde posted the sharpest depreciation (-15.19%) against the greenback, followed by the Nicaraguan córdoba (-1.49%), the Guatemalan quetzal (-1.10%), and the Honduran lempira (-0.59%), while the Mexican peso appreciated 2.35% against the US dollars, based on exchange rates provided by Bloomberg.

CENTRAL AMERICA

Country & sourcing updates

Exhibit 3: Foreign Exchange Rates against the US Dollar
(For the Period January–September 2022)



Note: The percentage change denotes the selected currency's year-to-date performance against the US dollar.
Source: Compiled by Fung Business Intelligence based on exchange rates from Bloomberg.

GLOBAL TRADE POLICY REGIME

Bilateral/multilateral trade agreements that involve the US, the UK, the EU and selected Asian Countries

	UK	US	EU*	Vietnam	Turkey	Thailand	Philippines	Pakistan	Indonesia	India	China	Cambodia
Bangladesh				GSTP	D-8 PTA	GSTP, BIMSTEC FTA	GSTP	D-8 PTA, GSTP, SAFTA, BD-PK FTA	D-8 PTA, GSTP	APTA, GSTP, SAFTA, BIMSTEC FTA	APTA	
Cambodia			ASEAN-EU FTA	AFTA, RCEP		AFTA, RCEP	AFTA, RCEP		AFTA, RCEP	AIFTA	ACFTA, CCFTA, RCEP	
China			EU-CN CAI	ACFTA, RCEP		ACFTA, RCEP	ACFTA, RCEP	CPFTA	ACFTA, RCEP	APTA		
India	IN-UK FTA		EU-IN FTA	AIFTA, GSTP		AIFTA, GSTP, BIMSTEC FTA, IN-TH FTA	AIFTA, GSTP	GSTP, SAFTA	AIFTA, GSTP, IN-ID CECA			
Indonesia			ASEAN-EU FTA, EU-ID CEPA	AFTA, GSTP, RCEP	D-8 PTA, IT-CEPA	AFTA, GSTP, RCEP	AFTA, GSTP, RCEP	D-8 PTA, GSTP, ID-PK PTA				
Pakistan				GSTP	D-8 PTA, ECOTA, PK-TR PTA	GSTP, PK-TH FTA	GSTP					
Philippines			ASEAN-EU FTA, EU-PH FTA	AFTA, GSTP, RCEP		AFTA, GSTP, RCEP						
Thailand			ASEAN-EU FTA, EU-TH FTA	AFTA, GSTP, RCEP	TH-TR FTA							
Turkey	UK-TR FTA		EU-TR CU									
Vietnam	UKVFTA		ASEAN-EU FTA, EVFTA									
EU	EU-UK TCA											
US	UK-US MRA											

Notes:
1. The United Kingdom is no longer a member state of the European Union after Brexit on 31 January 2020.
2. Agreements highlighted in red are now under negotiation.
3. Details of the agreements are provided in the following tables.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs in force							
	Name of agreement	**Status**	**Current signatories[3]**	**Total population of signatories, 2021[4] (% of world total)**	**Total GDP of signatories, 2021[5] (% of world total)**	**Highlights**	**Rules of Origin[6]**
ACFTA	ASEAN–China Free Trade Area	In force since 2005	Brunei, Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	2,086 million (27%)	US$21,077 billion (22%)	Zero duty for 94.7% of all tariff lines.	Cumulation: RVC 40%. The full value of a material used in the production of a finished good can be accumulated towards the RVC of the finished good only if the material itself qualifies as originating.
AFTA	ASEAN Free Trade Area	In force since 1993	Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	673 million (9%)	US$3,343 billion (3%)	Zero-duty for 87.8% of all tariff lines, according to the ATIGA Tariff Schedule of 2013. ASEAN Trade in Services Agreement (ATISA) was signed in October 2020. Singapore and Vietnam ratified the ATISA on 6 April and 18 October 2021, respectively.	Cumulation: RVC 40% or CTH. A material can contribute towards the aggregate RVC of the finished good, as long as the material itself has a RVC of 20% or more.
AIFTA	ASEAN–India Free Trade Area	In force since 2010. In February 2021, India and the ASEAN members agreed to review the scope of the FTA. During the 19th ASEAN-India Economic Ministers' meeting held in September 2022, both sides have endorsed the scope of review of the trade pact.	Brunei, Cambodia, India, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	2,067 million (26%)	US$6,517 billion (7%)	Zero duty for 79.6% of all tariff lines.	Cumulation: RVC 35% and CTSH.
APTA	Asia Pacific Trade Agreement	In force since 1976. Mongolia formally acceded to the APTA be the seventh member on 30 September 2020.	Bangladesh, China, India, Republic of Korea, Lao PDR, Mongolia, Sri Lanka	3,057 million (39%)	US$23,241 billion (24%)	Covers 10,001 tariff lines after the 4th round of negotiation. The Margin of Preference (the difference in average between the MFN rate of duty and the preferential rate of duty) is 29.2%.	Local value added 45% (35% for LDC's). Cumulation: the aggregate content originating in the territory of the Participating States is not less than 60% of its FOB value (50% for LDC members).

Notes:
1 The United Kingdom is no longer a member state of the European Union after Brexit on 31 January 2020.
2 Bangladesh, Cambodia, China, India, Indonesia, Pakistan, Philippines, Thailand, Turkey, and Vietnam
3 The US, the UK, the EU, and the selected Asian countries are highlighted in blue
4 Source: World Bank
5 Source: World Bank, International Monetary Fund
6 Abbreviations are explained in the glossary in the end of this section.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs in force							
	Name of agreement	Status	Current signatories[3]	Total population of signatories, 2021[4] (% of world total)	Total GDP of signatories, 2021[5] (% of world total)	Highlights	Rules of Origin[6]
CCFTA	Cambodia-China Free Trade Area	In force since 2022	Cambodia, China	1,429 million (18%)	US$17,761 billion (18%)	Zero duty for over 90% of all tariff lines.	Cumulation: RVC not less than 40% of its FOB value or CTH.
CPFTA	China–Pakistan Free Trade Agreement	In force since 2007. The 2nd phase of the CPFTA was signed in April 2019 and came into force in January 2020. In March 2022, Pakistan started to seek renegotiation with China concerning 38 export items to China.	China, Pakistan	1,638 million (21%)	US$18,080 billion (19%)	Under the 2nd phase FTA, tariff lines will be gradually liberalized from 35% to 75% in a period of 10 years by China and 15 years by Pakistan.	Local value added 40% (based on FOB price). Cumulation: bilateral, aggregate originating content on the final product is not less than 40%.
D-8 PTA	Preferential Tariff Arrangement – Group of Eight Developing Countries	In force since 2011. The PTA became fully operational in October 2022.	Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, Turkey	1,186 million (15%)	US$3,982 billion (4%) (No data of Iran)	In line with targets in the D-8 Roadmap 2018, the PTA aspires to increase the share of trade among D-8 members from the current 7.06% of their total foreign trade to 10-15% within the next 10 years.	Negotiations of the Rules of Origin are in progress.
ECOTA	Economic Cooperation Organization Trade Agreement	In force since 2008 but not yet operational	Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, Uzbekistan	522 million (7%)	US$1,494 billion (2%) (No data of Afghanistan, Iran, and Turkmenistan)	Tariffs in a positive list will be lowered to below 15% gradually. Although Pakistan, Iran, Turkey, Afghanistan and Tajikistan agreed in 2008 to operationalize ECOTA, it has yet to be implemented due to disagreement between members on the interpretation of its core provisions and non-ratification of the agreement's annexes by Tajikistan.	Local value added 40%. Cumulation: RVC 60%.
EU–TR CU	EU–Turkey Customs Union	In force since 1996	EU, Turkey	532 million (7%)	US$17,904 billion (19%)	Goods can now travel between the two entities without any customs restrictions.	N/A
EU-UK TCA	EU-UK Trade and Cooperation Agreement	In force since 2021	EU, UK	514 million (7%)	US$20,275 billion (21%)	The UK is no longer a member state of the EU after Brexit on 31 January 2020. The TCA provides zero tariffs and zero quotas on all goods that comply with the appropriate rules of origin.	No cumulation with any third countries. Rules of origin will apply to goods in order to qualify for preferential trade terms under the agreement. Only goods originating in the EU and the UK can benefit from tariff preferences.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs in force							
	Name of agreement	**Status**	**Current signatories[3]**	**Total population of signatories, 2021[4] (% of world total)**	**Total GDP of signatories, 2021[5] (% of world total)**	**Highlights**	**Rules of Origin[6]**
EVFTA	EU–Vietnam Free Trade Agreement	In force since 2020	EU, Vietnam	545 million (7%)	US$17,451 billion (18%)	The FTA eliminates nearly all tariffs (over 99% of all tariff lines) on trade between the two parties. The EU eliminated 85.5% of tariff lines for Vietnam immediately right after the EVFTA came into force. And the EU will eliminate the remaining tariffs in three to seven years. Other commitments include elimination of non-tariff barriers, customs and trade facilitation, liberalization of trade in services, investment and e-commerce, and behind-the-border policies, such as competition, state-owned enterprises, and labor and environmental standards.	Cumulation: 50% For garments, fabrics from the EU or Vietnam must be used, with the exception of: - fabrics produced in South Korea, another FTA partner of the EU, and - a small amount of materials not satisfying the ROO can be used in mixed fabrics under the 'tolerance rule'.
GSTP	Global System of Trade Preferences among Developing Countries	In force since 1989	42 developing economies, including Bangladesh, India, Indonesia, Pakistan, Philippines, Thailand, Vietnam, and the Southern Common Market (MERCOSUR) trade bloc	3,887 million (50%)	US$15,283 billion (16%) (No data of Cuba, Iran, the Democratic People's Republic of Korea, and Venezuela)	In the 3rd round of negotiations, in which participating members agreed to reduce applied tariffs by 20% on at least 70% of dutiable products, concluded in 2010 but has not yet become effective.	Local value added 50% (40% for LDC's). Cumulation: RVC 60%.
ID-PK PTA	Indonesia–Pakistan Preferential Trade Agreement	In force since 2013. Negotiations on upgrading the PTA to FTA launched in July 2019, but were suspended due to COVID-19. During the Third Bilateral Consultative Forum between Pakistan and Indonesia held on 25 May 2022, the two countries agreed on various proposals for promoting bilateral trade.	Indonesia, Pakistan	502 million (6%)	US$1,532 billion (2%)	Preferential tariffs for items including cotton yarn, cotton fabrics, readymade garments, leather goods and other industrial products.	Local value added 40% (based on FOB price). Cumulation: RVC 40%.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs in force

	Name of agreement	Status	Current signatories[3]	Total population of signatories, 2021[4] (% of world total)	Total GDP of signatories, 2021[5] (% of world total)	Highlights	Rules of Origin[6]
RCEP	Regional Comprehensive Economic Partnership	In force since 2022. Indonesia, the 13th RCEP member, ratified the RCEP in August 2022, with only Myanmar and the Philippines remaining.	Australia, Brunei, Cambodia, China, Indonesia, Japan, Republic of Korea, Lao PDR, Philippines, Malaysia, Myanmar, New Zealand, Singapore, Thailand, Vietnam	2,294 million (29%)	US$29,606 billion (31%)	The RCEP will eliminate import tariffs on most industrial products, comprising 92% of all products, in 20 years in accordance with each member country's Schedule of Tariff Commitments. Some member countries have only one tariff schedule applicable to all other member countries, while China, Indonesia, South Korea, the Philippines and Vietnam have separate schedules for various member countries.	All member countries have agreed one rule of origin with a RVC of 40%
SAFTA	South Asian Free Trade Area	In force since 2006. Afghanistan formally acceded to the SAFTA be the eighth member on 7 August 2011	Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	1,878 million (24%)	US$4,062 billion (4%) (No data of Afghanistan and Bhutan)	Tariffs are scheduled to be lowered to 0-5% by 2012 for developed members (2013 for LDC members). The deadline, however, was made obsolete by unresolved differences.	Local Value Added 40% (30% for LDC's) or CTH. Cumulation: RVC 50% with domestic value content 20%.
UK-TR FTA	UK-Turkey Free Trade Agreement	In force since 2021.	UK, Turkey	152 million (2%)	US$4,002 billion (4%)	The UK's previous trading relationship with Turkey was governed by the EU-Turkey customs union. The FTA covers trade in goods between the two countries and secures existing preferential tariffs under the EU-Turkey customs union for 7,600 UK businesses exporting machinery, iron and steel to Turkey, and protect automotive and manufacturing supply chains. Since 2022, both sides have started to work on upgrading the trade pact to boost economic ties.	Single transformation rule. Cumulation rule. Percentage of non-originating materials to the 'ex works price'. Knit-to-shape; yarn forward rule.
UK-US MRA	UK-US Mutual Recognition Agreement	In force since 2019	UK, US	399 million (5%)	US$26,183 billion (27%)	The UK-US MRA contains the conditions under which each country will accept conformity assessment results from the other. The UK-US MRA covers electromagnetic compatibility, telecommunication equipment and good manufacturing practice of pharmaceuticals.	N/A

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs in force							
	Name of agreement	Status	Current signatories[3]	Total population of signatories, 2021[4] (% of world total)	Total GDP of signatories, 2021[5] (% of world total)	Highlights	Rules of Origin[6]
UKVFTA	UK-Vietnam Free Trade Agreement	In force since 2021	UK, Vietnam	165 million (2%)	US$3,549 billion (4%)	The terms of UKVFTA are based on the EVFTA. The deal locks in the 65% of all tariffs that have been eliminated since the EVFTA entered into force. The FTA will increase to 99% of tariffs in seven years. Vietnam is currently a beneficiary of the US Generalized Scheme of Preferences (GSP). From 1 January 2023, Vietnam will stop trading with the UK under GSP terms and move to the UKVFTA terms.	Vietnam issued Circular No. 02/2021/TT-BCT regulating the origin issues, effective on 27 June 2021. - The Circular adopts the Product Specific Rules of Origin (PSR), which applies an origin determination approach that is unique and different from those under other FTAs that Vietnam has signed. - EU-originating goods are accepted as either of Vietnamese origin or of UK origin when such goods are used in producing the finished goods. - A number of materials originating in an ASEAN country that concluded a preferential trade agreement with the EU in accordance with Article XXIV of GATT 1994 will be considered as materials originating in Vietnam when further processed or incorporated into one of the products listed in this circular.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs pending ratification							
	Name of agreement	**Status**	**Current signatories[3]**	**Total population of signatories, 2021[4] (% of world total)**	**Total GDP of signatories, 2021[5] (% of world total)**	**Highlights**	**Rules of Origin[6]**
CPTPP	Comprehensive and Progressive Agreement on the Trans-Pacific Partnership	Signed in March 2018. Entered into force on 30 December 2018 for 6 out of the 11 members, on 14 January 2019 for Vietnam and on 19 September 2021 for Peru. In 2021, the UK has formally started negotiations to join the CPTPP. The first meeting of the CPTPP UK Accession Working Group was held in September same year. Both the Chinese Mainland and Taiwan, China applied to join the CPTPP in September 2021. Ecuador applied in December 2021, and Costa Rica in August 2022, to join the CPTPP. Besides, South Korea, the Philippines, Indonesia, and Thailand have formally expressed interest to join the CPTPP.	Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam	514 million (7%)	US$11,701 billion (12%)	Tariffs will be eliminated immediately for most tariff lines. The agreement also covers trade in services, investment and behind-the-border matters.	RVC (varies by product and method of calculation) or CTSH. "Yarn-forward" rule on textile and garment products.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs under negotiation						
	Name of agreement	Status	Current signatories[3]	Total population of signatories, 2021[4] (% of world total)	Total GDP of signatories, 2021[5] (% of world total)	Highlights
ASEAN–EU FTA	ASEAN–EU Free Trade Agreement	Negotiations were launched in 2007 and paused in 2009 to give way to bilateral FTAs negotiations between the EU and ASEAN member states. In December 2022, the two parties will hold the first full Summit in Brussels.	Brunei, Cambodia, EU, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	1,120 million (14%)	US$20,432 billion (21%)	Negotiations were temporarily suspended in 2009 and superseded by bilateral FTAs negotiations, conceived as building blocks towards a future region-to-region agreement. (see other agreements under negotiation below).
BD–PK FTA	Bangladesh –Pakistan Free Trade Agreement	Under negotiation since 2003	Bangladesh, Pakistan	392 million (5%)	US$763 billion (1%)	Little progress was made as the two countries cannot resolve their differences over rules of origin and phase-out period.
BIMSTEC FTA	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement	Negotiations were formally launched in 2014 after framework agreement in 2004. The 21st Trade Negotiating Committee meeting, which focused on finalizing the draft texts of the Agreement on Trade in Goods, Agreement on Cooperation and Mutual Assistance in Customs Matters, and Agreement on Dispute Settlement Procedures and Mechanisms, took place in November 2018. The first Working Group meeting on Rules of Origin was held in January 2022, which updated the draft of the rules of determining the origins of goods.	Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand	1,737 million (22%)	US$4,282 billion (4%) (No data of Bhutan)	The BIMSTEC FTA covers 14 priority areas for cooperation: trade and investment, transport and communication, energy, tourism, technology, fisheries, agriculture, public health, poverty alleviation, counter-terrorism and transnational crime, environment and natural disaster management, culture, people to people contact, and climate change.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs under negotiation						
	Name of agreement	**Status**	**Current signatories[3]**	**Total population of signatories, 2021[4] (% of world total)**	**Total GDP of signatories, 2021[5] (% of world total)**	**Highlights**
EU–CN CAI	EU–China Comprehensive Investment Agreement	Under negotiation since 2013. On 30 December 2020, the EU and China concluded in principle the negotiations on the CAI, which is a first step in the process. Deliberations for the adoption and ratification of the agreement are yet to take place. However, the European Parliament passed a resolution to freeze the ratification of the CAI in response to Chinese sanctions on European human rights advocates.	EU, China	1,859 million (24%)	US$34,823 billion (36%)	According to the conclusion in principle of the negotiations on the CAI made in end-2020, the CAI will create a better balance in the EU-China trade relationship. China has committed to open up to the EU in a number of key sectors and ensure a greater level of market access for EU investors. The commitments cover state owned enterprises, transparency of subsidies and rules against the forced transfer of technologies. China has also agreed to ambitious provisions on sustainable development, including commitments on climate, forced labour and the ratification of the relevant ILO fundamental Conventions. However, the EU suspended efforts to ratify the CAI in response to Chinese sanctions on European human rights advocates in May 2021. The EU has passed a Report on a New EU-China Strategy in September 2021. The Report affirms the strategic importance of EU-China relations but makes clear that the ratification of the CAI will not be resumed until China lifts sanctions against Members of the European Parliament and EU institutions. In early 2022, tensions between China and the EU deepened further against the backdrop of the Russia-Ukraine war.
EU–ID CEPA	EU–Indonesia Comprehensive Economic Partnership Agreement	Negotiations started in 2016. The 11th full round of negotiations was held virtually on 8-12 November 2021.	EU, Indonesia	723 million (9%)	US$18,275 billion (19%)	The EU states that its aim is to conclude an agreement "similar in coverage" to the EVFTA and EU-Singapore FTA. The CEPA could potentially eliminate 95% of current import tariffs.
EU–IN FTA	EU–India Free Trade Agreement	Under negotiation since 2007, but negotiations have been at a de facto standstill since 2013. The two sides resumed negotiations in June 2022 and held the second round of negotiations in October 2022. The next round of negotiations will be held from 28 November to 2 December 2022.	EU, India	1,840 million (23%)	US$20,262 billion (21%)	During the negotiations in June 2022, 52 technical sessions covering 18 policy areas of the FTA and seven sessions on investment protection and geographical indications (GIs) were held.
EU–PH FTA	EU–Philippines FTA	Negotiations formally launched in December 2015	EU, Philippines	558 million (7%)	US$17,483 billion (18%)	The Philippines and the EU agreed to cover a broad range of issues, including elimination of customs duties and other barriers to trade, services and investment, access to public procurement markets, as well as additional disciplines in the area of competition and protection of intellectual property rights.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs under negotiation

	Name of agreement	Status	Current signatories[3]	Total population of signatories, 2021[4] (% of world total)	Total GDP of signatories, 2021[5] (% of world total)	Highlights
EU–TH FTA	EU–Thailand Free Trade Agreement	Negotiations started in 2013 but have been halted since the military takeover in 2014. In August 2021, Thailand and the EU agreed to resume negotiations. The EU has concluded a Partnership and Cooperation Agreement (PCA) with Thailand in June 2022. There is no immediate link between the PCA and the FTA, but the PCA's conclusion may signal a boost to the EU-Thai relations.	EU, Thailand	517 million (7%)	US$17,595 billion (18%)	Negotiations cover tariffs, non-tariff barriers and other trade related issues, such as services, investment, procurement, intellectual property, regulatory issues, competition, and sustainable development.
IT–CEPA	Indonesia–Turkey Comprehensive Economic Partnership Agreement	Negotiations formally launched in July 2018. The fourth round of negotiations was held in January 2020. The negotiations are targeted to be concluded in 2022.	Indonesia, Turkey	361 million (5%)	US$2,001 billion (2%)	The fourth negotiations covered various issues related to trade in goods, economic cooperation, customs and trade facilitation, trade security, sanitation and phytosanitary and legal matters.
IN–ID CECA	India–Indonesia Comprehensive Economic Cooperation Agreement	Negotiations formally launched in 2011 but had been put on hold. After India's withdrawal from RCEP in November 2019, India and Indonesia are set to relaunch the negotiations.	India, Indonesia	1,670 million (21%)	US$4,359 billion (5%)	The CECA will build on the ASEAN–India FTA and will be a comprehensive agreement, covering economic cooperation, trade in goods and services, and investment.
IN–TH FTA	India–Thailand Free Trade Agreement	Under negotiation since 2000. Early harvest scheme in force since 2004. However, negotiations have been put on hold. India will review the AIFTA with ASEAN members, after its withdrawal from RCEP in November 2019.	India, Thailand	1,463 million (19%)	US$3,679 billion (4%)	India and Thailand agreed that negotiations should cover: elimination of tariffs and non-tariff barriers in substantially all trade in goods; liberalization of trade in services; investment; trade and investment facilitation measures; and economic co-operation in other mutually-agreed areas such as agriculture. Under the early harvest scheme (EHS), customs duties on 82 products were slashed by September 2006.
IN- UK FTA	India-UK Free Trade Agreement	Negotiations formally launched in January 2022. The two sides concluded the 5th round of FTA negotiations on 29 July.	India, The UK	1,461 million (19%)	US$6,360 billion (7%)	The India-UK FTA will cover a wide range of areas, including gender, labour, trade and development, corruptions, and micro, small and medium-sized enterprises.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU[1] and selected Asian Countries[2]

FTAs under negotiation						
	Name of agreement	**Status**	**Current signatories[3]**	**Total population of signatories, 2021[4] (% of world total)**	**Total GDP of signatories, 2021[5] (% of world total)**	**Highlights**
PK–TH FTA	Pakistan–Thailand Free Trade Agreement	Under negotiation since 2015. In April 2019, Thailand forwarded its final list of 100 products to Pakistan to be included in the FTA. In May 2021, both sides agreed to work together for early conclusion of the FTA. Currently, Thailand is waiting for Pakistan's response to the proposed FTA.	Pakistan, Thailand	295 million (4%)	US$852 billion (1%)	It is reported that the first phase of the FTA will only cover trade in goods, with emphasis on tariff reduction, customs procedures, and cooperation in sanitary standards and trade remedy measures. After the signing of the first phase of FTA, both countries intend to negotiate on services, investment and competition.
PK–TR PTA	Pakistan–Turkey Preferential Trade Agreement	Negotiations launched in 2004. The two countries signed the Preferential Trade Agreement (PTA) in August 2022. Before that, 19 rounds of bilateral negotiations have taken place.	Pakistan, Turkey	310 million (4%)	US$1,162 billion (1%)	The PTA covers concessions for Pakistan on 261 tariff lines. On the other hand, Pakistan offers Turkey concessions on 130 tariff lines, rather than the requested 300 items.
TH–TR FTA	Thailand–Turkey Free Trade Agreement	Negotiations launched in 2017. The 7th round of negotiations will take place in December 2020.	Thailand, Turkey	155 million (2%)	US$1,321 billion (1%)	N/A

Glossary:

CTH: Change in tariff heading. The non-originating materials have undergone a change in tariff classification (CTC) at 4-digit level (i.e. a change in tariff heading) of the Harmonized System.

CTSH: Change in tariff sub-heading. The non-originating materials have undergone a change in tariff classification (CTC) at 6-digit level (i.e. a change in tariff sub-heading) of the Harmonized System

FOB: Free on board. The buyer pays for transportation of the goods

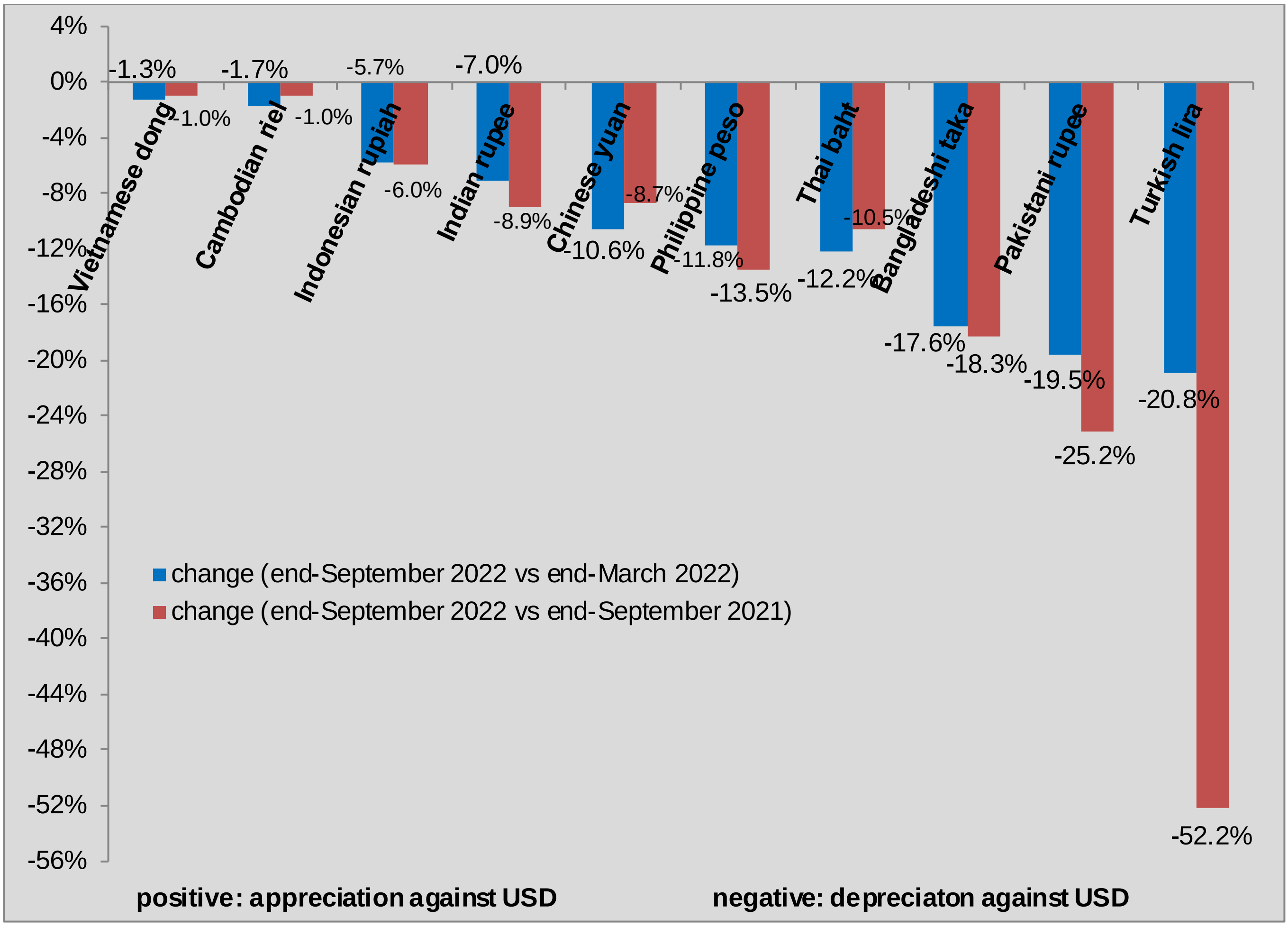
LDC: Least Developed Countries. Includes Bangladesh and Cambodia in the selected countries in the present matrix.

MFN: Most favoured nation. An MFN tariff is the lowest possible tariff a country can assess on another country. Members of the World Trade Organization are required to extend most favored nation status to other members.

RVC: Regional value content. A type of rule of origin that requires a product to include a certain percentage of originating content from the region.

CURRENCY APPRECIATION/DEPRECIATION

Against the US dollar over the past six/twelve months



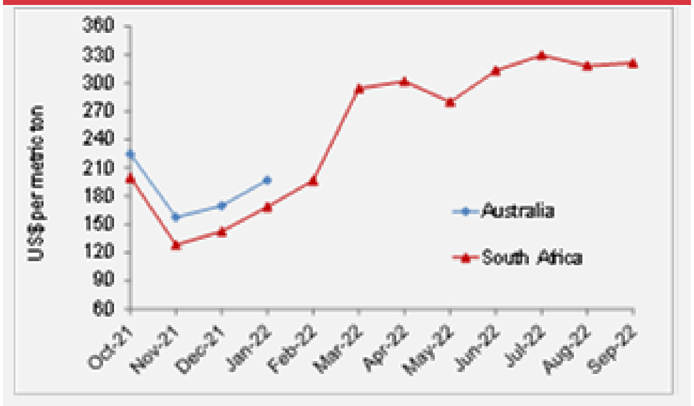
Source: Calculations based on exchange rates retrieved from sources quoted in preceding sections

INPUT PRICES

Trends and forecasts*

ENERGY

Coal, Oct 2021 – Sep 2022

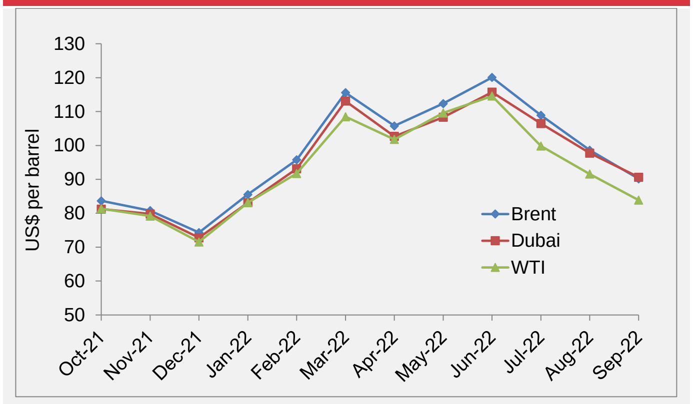


Source: World Bank

Coal: Trends and forecasts

Source: World Bank

Crude oil, Oct 2021 – Sep 2022

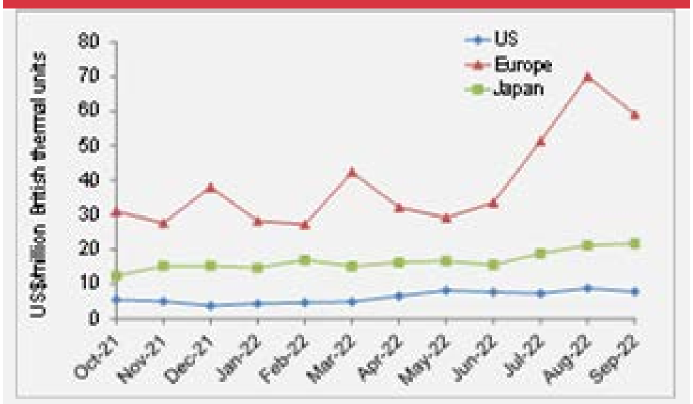


Source: World Bank

Crude oil: Trends and forecasts

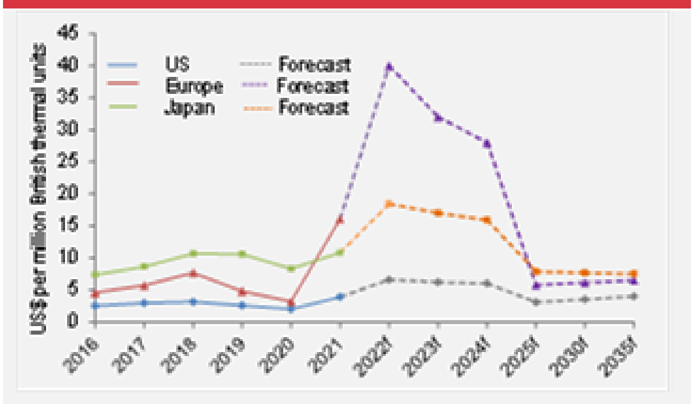
Source: World Bank

Natural gas, Oct 2021 – Sep 2022



Source: World Bank

Natural gas: Trends and forecasts



Source: World Bank

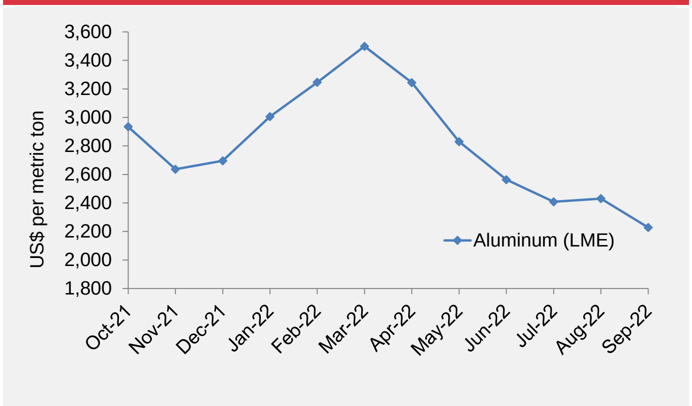
* Forecasts for 2022, 2023 and 2024 were made in October 2022; and for 2025, 2030, and 2035 in October 2021.

INPUT PRICES

Trends and forecasts

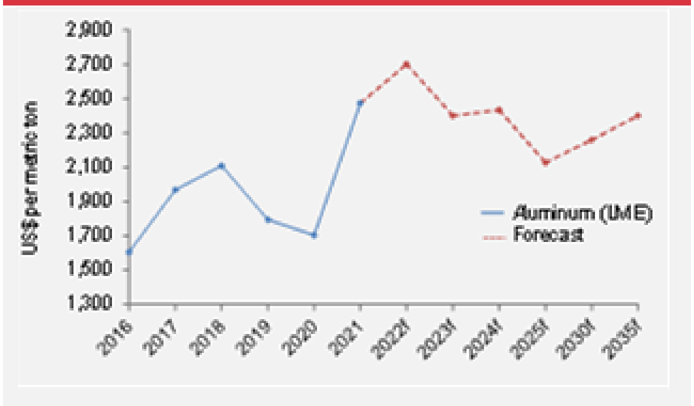
METAL AND MINERALS

Aluminum, Oct 2021 – Sep 202



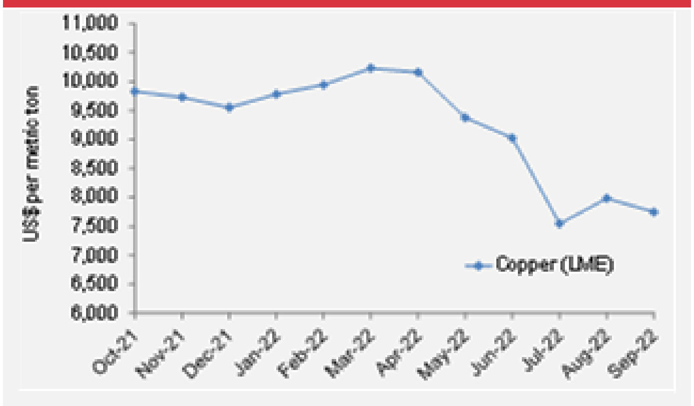
Source: World Bank

Aluminum: Trends and forecasts



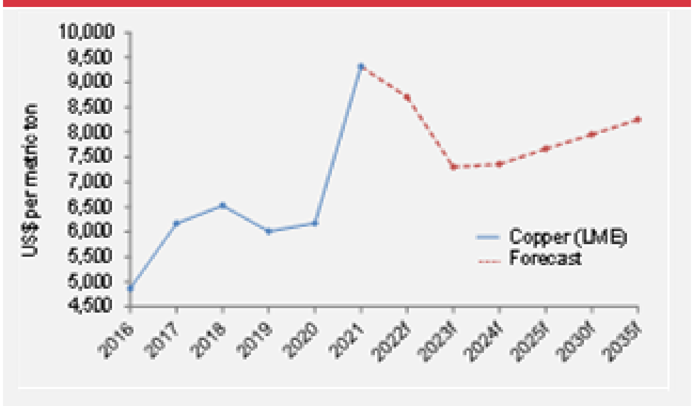
Source: World Bank

Copper, Oct 2021 – Sep 2022



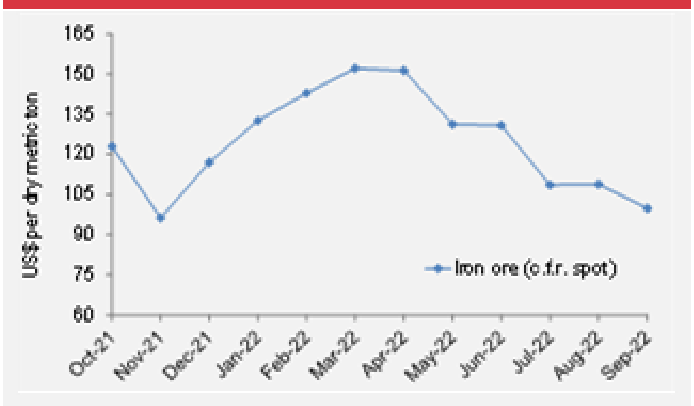
Source: World Bank

Copper: Trends and forecasts



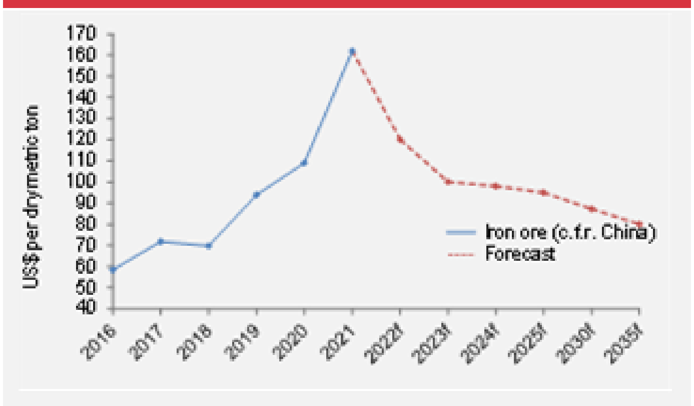
Source: World Bank

Iron ore, Oct 2021 – Sep 2022



Source: World Bank

Iron ore: Trends and forecasts



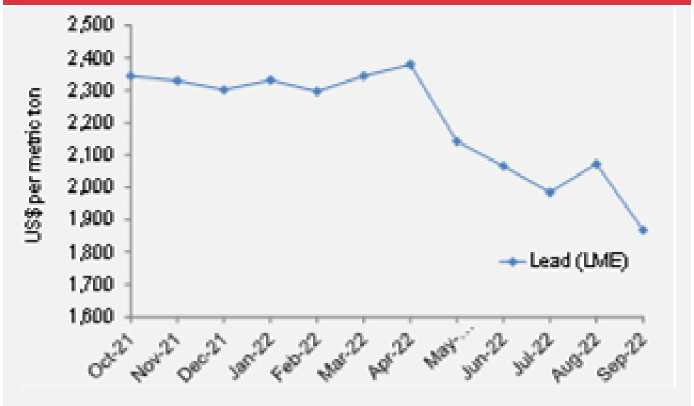
Source: World Bank

INPUT PRICES

Trends and forecasts

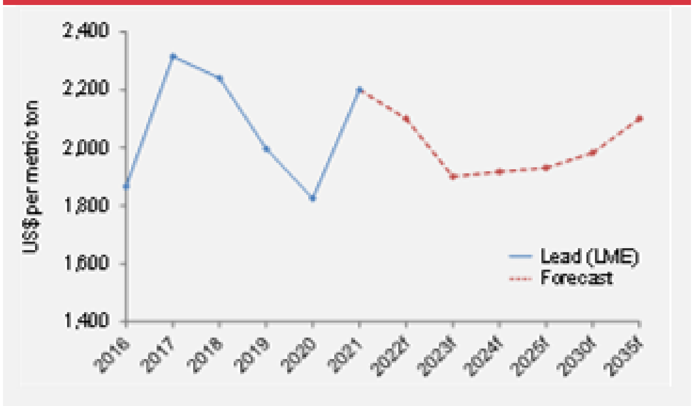
METAL AND MINERALS

Lead, Oct 2021 – Sep 2022



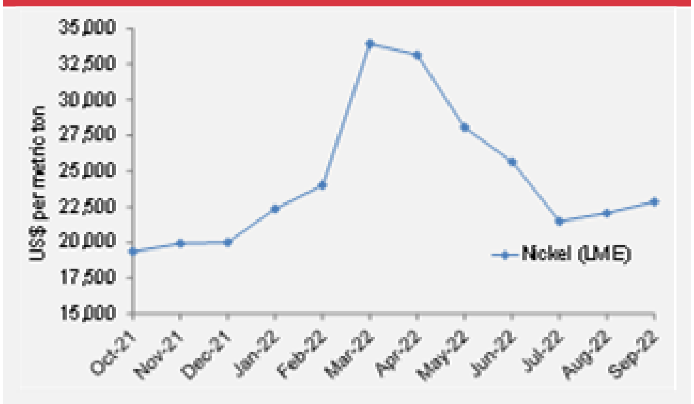
Source: World Bank

Lead: Trends and forecasts



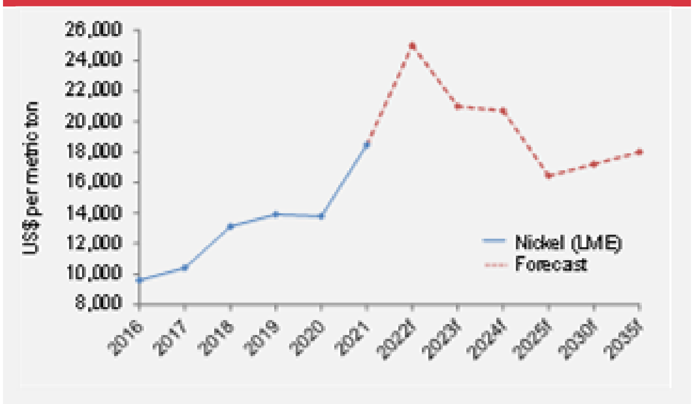
Source: World Bank

Nickel, Oct 2021 – Sep 2022



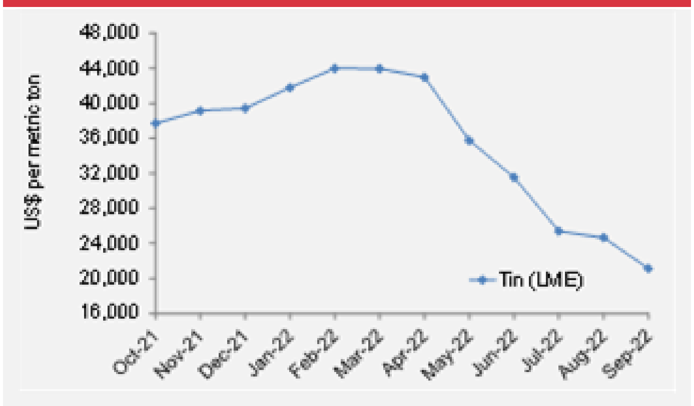
Source: World Bank

Nickel: Trends and forecasts



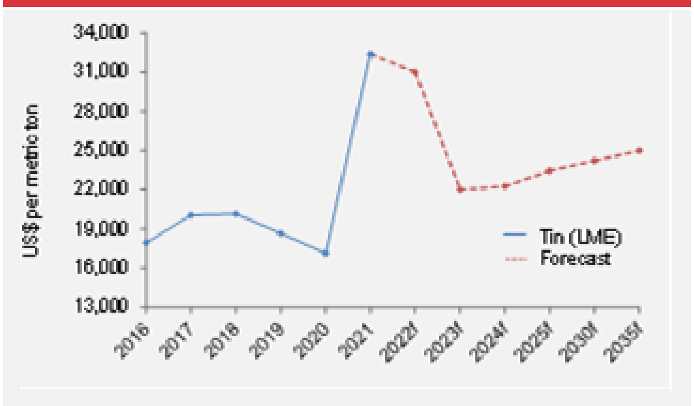
Source: World Bank

Tin, Oct 2021 – Sep 2022



Source: World Bank

Tin: Trends and forecasts



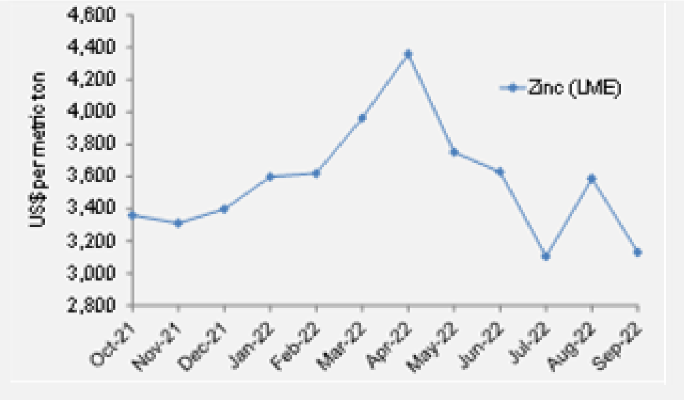
Source: World Bank

INPUT PRICES

Trends and forecasts

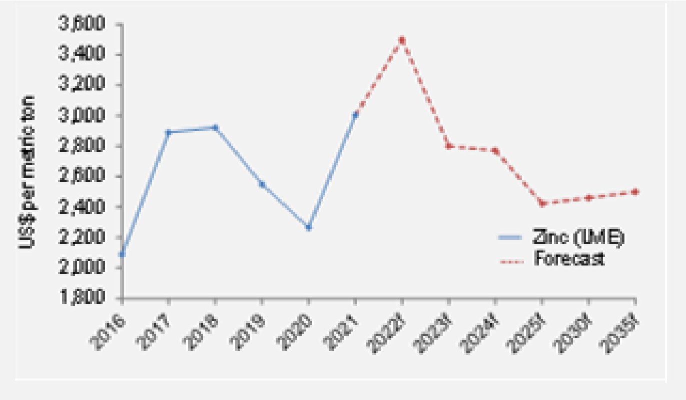
METAL AND MINERALS

Zinc, Oct 2021 – Sep 2022



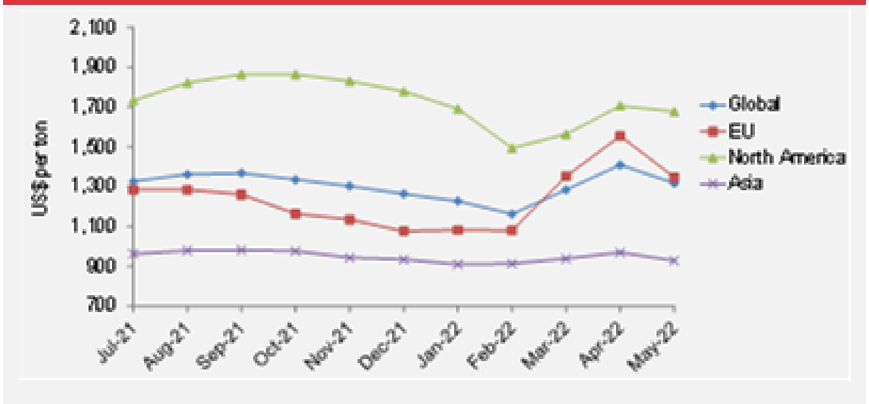
Source: World Bank

Zinc: Trends and forecasts



Source: World Bank

All Carbon Steel Products Composite Price, Jul 2021 – May 2022



Source: MEPS Online Steel Prices

Composite Stainless Steel Price – Grade 304, Jul 2021 – May 2022

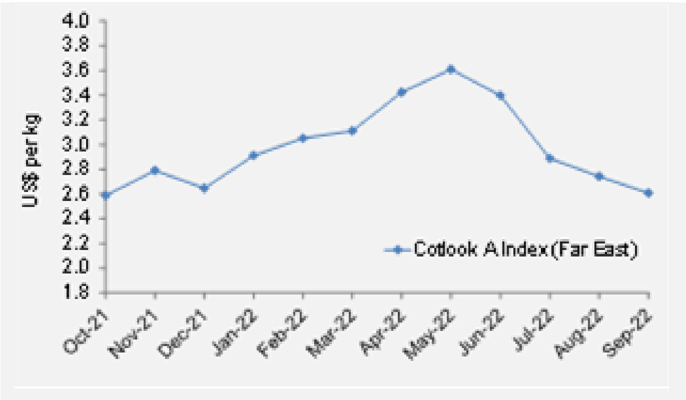
Source: MEPS Online Steel Prices

INPUT PRICES

Trends and forecasts

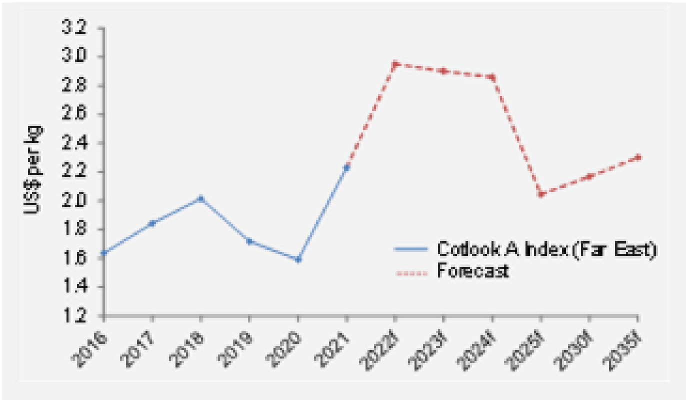
TEXTILE FIBERS

Cotton, Oct 2021 – Sep 2022



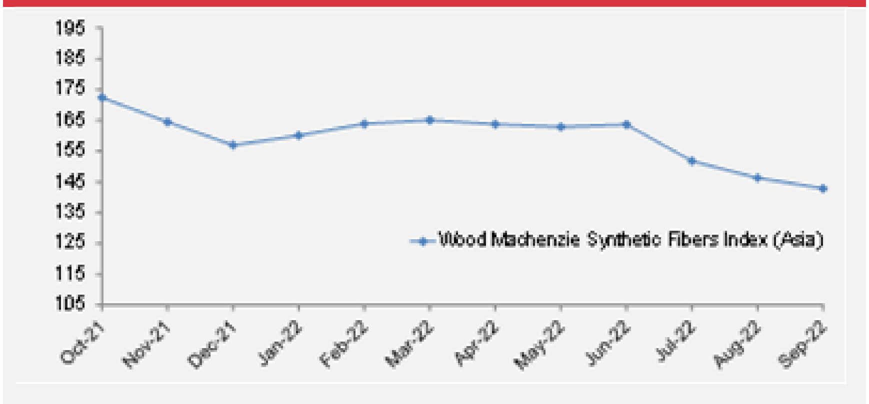
Source: World Bank

Cotton: Trends and forecasts



Source: World Bank

Synthetic fibers, Oct 2021 – Sep 2022



Source: Wood Mackenzie

Silk (China), Oct 2021 – Sep 2022

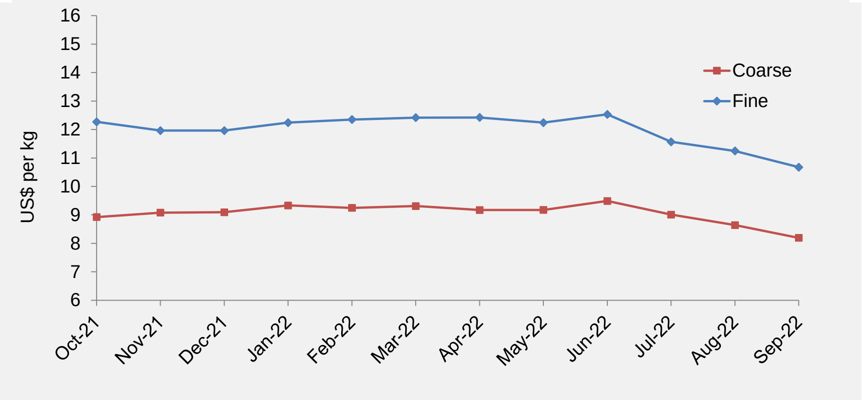
Source: Ministry of Commerce, China

INPUT PRICES

Trends and forecasts

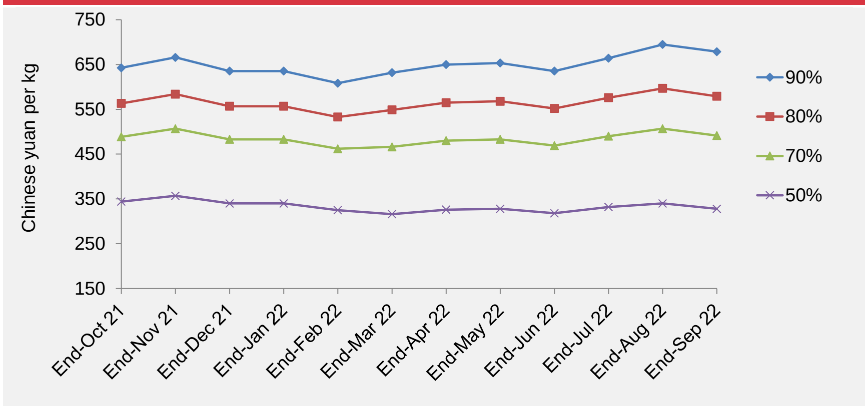
TEXTILE FIBERS

Wool (Australia), Oct 2021 – Sep 2022



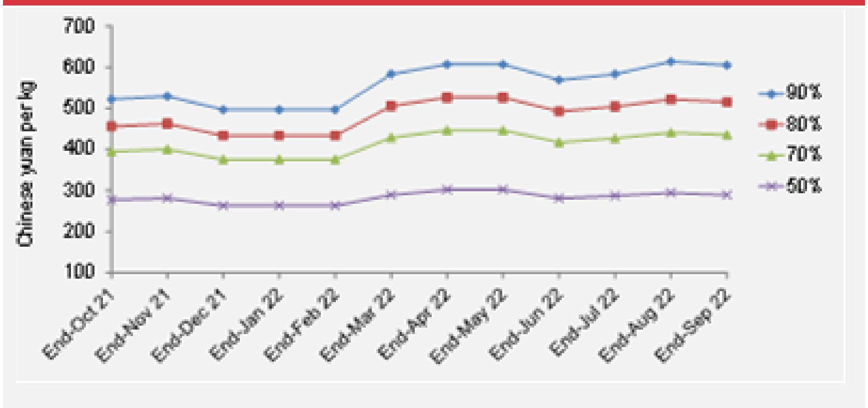
Source: International Monetary Fund

White goose down (China), Oct 2021 – Sep 2022



Source: cn-down.com

Grey goose down (China), Oct 2021 – Sep 2022



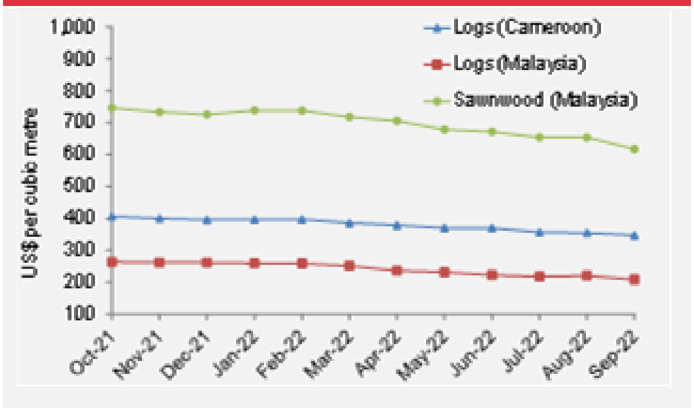
Source: cn-down.com

INPUT PRICES

Trends and forecasts

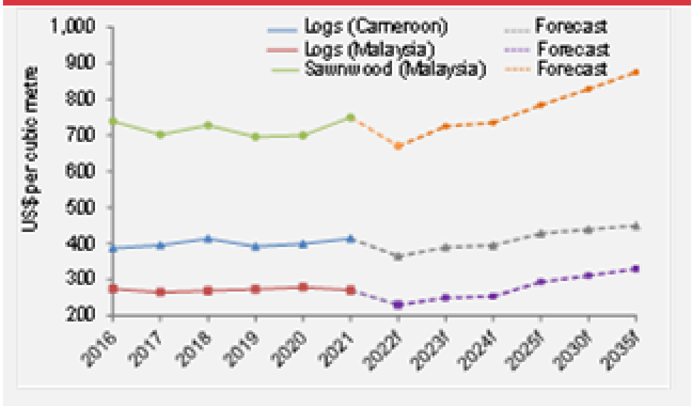
HARD GOODS

Timber, Oct 2021 – Sep 2022



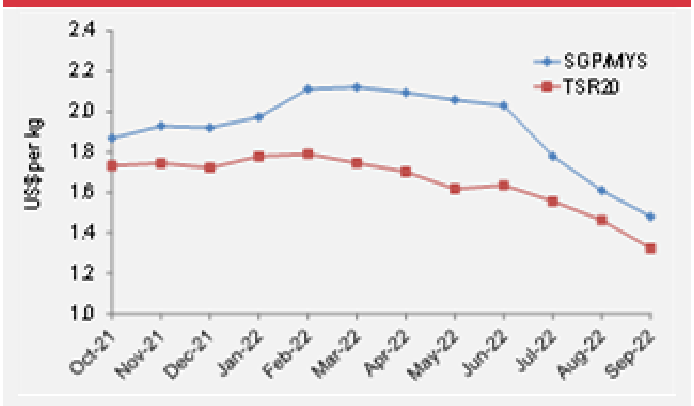
Source: World Bank

Timber: Trends and forecasts



Source: World Bank

Rubber, Oct 2021 – Sep 2022

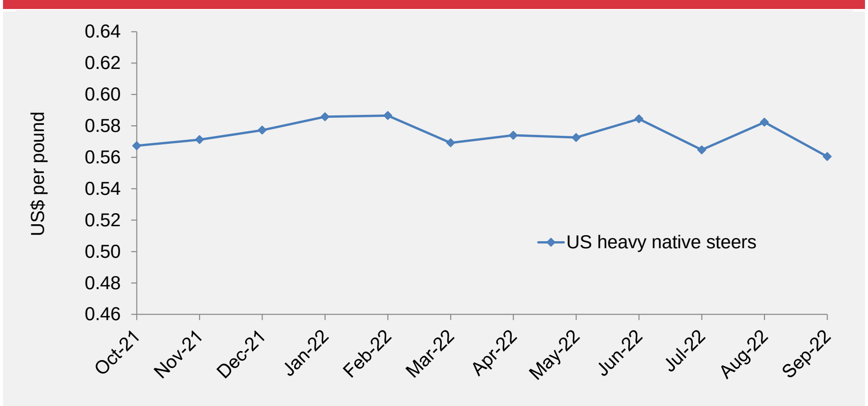


Source: World Bank

Rubber: Trends and forecasts

Source: World Bank

Hides, Oct 2021 – Sep 2022



Source: International Monetary Fund

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
Bangladesh	8,000 taka	1 December 2018	For entry-level (grade 7) garment industry workers; up 51% from the previous level. Entry-level minimum wage is usually referred to as the minimum wage of the country.
Cambodia	US$194	1 January 2022	Exclusively for garment and footwear workers; Up by 1.0% from the previous level. Starting January 2023, monthly minimum wage for the sector will rise to US$200.
China (wage rates in Chinese yuan)			
- Guangxi	Class 1 district: 1,810; Class 2 district: 1,580; Class 3 district: 1,430	1 March 2020	Up from 1,680, 1,450 and 1,300 respectively (effective 1 February 2018 to 29 February 2020)
- Fujian	Class 1 district: 2,030; Class 2 district: 1,960; Class 3 district: 1,810; Class 4 district: 1,660.	1 April 2022	Up from 1,800, 1,720, 1,570, and 1,420 respectively (effective 1 January 2020 to 31 March 2022).
- Qinghai	1,700	1 January 2020	Up from 1,500 (effective 1 May 2017 to 31 December 2019)
- Guizhou	Class 1 district: 1,790; Class 2 district: 1,670; Class 3 district: 1,570	1 December 2019	Up from 1,680, 1,570, and 1,470 respectively (effective 1 July 2017 to 30 November 2019)
- Liaoning	Class 1 district: 1,910; Class 2 district: 1,710; Class 3 district: 1,580; Class 4 district: 1,420	1 November 2021	Up from 1,810, 1,610, 1,480 and 1,300 (effective 1 November 2019 to 31 October 2021)
- Hebei	Class 1 district: 1,900; Class 2 district: 1,790; Class 3 district: 1,680; Class 4 district: 1,580	1 November 2019	Up from 1,650, 1,590, 1,480 and 1,380 respectively (effective 1 July 2016 to 31 October 2019)
- Hunan	Class 1 district: 1,930; Class 2 district: 1,740; Class 3 district: 1,550	1 April 2022	Up from 1,700, 1,540, 1,380, and 1,220 respectively (effective 1 October 2019 to 31 March 2022. Also note revision of district classification.)
- Beijing	2,320	1 August 2021	Up from 2,200 (effective 1 July 2019 to 31 July 2021)
- Shanghai	2,590	1 July 2021	Up from 2,480 (effective 1 April 2019 to 30 June 2021)
- Shaanxi	Class 1 district: 1,950; Class 2 district: 1,850; Class 3 district: 1,750	1 May 2021	Up from 1,800, 1,700 and 1,600 (effective 1 May 2019 to 30 April 2021)

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
- Chongqing	Class 1 district: 2,100; Class 2 district: 2,000	1 April 2022	Up from 1,800 and 1,700 respectively (effective 1 January 2019 to 31 March 2022)
- Hainan	Class 1 district: 1,830; Class 2 district: 1,730; Class 3 district: 1,680	1 December, 2021	Up from 1,670, 1,570 and 1,520 respectively (effective 1 December 2018 to 30 November 2021)
- Anhui	Class 1 district: 1,650; Class 2 district: 1,500; Class 3 district: 1,430; Class 4 district: 1,340	3 December 2021	Up from 1,550, 1,380, 1,280 and 1,180 respectively (effective 1 November 2018 to 2 December 2021)
- Henan	Class 1 district: 2,000; Class 2 district: 1,800; Class 3 district: 1,600	1 January 2022	Up from 1,900, 1,700, and 1,500 respectively (effective 1 October, 2018 to 31 December, 2021)
- Jiangsu	Class 1 district: 2,280; Class 2 district: 2,070; Class 3 district: 1,840	1 August 2021	Up from 2,020, 1,830 and 1,620 respectively (effective 1 August 2018 to 31 July 2021)
- Sichuan	Class 1 district: 2,100; Class 2 district: 1,970; Class 3 district: 1,870	1 April 2022	Up from 1,780, 1,650 and 1,550 respectively (effective 1 July 2018 to 31 March 2022)
- Guangdong	Class 1 district: 2,360 (Shenzhen), 2,300 (Guangzhou); Class 2 district: 1,900; Class 3 district: 1,720; Class 4 district: 1,620	1 December 2021	Shenzhen: Up from 2,200 (effective 1 July 2018 to 30 November 2021) Other districts: Up from 2,100, 1,720, 1,550 and 1,440 respectively (effective 1 July 2018 to 30 November 2021)
- Shandong	Class 1 district: 2,100; Class 2 district: 1,900; Class 3 district: 1,700	1 October, 2021	Up from 1,910, 1,730 and 1,550 respectively (effective 1 June 2018 to 30 September 2021)
- Yunnan	Class 1 district: 1,900; Class 2 district: 1,750; Class 3 district: 1,600	1 October 2022	Up from 1,670, 1,500, and 1,350 respectively (effective 1 May 2018 to 30 September 2022)
- Xinjiang	Class 1 district: 1,900; Class 2 district: 1,700; Class 3 district: 1,620; Class 4 district: 1,540	1 April 2021	Up from 1,820, 1,620, 1,540 and 1,460 respectively (effective 1 January 2018 to 31 March 2021)
- Tibet	1,850	1 July 2021	Up from 1,650 (effective 1 January 2018 to 30 June 2021)
- Jiangxi	Class 1 district: 1,850; Class 2 district: 1,730; Class 3 district: 1,610	1 April 2021	Up from 1,680, 1,580 and 1,470 respectively (effective 1 January 2018 to 31 March 2021)
- Zhejiang	Class 1 district: 2,280; Class 2 district: 2,070; Class 3 district: 1,840	1 August 2021	Up from 2,010, 1,800, 1,660 and 1,500 respectively (effective 1 December 2017 to 31 July 2021. Also note revision of district classification.)

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
- Hubei	Class 1 district: 2,010; Class 2 district: 1,800; Class 3 district: 1,650; Class 4 district: 1,520	1 September 2021	Up from 1,750, 1,500, 1,380 and 1,250 (effective 1 November 2017 to 31 August 2021)
- Heilongjiang	Class 1 district: 1,860; Class 2 district: 1,610; Class 3 district: 1,450	1 April 2021	Up from 1,680, 1,450 and 1,270 (effective 1 October 2017 to 31 March 2021)
- Ningxia	Class 1 district: 1,950; Class 2 district: 1,840; Class 3 district: 1,750	1 September 2021	Up from 1,660, 1,560 and 1,480 (effective 1 October 2017 to 31 August 2021)
- Shanxi	Class 1 district: 1,880; Class 2 district: 1,760; Class 3 district: 1,630	1 October, 2021	Up from 1,700, 1,600, 1,500 and 1,400 respectively (effective 1 October 2017 to 30 September 2021. Also note revision of district classification.)
- Jilin	Class 1 district: 1,880; Class 2 district: 1,760; Class 3 district: 1,640; Class 4 district: 1,540	1 December 2021	Up from 1,780, 1,680 and 1,580 and 1,480 respectively (effective 1 October 2017 to 30 November 2021)
- Inner Mongolia	Class 1 district: 1,980; Class 2 district: 1,910; Class 3 district: 1,850	1 December 2021	Up from 1,760, 1,660, 1,560 and 1,460 respectively (effective 1 August 2017 to 30 November 2021. Also note revision of district classification.)
- Tianjin	2,180	1 July 2021	Up from 2,050 (effective 1 July 2017 to 30 June 2021)
- Gansu	Class 1 district: 1,820; Class 2 district: 1,770; Class 3 district: 1,720; Class 4 district: 1,670	1 September 2021	Up from 1,620, 1,570, 1,520 and 1,470 respectively (effective 1 June 2017 to 31 August 2021)
India (wage rates in Indian rupees)			
- Delhi	Unskilled: 16,506; Semi-skilled: 18,187; Skilled: 20,019	1 April, 2022	Applicable to all scheduled employments except clerical and supervisory staff; up from 16,064, 17,693 and 19,473 respectively (effective 1 April, 2021).
- Gujarat	<u>Zone I</u> (per day) Unskilled: 359.3; Semi-skilled: 367.3; Skilled: 376.3 <u>Zone II</u> (per day) Unskilled: 351.3; Semi-skilled: 359.3; Skilled: 367.3	1 April, 2022	Applicable to all scheduled employments; Zone I is defined as the areas in the State of Gujarat within the limits of Municipal Corporation, Municipalities and the jurisdiction of concerned Urban Development Authority; Zone II is defined as other areas excluded in Zone I

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
- Karnataka	Zone I Unskilled: 13,821.03; Semi-skilled: 14,979.81; Skilled: 16,254.47; Highly-skilled: 17,656.6 Zone II Unskilled: 13,269.23; Semi-skilled: 14,372.83; Skilled: 15,586.79; Highly-skilled: 16,922.15 Zone III Unskilled: 12,743.70; Semi-skilled: 13,794.75; Skilled: 14,950.91; Highly-skilled: 16,222.68 Zone IV Unskilled: 12,243.20; Semi-skilled: 13,244.20; Skilled: 14,345.30; Highly-skilled: 15,556.51	1 April, 2022	Applicable to all scheduled employments except office staff and drivers. Zone I is defined as notified areas of the Greater Bangalore Metropolitan Area; Zone II is defined as all metropolitan areas of the province except Zone I; Zone III is defined as all district areas in the province except areas covered in Zone I & II; Zone IV is other parts of the province not covered in Zone I, II & III.
Pakistan			
- Punjab	25,000 rupees	1 April 2022	For unskilled workers; up 25.0% from the previous level.
- Balochistan	25,000 rupees	1 April 2022	For unskilled workers; up 25.0% from the previous level.
- Khyber Pakhtunkhwa	26,000 rupees	24 June 2022	For unskilled workers; up 23.8% from the previous level.
- Sindh	25,000 rupees	1 June 2022	For unskilled workers; up 31.6% from the previous level.
- Islamabad Capital Territory	25,000 rupees	1 April 2022	For unskilled workers; up 25.0% from the previous level.
Philippines			
- National Capital Region (NCR)	570 pesos (per day)	4 June 2022	For non-agriculture workers; up by 33 pesos per day from the previous level that took effect on 22 November 2018.
Thailand			
- Bangkok	353 baht (per day)	1 October 2022	Applicable for all industries; up by 22 baht, or 6.6%, per day from the previous level. Starting from 1 October 2022, daily minimum wages in Thailand have increased by 5% to 8% from the previous levels to 328-354 baht across 9 group of provinces.

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
Turkey	6,471 liras (before taxes and deductions)	1 July, 2022	For all workers over the age of 16; up by 29.3% from the previous level; after deductions, the net minimum wage is 5,500 liras per month.
Indonesia (wage rates in Indonesia rupiah)			
- Aceh	3,166,460	1 January, 2022	Regulation No. 78/2015 issued in October 2015 introduced a fixed formula to determine provincial minimum wages: *New Minimum Wage = Previous Regional Minimum Wage + (Previous Regional Minimum Wage x (% annual inflation rate + % annual GDP increase))*
- North Sumatra	2,552,609		
- West Sumatra	2,512,539		
- South Sumatra	3,144,146		
- Riau	2,938,564		
- Riau Islands	3,144,466		
- Jambi	2,649,034		
- Bangka Belitung Islands	3,264,884		
- Bengkulu	2,238,094		
- Jakarta	4,641,854		
- Banten	2,501,203		
- West Nusa Tenggara	2,207,212		
- East Nusa Tenggara	1,975,000		
- West Kalimantan	2,434,328		
- South Kalimantan	2,906,473		
- Central Kalimantan	2,922,516		
- East Kalimantan	3,014,497		
- Bali	2,516,971		
- Moluccas	2,618,312		
- North Moluccas	2,862,231		
- Gorontalo	2,800,580		
- Southeast Sulawesi	2,710,595		
- Central Sulawesi	2,390,739		
- West Sulawesi	2,571,328		
- South Sulawesi	3,165,876		
- North Sulawesi	3,310,723		
- Papua	3,561,932		
- West Papua	3,200,000		
- Lampung	2,440,486		
- West Java	1,841,487		
- Central Java	1,813,011		
- East Java	1,891,567		
- Yogyakarta	1,840,951		
- North Kalimantan	3,310,723		

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
Vietnam (wage rates in Vietnamese dong)			
- Zone 1	4.68 million	1 July, 2022	Zone 1 covers the urban districts and some rural districts of Hanoi, Ho Chi Minh City and Hai Phong City; and Vung Tau City, Bien Hoa City and Thu Dau Mot town.
- Zone 2	4.16 million		Zone 2 is applicable to the remaining districts of Hanoi, Ho Chi Minh City and Hai Phong City; urban Can Tho City and Da Nang City; and some other cities.
- Zone 3	3.64 million		Zone 3 comprises the remaining provincial cities and some districts of some provinces.
- Zone 4	3.25 million		Zone 4 consists of the remaining localities.

Source: Governments of respective countries/provinces, as of mid-October 2022

FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

About Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 15,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

For more information, please visit www.funggroup.com.

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