

Asia Sourcing Update

Bangladesh, India, Pakistan and Turkey

Southeast Asia | **South and West Asia**



Highlights: Evaluating sourcing destinations

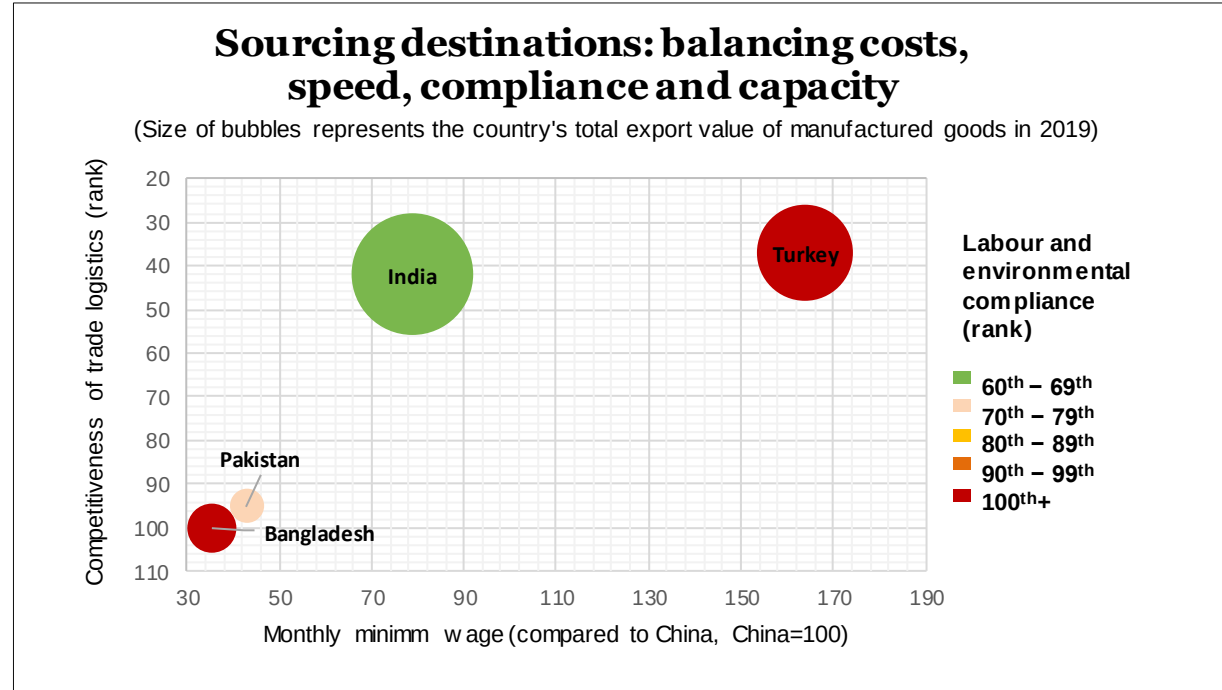
12-month Sourcing Outlook

Slightly positive:

Pakistan, Turkey

Neutral:

Bangladesh, India



Source:

Exports of manufactured goods (2019): WTO database;

Minimum wage (as of end-Apr 2021): Bangladesh (for entry-level garment industry workers), India (Delhi–unskilled workers), Pakistan (for unskilled workers), Turkey (wage rate is before taxes and deductions), China (Dongguan), converted to US dollar terms based on exchange rates on 30 April 2021 from governments & central banks in the respective countries;

Competitiveness of trade logistics (rank): measured by the aggregated Logistics Performance Index released by the World Bank; Labour and environmental compliance (rank): measured by the average ranking of two index components 'environmental-related treaties in force' and 'workers' rights' in the World Economic Forum's 2019 Global Competitiveness Index

Bangladesh

Fast facts



Quantum index of medium and large-scale manufacturing (Dec 2020)
+6.8% yoy ▼



CPI (Mar 2021)
+5.5% yoy



Exchange rate (USD: BDT, as of 30 Apr 2021)
84.801 (0.004% appreciation year-to-date)



Merchandise exports (Apr 2021)
+802% yoy ▲



Knitwear
+645% yoy ▲



Woven garments
+504% yoy ▲



Home textiles
+387% yoy ▲



Footwear
+576% yoy ▲

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period
Source: Bangladesh Bureau of Statistics, Export Promotion Bureau, Bangladesh Bank

12-Month Sourcing Outlook: Neutral

Bangladesh's economy has held up well against the first wave of COVID-19 outbreak with timely and effective stimulus measures. Since March, the country has been going through the second wave of the pandemic. The resurgence in COVID-19 cases and delays in vaccine supply undermine the country's economic recovery.

A number of international institutions have lowered the growth projection of Bangladesh. For instance, Asian Development Bank stated that Bangladesh's GDP growth rate may be in the range of 5.5-6% in the 2020-21 fiscal year, down from its earlier forecast of 6.8%. The World Bank and IMF projected Bangladesh's GDP growth at 3.6% and 5% in this fiscal year, respectively.

Bangladesh

Latest Developments

FBI C's take

Macro-economic Trends	In April 2021, Bangladesh's exports reached US\$3.1 billion, 503% higher than the same month last year. Exports in April 2020 came down to US\$520 million due to COVID-19 lockdowns. However, a year-on-year comparison of the monthly exports between 2020 and 2021 would be misleading. The growth in exports would be better compared with the corresponding period of 2019. Bangladesh's exports in April 2019 was US\$3.06 billion, and exports in April 2021 increased by 1.72% compared to the same month of 2019.	• Export earnings rose in April, thanks to the reopening of the economies in the US and Europe and the rebound in shipments of garment products. In April 2021, exports of apparel products reached US\$2.5 billion, compared to only US\$375 million in April 2019. The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) commented that the bouncing back of apparel exports has just begun. • Apart from the improvement in apparel shipments, exports of jute and jute goods, agricultural products, leather and leather goods, engineering goods, frozen and live fish and the pharmaceutical sector also recorded a remarkable growth in the month.
Industry development	In May 2021, the South Asian Network on Economic Modelling (Sanem), in collaboration with The Asia Foundation, announced the fourth round of the quarterly survey results of Business Confidence Index (BCI) in Bangladesh. Their report, titled COVID-19 and Business Confidence in Bangladesh: Findings from the 4th round of a nationwide firm-level survey, reveals that BCI in Bangladesh plunged to 41.39 for the April-June quarter of 2021. The BCI in Bangladesh never went below 50 since the survey began in June 2020 and peaked at 57.9 for the January-March quarter. A confidence level below 50 indicates a deterioration in the outlook, while a reading above 50 reflects an improvement.	• Before the unexpected resurgence of COVID-19 in Bangladesh since March, more than half of the business respondents expected a moderate economic recovery and more than one-third counted on a very strong economic recovery. • Overall status of businesses in Bangladesh in terms of sales, business costs, wages, employments, investments, and profitability had been gradually improving since June 2020 and the trend prevailed until the end of March 2021. • However, an alarming surge in COVID-19 cases in March has heightened uncertainty and threatened the economic recovery. Since then, only 2% of the respondents expected a strong economic recovery, while 67% anticipated a weak recovery of the Bangladeshi economy. • The pessimistic anticipation may be supported by diverse business recovery scenarios from the 2020 bottom to the pre-pandemic level. Of the 503 companies surveyed in April, only 14% achieved full business recovery in March 2021, compared to the pre-pandemic level in March 2020. 17% of the respondents were still stuck at zero recovery, and 24% of the respondents said that their businesses had yet to reach half of the pre-pandemic levels.

Bangladesh

	Latest Developments	FBI C's take
FTAs & Trade Preferences	On 30 April, Bangladesh and Indonesia pledged to accelerate the signing of the Indonesia-Bangladesh Preferential Trade Agreement to boost bilateral trade between the two countries. The two nations agreed to complete the signing of pending agreements on a fast-track basis. Both countries will pursue sector-specific agenda and try to expand the volume of bilateral trade and investment.	• Bangladesh and Indonesia comprehensively reviewed the present status of the bilateral relation. With regard to the bilateral imbalance in favour of Indonesia, the two countries agreed to exchange business delegations and organize more trade fairs. • Bangladesh requested Indonesia to offer duty-free benefits to its readymade garments and not to impose safeguard measures on its textile products. Also, Bangladesh was seeking market access to Indonesia's Halal trade, as well as investment from Indonesia in the agro processing sector. • The two countries agreed to promote cooperation on matters such as combating corruption, counter-terrorism, science and technology, export promotion, defense cooperation, climate change adaptation and mitigation, ethical migration, parliamentary exchange and pursuing sustainable development goals.
Labour Issue	The collapse of Rana Plaza in 2013 was the worst ever industrial accident to hit the garment industry in Bangladesh. In April, ActionAid, a US-based international organization, published a report titled <i>COVID-19: Challenges for the Rana Plaza Tragedy Survivors</i>, and organized a virtual event in memory of the eighth anniversary of the tragedy. According to the ActionAid's survey conducted among 200 survivors, nearly 57% of the survivors are still unemployed; 12% of the employed survivors have returned to the readymade garment (RMG) sector and another 12% are engaged in tailoring.	• The Rana Plaza tragedy was a wake-up call for Bangladesh. Since the incident in 2013, the labour law has been amended twice, and the labour rules were promulgated in 2015. However, workers are still not satisfied with the existing labour rights in the country. • Some workers claimed that they do not have any bargaining power as it is hard to form trade unions in the garment factories. According to the RMG Sustainable Council, workers demanded an increase in minimum wage to at least 16,000 takas. However, the monthly minimum wage for Bangladesh's RMG workers has been fixed at 8,000 takas since 2018. • According to the survey conducted by ActionAid, 37.5% of the employed survivors have a household income between 5,001 and 10,300 takas. Besides, the income of most of the employed survivors dropped drastically due to the COVID-induced economic fallout, and 92% of the survivors did not get any support from the government amid the ongoing pandemic.

India

Fast facts



GDP (Oct-Dec 2020)
-8.0% yoy ▼



Manufacturing PMI (Apr 2021)
55.5 ▲



CPI (Apr 2021)
+4.3% yoy



Merchandise exports (Feb 2021)
+0.7% yoy ▼



Knitwear
+2.8% yoy ▲



Woven garments
-17.2% yoy ▲



Footwear
-16.4% yoy ▲



Furniture
+33.9% yoy ▲



Exchange rate (USD: INR, as of 30 Apr 2021)
74.02 (1.3% depreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period

Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, IHS Markit, International Monetary Fund

12-Month Sourcing Outlook: Neutral

The COVID-19 situation in India has worsened with soaring numbers of confirmed cases and deaths. The slowdown in vaccinations also poses a threat to India's economic recovery. A number of multinational institutions have adjusted downward the GDP growth projection for India for the 2021-22 fiscal year. The State Bank of India (SBI) has also revised the country's GDP growth estimate for this fiscal year from 15% to 14.3%.

The reimposition of COVID-19 lockdowns will curb economic activities and further dampen consumer sentiment. According to SBI, the stringent curfews and lockdowns imposed by various states will lead to a loss of 1.5 trillion Indian rupees for the country.

India

	Latest Developments	FBIC's take
Macroeconomic Trends	According to the Ministry of Commerce and Industry, India's exports in April 2021 jumped to US\$30.21 billion from US\$10.17 billion in the same month last year, up 197% yoy. Imports in April this year also rose to US\$45.45 billion from US\$17.09 billion in April 2020.	- A year-on-year comparison of monthly exports between 2020 and 2021 would be misleading. Due to COVID-19 lockdowns last year, exports in April 2020 shrank by 60.28% yoy. In fact, if compared with April 2019, India's exports in April this year only increased by 16%. - Major export commodities that recorded positive growth in April 2021 included gems and jewellery, jute, carpet, handicrafts, leather, electronic goods, oil meals, cashew, engineering, petroleum products, marine products and chemicals.
	The IHS Markit India Manufacturing Purchasing Managers' Index (PMI) for April edged up to 55.5, after falling to a seven-month low of 55.4 in March.	- Amid the worsening COVID-19 crisis, India's manufacturing activity was largely flat in April, as the growth rates of new orders and output eased to eight-month lows. - Besides, April saw the steepest increase in input costs in nearly seven years, driving the sharpest rise in output prices since October 2013. - Data for the coming months will be important indicators to tell whether downstream demand is resilient amid these challenges or whether producers have to further absorb cost burdens to secure new orders.
Labour issue	COVID-induced lockdowns in India have impacted over 7.5 million jobs, pushing the unemployment rate to a four-month high of 7.97% in April. India's unemployment rate registered 6.50% in March, 6.89% in February and 6.52% in January, according to the Centre for Monitoring Indian Economy (CMIE).	- India's monthly unemployment rate reached its peak at 23.52% in April 2020, as a result of the nationwide lockdown imposed last year. It came down to its lowest at 6.50% in November, before rebounding to 9.06% in December. - CMIE commented that the slow job growth had led to a double whammy of falling labour participation rate and rising unemployment rate.

Latest Developments

FBIC's take

Trade agreements

This May, India and the European Union (EU) agreed to enhance the bilateral trade and investment relationship through the resumption of negotiations on the proposed Broad-based Trade and Investment Agreement (BTIA).

Talks on the BTIA between the two parties were suspended in May 2013 amid disagreements over tariff rules for auto parts, market access and mobility of professionals.

On 4 May, in a bilateral virtual summit, India and the UK unveiled a 10-year 'Comprehensive Roadmap 2030' to deepen bilateral ties between the two nations.

In order to boost bilateral trade and investment and unleash the potential for the relationship from the private sectors of both countries, India and the UK launched an Enhanced Trade Partnership (ETP) to pave the way for the UK-India Free Trade Agreement (FTA).

The Indian Union Cabinet on 20 April approved the memorandum of understanding (MoU) signed with Bangladesh on March 27 on the establishment of a framework of cooperation in the area of trade remedial measures.

- The EU is the largest trading partner and one of the largest sources of foreign direct investment of India. Implementation of the BTIA will benefit both India and the EU. Indian businesses will welcome the resumption of formal negotiations on the long-stalled pact.
- India and the EU also agreed to launch negotiations on two other key pacts on investment protection and geographical indications. They also agreed to form a joint working group to reinforce regulatory cooperation on goods and services, including but not limited to green and digital technologies.

- The roadmap has resulted in an early conclusion of a new and refreshed 'UK-India Ease of Doing Business MoU', upon which the two countries will share experience on regulatory reform, tax administration and trade facilitation and standards.
- According to the roadmap, both sides will move towards removing trade barriers through a balanced and beneficial market access package under the ETP, in various sectors including agriculture, healthcare, education and social security.
- As part of the ETP, UK companies will be encouraged to invest in India's manufacturing sectors, including electronics, telecommunications equipment, automotive and pharmaceutical manufacturing. And Indian companies will be encouraged to raise capital in the London market.
- India and the UK will begin negotiations for a comprehensive FTA starting this autumn. Both sides will work towards finalizing the pre-negotiation phase by the end of 2021.

- India is the second largest trading partner of Bangladesh. This March, India and Bangladesh signed the MoU, aiming at promoting cooperation between the two countries in the area of trade remedies, covering the broad activities related to information exchange, undertaking capacity building activities and activities in accordance with various provisions of the World Trade Organization in the areas of anti-dumping, countervailing and safeguard measures in bilateral trade.
- In addition, the MoU aims at improving cooperation between the two countries in terms of discouraging unfair trade practices and promoting rule-based bilateral trade.

Pakistan

Fast facts



Quantum index of large-scale manufacturing
(Mar 2021)
+22.4% yoy ▲



CPI (Apr 2021)
+11.1% yoy ▼



Exchange rate (USD: PKR, as of 30 Apr 2021)
153.6851 (3.7% appreciation year-to-date)



Merchandise exports (Mar 2021)
+30.6% yoy ▲



Garments
+36.3% yoy ▲



Bed linen
+43.7% yoy ▲



Towels
+21.0% yoy ▲



Leather products
+16.7% yoy ▲

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period

Source: Pakistan Bureau of Statistics, State Bank of Pakistan

12-Month Sourcing Outlook: Slightly positive

The third wave of COVID-19 outbreak in March dims the recovery momentum of the Pakistani economy; however, the targeted and countrywide lockdown measures have so far kept the overall number of infections and deaths under control. The Pakistani government has also taken various measures to support the economy, from reducing electricity tariffs, to energy subsidies for export-oriented industries. The Asian Development Bank projected that the Pakistani economy would grow 2% in the 2020-2021 fiscal year.

While the economic growth of the country in the coming months is still on an upward trajectory, final outcomes will be highly dependent on the development of the third wave of the pandemic as well as the progress of the vaccination campaign.

Pakistan

Latest Developments

FBIC's take

Macroeconomic Trends

Pakistan's exports increased 13.49% yoy in the first ten months of the 2020-2021 fiscal year (July 2020-June 2021). Monthly exports have crossed US\$2 billion for seven consecutive months since last October, which is also the first time since 2011.

Noticeably, in the first quarter of 2021, Pakistan's exports to China increased nearly 70% yoy to US\$888 million, while in the same period, its exports to Japan increased 47% yoy to US\$86.4 million.

Pakistan's exports of textile and clothing increased 9.06% yoy to US\$11.35 billion in the first 9 months of the 2020-2021 fiscal year. Cotton imports during the same period also increased 46% yoy to US\$1.84 billion, but the cotton stock is still tight. Exporters have warned that export orders in hand will eventually be diverted to rival countries if cotton yarn is not made available in the required quantities.

- In recent months, despite an export slow down with its regional trading partners (Bangladesh and India) due to COVID-19 related restrictions and deteriorated relations with India due to territory disputes, Pakistan's trade with countries outside the region, especially China, has improved substantially in this fiscal year.
- Pakistan's cotton production continues to decline, from over 14 million bales in 2012 to 5.6 million bales projected this year. Domestic growers are still not keen on cotton due to low returns, financial constraints, technological handicaps, as well as low economic incentives. The Economic Coordination Committee has exempted duty and taxes on the import of cotton yarn since April 2021, but its efforts to allow import of cotton from India have been stalled by local growers, ginners, spinners and cotton brokers. As a result, the shortage of cotton will continue, posing difficulties for textile manufacturers to improve their export performance. From a macro perspective, this also indicates that renewed policies are required to strike a balance between different segments of Pakistan's textile value chain.

Pakistan

Latest Developments

FBIC's take

Labour and compliance	Punjab province raised workers' minimum wage from 18,000 Pakistani rupees per month to 20,000 Pakistani rupees in May 2021, becoming the first province in the country to raise minimum wage since July 2019.	The provincial chief hopes to demonstrate that welfare of labourers and workers is the provincial government's top priority, but the increase in minimum wage, especially amid the COVID-19 pandemic, will add cost burden to firms and reduce Punjab's attractiveness to investors.
	In March 2021, the Ministry of Commerce of Pakistan signed an agreement with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to improve labour conditions, compliance standards and resource efficiency of Pakistan's textiles and apparel industry. Under this programme, the Federal Republic of Germany will provide GIZ up to €7,500,000 for a period of three years.	The textile sector is a key export sector of Pakistan, accounting for nearly 60% of the country's total exports. Any cooperation with trading partners aimed at synergising the environmental, social, and economic dimension of sustainability in the textile and apparel industry not only benefits the sector, but also the economy of the country.
Infrastructure	The Customs Wing of the Federal Board of Revenue has introduced a new automated process in the Web-Based One Customs (WeBOC) system for scanning of containerised import consignments of industrial raw materials for speedy clearance at major ports. The system has been implemented initially at Karachi International Container Terminal of Karachi port and Qasim International Container Terminal of Port Qasim with effect from 19 April 2021 for industrial raw materials.	The introduction of the non-intrusive inspection system by customs is a long-awaited initiative that will reduce the time-consuming and costly physical examination of goods, alleviate port congestion, and improve customs clearance efficiency of Pakistan.

Pakistan

Latest Developments

FBIC's take

Infrastructure

In April, the Private Power & Infrastructure Board revealed that the construction work of two large size hydropower projects, with the accumulated generation capacity of 1,604 megawatts, will be completed by December 2022.

Official sources also revealed in the same month that 14 Alternative Renewable Energy (ARE) projects (mainly wind and solar) with a cumulative capacity of 670 MW would start commercial operation by December 2021.

In May, a CPEC Authority official revealed that four hydroelectric power projects under the second phase of China Pakistan Economic Corridor (CPEC) would be completed at a cost of US\$7.7 billion in the next six years. In the same month, after completion of an international competitive bidding process, the Water and Power Development Authority (Wapda) awarded a contract worth US\$354.6 million to the Power Construction Corporation of China Ltd (PCCCL) to undertake the construction of the 1,530MW Tarbela 5th Extension Hydropower Project.

- These projects show Pakistan's continuous efforts in recent years to use eco-friendly and cheap electricity to solve its power shortage problem, and also as a way to improve its business environment.
- China, as a long-term ally of Pakistan, also helps on this aspect. CPEC is a major cooperation between China and Pakistan, with an aim of helping Pakistan develop its much-needed infrastructure and power projects and reduce its reliance on imported fuel. These projects will also help Pakistan to build a better environment to attract more investment from home and abroad.

Turkey

Fast facts



GDP (Oct-Dec 2020)
+5.8% yoy ▼



Manufacturing PMI (Apr 2021)
50.4 ▼



CPI (Apr 2021)
+5.45% yoy



Merchandise exports (Mar 2021)
+42.2% yoy ▲



Knitwear
+42.4% yoy ▲



Woven garments
+33.1% yoy ▲



Furniture
+40.2% yoy ▲



Exchange rate (USD: TRY, as of 30 Apr 2021)
8.1753 (10.0% depreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period

Source: Turkish Statistical Institute, Istanbul Chamber of Industry, IHS Markit, Central Bank of the Republic of Turkey

12-Month Sourcing Outlook: Slightly positive

Turkey's economy entered 2021 positively due to policy measures taken in 2020. 2021 Q1 saw a GDP growth of around 5.5%-6%, supported especially by the rebound of the industrial, production, and trade sectors. GDP growth is forecasted for Q2 in the double digits. Overall, yearly GDP outlook has been forecasted to grow around 5%, with export growth between 16% to 20%. Reuters polled 34 economists who share optimistic interpretation on the economic trend. Cautious onlookers should continue to observe national inflationary figures, exchange rates, and policy changes to COVID-19.

COVID-19 cases have been on a downward trend since 21 April, after the onset of the March spike. A national vaccination program was launched in mid-January and as of early May, approximately 25 million people have had at least their first dose. The country was also in a nation-wide lockdown from 29 April to 17 May to further control the spread of the virus.

Production (including garment manufacturing) was exempted from the lockdown and continued under tight safety measure in order to prevent regional and global supply disruptions. Turkey's Ministry of Labor and Services also further extended a ban on layoffs to end-June to protect employees and to limit the impact of the coronavirus pandemic on employment.

Turkey

Latest Developments		FBIC's take
Macroeconomic Trends	Exports increased 17.2% on an annual basis to reach US\$50 billion in the first quarter of 2021, the country's statistical authority said on 30 April.	- Exports is forecasted to account for two-thirds of economic growth in 2021. - Government action has come in to support the export industries. For example, exemption for factory lockdowns will allow garment manufacturing to continue operations (along with other critical industries, agriculture, health, etc.).
	Purchasing Managers' Index (PMI) for the manufacturing sector dropped to 50.4 in April by 2.2 points from 52.6 in March, according to the report by the Istanbul Chamber of Industry. A manufacturing PMI of any figure greater than 50 still indicates an overall positive trend.	In general, there is a slight slowdown in output in April, following three months of consistent expansion; April's lower output can be attributed to the COVID-19 spike, and cautious customers who delayed placing new orders. Production for future months will be heavily dependent on the COVID-19 situation/measures taken.
	Central Bank of the Republic of Turkey raised repo rate to 19% and maintained it above inflation, which climbed to 17.14% in April to its highest level in nearly two years.	- The repo rate is the rate which central banks lend money to commercial banks and is used to regulate money supply in the system. To help curb inflation the repo rate is increased, encouraging less borrowing. - Overall, the inflation rate is still high going into Q2. High commodity and raw material prices, coupled with a fluctuating currency exchange rate, supply shortages, and logistic disruptions due to COVID-19, will lead to uncertainties for the manufacturing industry. - It has been noted by Istanbul Chamber of Industry that these increases in input cost will be passed on to customers by raising prices of finished products. Recent increases have been much faster than the series average.

Turkey

Latest Developments		FBIC's take
Industry Developments	In recent announcements, tech giant Xiaomi will invest US\$30 million and build a 14,000 SQM smartphone production facility in Turkey. Oppo, another tech giant from China will follow suit with a US\$50 million facility, as well as Samsung partnering with a local brand for further production within the country.	• Turkey has advantages for attracting production because of its strategic location with proximity to the EU market and a dynamic labour force for manufacturing products for domestic and overseas markets. • The government have aims to turn Turkey into an international production hub, not only for consumer goods but for medium-high and high technology products. To this end, the Turkish government is offering incentives to attract foreign investment into the country. Turkey's Industry and Technology Minister predicts that foreign investment inflows will continue to increase in the upcoming period.
Infrastructure	Government has approved the construction of Kanal Istanbul, a canal which will connect the Black Sea to the Marmara Sea costing approximately US\$9.2 billion. Turkey's President calls Kanal Istanbul the "country's biggest and most strategic infrastructure project".	• The canal will help to increase flow of goods through Turkey and improve logistics transportation. Furthermore, it will shorten the long waiting times due to traffic congestions on the Bosphorus Strait - one of the world's busiest maritime passages. • Kanal Istanbul will also acts as a parallel channel, aimed at preventing situations such as the recent accident on the Suez Canal, where a stuck container ship blocked the canal and costed the Egyptian government as well as shippers worldwide hundreds of millions of dollars.

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