FUNG BUSINESS INTELLIGENCE February 2021

Asia Sourcing Update

Bangladesh, India, Pakistan and Turkey

Southeast Asia | **South and West Asia**

Highlights: Evaluating sourcing destinations

12-month Sourcing Outlook

Slightly positive:

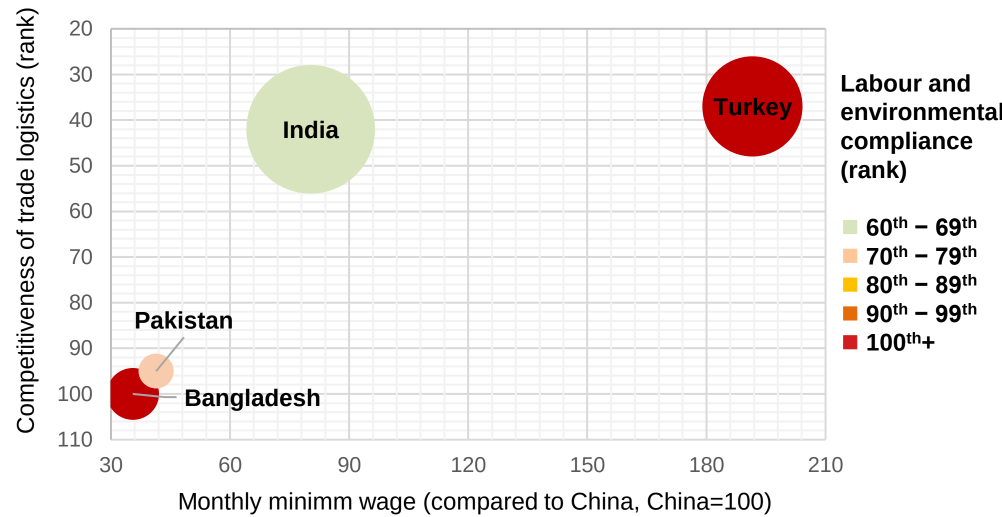
India, Pakistan and Turkey

Neutral:

Bangladesh

Sourcing destinations: balancing costs, speed, compliance and capacity

(Size of bubbles represents the country's total export value of manufactured goods in 2019)



Source:
Exports of manufactured goods (2019): WTO database;
Minimum wage (as of 22 February 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 22 February from Bloomberg;
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 (Oct 2020)
+3.0% yoy ▼

CPI (Jan 2021)
+5.0% yoy

Exchange rate (USD: BDT, as of 22 Feb 2021)
84.64 (0.1% appreciation year-to-date)

Merchandise exports (Jan 2021)
-5.0% yoy ▲

- Knitwear +3.4% yoy ▲
- Woven garments -13.9% yoy ▲
- Home textiles +26.1% yoy ▼
- Footwear -4.0% yoy ▲

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

12-Month Sourcing Outlook: Neutral

In January, Bangladesh's exports dropped by 4.99% over the same period of the previous year. The contraction was mainly due to the negative growth of readymade garments (RMG) exports. Since the resurgence of the COVID-19 pandemic in the EU and the US, a lot of overseas brand owners have canceled orders from Bangladesh.

On the contrary, Bangladesh's imports in January increased by 5%-6% yoy in terms of volume, driven by demand for commodities for the Ramadan beginning in April. It is the first time that imports picked up since the pandemic paralysed the economy. The improvement in imports indicated an economic recovery in Bangladesh.

To keep the economy afloat, as of mid-January, the Bangladeshi government has approved 23 stimulus packages with a total sum of 1,240.53 billion takas, which accounted for 4.44% of the country's GDP.

Bangladesh

	Latest Developments	FBIC's take
Macroeconomic Trends	Bangladesh's exports reached US$22.67 billion in the first seven months of this fiscal year (July 2020–June 2021), down by 1.09% over the same period of last year. In January, the country's exports dropped 4.99% yoy to US$3.43 billion. Exports declined for the second month in a row, mainly due to negative growth in apparel exports.	• Bangladesh's apparel exporters have suffered from order postponement or cancellation due to the resurgence of the COVID-19 pandemic in the EU and the US since the second quarter of the fiscal year. • In July 2020–January 2021, knitwear exports increased by 3.44% yoy to US$9.98 billion, while woven garment exports fell by 10.85% yoy to US$8.41 billion. Overall, the RMG sector recorded a negative growth rate of 3.44% yoy in exports in the period. • An improved export performance in Bangladesh will largely depend on successful implementation of vaccination programme in the apparel importing countries, especially the EU member countries and the US.
Industry Development	Centre for Policy Dialogue (CPD) and Mapped in Bangladesh (MiB) jointly conducted a survey on 610 samples out of 3,211 listed enterprises in four major industrial clusters in Dhaka, Gazipur, Narayangonj and Chattogram in October–November of 2020. During the pandemic, 232 factories were closed, accounting for 6.9% of total factories. A total of 357,000 workers lost their jobs and 56,372 were laid off during the COVID-19 pandemic. The average number of workers in a garment factory declined from 886 in December 2019 to 790 in September 2020.	• According to the study, the overall resilience level of the factories is below the global average. Major weaknesses include the factories' dependency on a small number of buyers, poor factory management and the small production scale. • Majority of the Bangladeshi RMG factories did not have financial backup or plans to cope with immediate crisis. To cope with the crisis, the factories mainly relied on three financial sources: applying for subsidized credit (60%); seeking informal credit (33.7%); and encashing bank deposits (34%).

Bangladesh

	Latest Developments	FBIC's take
Industry Development	As more garment factories are using synthetic yarn, Bangladesh's spinning mills, including Envoy, Matin Spinning of DBL Group, Maksons, Square, and Shasha Denim, are investing more in synthetic yarn production. By doing so, they can diversify their product offerings and decrease the dependency on cotton yarn.	• The Bangladesh Textile Mills Association (BTMA) claimed that local spinning mills are able to fulfill around 80% of the demand for export-oriented knit yarn and 40% of that for woven yarn. However, synthetic and mixed yarns are mostly imported from China. Bangladeshi spinning mills have been facing stiff competition from imported yarns and fabrics. • By investing in synthetic yarn production, Bangladesh's mills can increase their competitiveness through product diversification, meet global demand for synthetic yarn and attract global buyers.
	Raw jute prices reached a new high in early February at 5,300 takas per maund (one maund equals 37kg) at local markets in Faridpur, the biggest jute production base in Bangladesh, since supply fell short of demand. According to traders, the prices soared 29% in just over two weeks from 4,100-4,200 takas per maund in the third week of January.	• In September 2020, the prices of raw jute crossed 3,000 takas per maund, as middlemen stockpiled the jute and farmers slowly sold the goods to the market amid speculations that production fell as a result of floods and unfavourable weather. • In early February, millers warned that most mills might be closed in the next one or two months due to the shortage of raw jute for making jute yarn, twine, bags, sacks and other goods. The Bangladesh Jute Spinners Association (BJSA) and Bangladesh Jute Mills Association (BJMA) urged the Ministry of Textiles and Jute to fully ban raw jute exports and allow imports until June 2021.

India

Fast facts

GDP (Jul–Sep 2020)
-7.5% yoy ▲

Manufacturing PMI (Jan 2021)
57.7 ▲

CPI (Jan 2021)
+4.1% yoy

Merchandise exports (Dec 2020)
+0.1% yoy ▲

Knitwear
-13.0% yoy ▼

Woven garments
-17.3% yoy ▼

Footwear
-20.5% yoy ▲

Furniture
+22.3% yoy ▼

Exchange rate (USD: INR, as of 22 Feb 2021)
72.50 (0.8% appreciation 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, Bloomberg

12-Month Sourcing Outlook: Slightly positive

The Indian economy has recovered faster than expected from the COVID-19 recession. The country's manufacturing PMI has remained in the expansionary territory for the past six months, while both merchandise exports and imports recorded year-on-year expansions for the second straight month in January. Many exporters are reportedly receiving fresh queries from buyers and the order booking position has been improving.

The sharp decline of new COVID-19 cases in the country, which fell to around 10,000 in mid-February from around 30,000 in early December last year, along with the rollout of the nationwide vaccination drive in mid-January, are critical factors supporting a stronger-than-expected recovery of the Indian economy.

India

	Latest Developments	FBIC's take
Macro-economic Trends	The IHS Markit India Manufacturing PMI posted 57.7 in January, the sixth consecutive month that the index reading remained well within the expansionary territory. It also signalled the strongest improvement of the manufacturing sector in three months.	• According to the PMI press release, total sales, new export orders and production all recorded faster expansions in January, while the pace of contraction in manufacturing jobs was the slowest in ten months. • It is also noteworthy that cost pressures intensified in the month, with purchase price inflation hitting a 28-month high, driven by capacity constraints on the supply side. • The launch of the massive vaccination drive in mid-January and the flattening of the COVID-19 infection curve are critical factors for a healthy recovery of the Indian economy.
Policies & Regulations	The textile and garment sector has broadly welcomed the Union Budget for the 2021-22 fiscal year (April 2021–March 2022) presented by the Finance Minister on 1 February. The grant to the sector under the new Budget amounts to 36.15 billion rupees (approximately US$500 million), around 10% higher than the previous Budget in the 2020-21 fiscal year.	• Under the Union Budget (2021-22), a Mega Investment Textiles Parks (MITRA) scheme will be launched to establish seven textile parks — with world-class infrastructure and plug-and-play facilities — across India over the next three years. The scheme is expected to attract large-scale investments, boost employment, and improve the competitiveness of the sector. • Another measure to benefit the sector is the reduction of customs duty rates on imports of caprolactam, nylon chips and nylon fibres and yarn to 5%, bringing the nylon chain on par with polyester and other man-made fibres. It will promote the production and export of man-made fibre products. • However, the government's decision to raise the import duty on cotton from zero to 10% and the import duty on raw silk and silk yarn from 10% to 15%, which is aimed at benefiting domestic raw cotton and silk growers, has received mixed response from the textile and garment sector. Although India is a net exporter of cotton, the country has to import 1.4-1.5 million bales of cotton — equivalent to about 5% of the country's total cotton production — every year, mainly the extra-long staple cotton for producing high-end textile and garment products. The hike in customs duty is likely to increase domestic production cost and lower global competitiveness of related products.

India

	Latest Developments	FBIC's take
Policies & Regulations	The Indian government has announced the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme to replace the previous Merchandise Exports from India Scheme (MEIS), with effect from 1 January 2021. Under the scheme, Indian exporters will be refunded the embedded domestic duties, taxes and levies that are paid during the manufacture and distribution of the exported products but not refunded under any other schemes.	• The reason for introducing the RoDTEP scheme is that the MEIS was found in violation of rules of the World Trade Organisation (WTO). The new scheme, which is considered compliant with WTO rules, is expected to boost exports and provide a level playing field for Indian products in the global market as domestic taxes/duties will be excluded in product prices. • However, the government has yet to announce the refund rates and the list of eligible products under the RoDTEP scheme, which has caused uncertainty to exporters as they are unable to do costing when finalising new export contracts, particularly for sectors that have thin margins. • Moreover, Indian exporters are concerned that the budgeted outlay of 130 billion rupees for the scheme in the 2021-22 fiscal year is far below the 500 billion rupees that the government had initially envisaged. It is also only a third of the 391 billion rupees the government approved for exporters under the MEIS in the 2019-20 fiscal year.

Pakistan

Fast facts

Quantum index of large-scale manufacturing (Dec 2020)
+11.4% yoy ▼

CPI (Jan 2021)
+5.7% yoy

Exchange rate (USD: PKR, as of 22 Feb 2021)
159.0 (0.6% appreciation year-to-date)

Merchandise exports (Jan 2021)
+8.8% yoy ▼

- Garments: +18.4% yoy ▼
- Bed linen: +13.0% yoy ▼
- Towels: +34.1% yoy ▲
- Leather products: +9.5% yoy ▼

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period
Source: Pakistan Bureau of Statistics, Bloomberg

12-Month Sourcing Outlook: Slightly positive

The Pakistani economy has continued to recover from the COVID-19 pandemic, with exports expanding for the fifth month in a row in January and industrial activity posting positive development since July last year. The country's textile and garment sector is running at full capacity and has secured export orders for the first half of this year.

However, there is still possibility of slower economic activities depending on the intensity and duration of pandemic.

Pakistan

	Latest Developments	FBIC's take
Macroeconomic Trends	Pakistan's exports continued to expand for the fifth consecutive month in January, growing by 8.8% yoy to US$2.15 billion. In the first seven months of the 2020-21 fiscal year (July 2020–June 2021), exports grew by 5.6% yoy in US dollar terms.	• The continuous growth of exports in recent months suggested an encouraging trend in the country's economic recovery. • In the July 2020–January 2021 period, exports of textiles and garments, which accounted for over 60% of the country's exports, increased by 8.2% compared to the same period a year ago. The growth was led by towels (+19.9% yoy), knitwear (+18.7% yoy) and bed linen (+15.9% yoy). Exports of woven garments grew by 5.5% yoy in the period. • Pakistan's textile and garment manufacturers are working at full capacity after securing export orders for the first half of 2021, the All Pakistan Textile Mills Association (APTMA) revealed in January.
Trade Facilitation	The Pakistan Customs has recently launched a new pre-arrival clearance system for imported cargo through the air route, called "clearance in Sky". Under the new system, physical clearance for 48% of import cargo is done in one or two days compared to two to five days before. The new system will be implemented at all international airports of Pakistan over the next three to four months and will cover more sectors apart from the textile and pharmaceutical sectors at the current stage.	• The introduction of the new clearance system will substantially reduce clearance time for imported goods and industrial raw materials, improve the ease of doing business and promote the country's seamless integration with international supply chains. • Pre-arrival Customs processing is a requirement under the revised Kyoto Convention, which makes it obligatory for Pakistan to follow international best practices on trade facilitation. • Some limitations, however, are still hindering the full success of the new clearance system. For example, some relevant departments and regulatory authorities are yet to implement full automation/digitalisation, such as the Pakistan Post and the Drug Regulatory Authority of Pakistan.

Pakistan

	Latest Developments	FBIC's take
Other Topics	All Pakistan's major cities, including the capital Islamabad, Karachi and the second-largest city Lahore, were plunged into darkness right before midnight on 9 January following a massive nationwide electricity blackout, one of the worst in Pakistan's history. The blackout, which lasted for roughly 18 hours in most areas, is said to be caused by a "technical fault" at the Guddu power plant located in the southern part of the country. Soon after the nationwide blackout, internet connectivity collapsed. There were reports of queues at some petrol stations as people tried to keep refilling their generators.	• Due to fragile power distribution system and chronic power shortages, power outages occur frequently in Pakistan, normally during the hot summer months, with many areas having no electricity for several hours a day. According to the *Global Competitiveness Report 2019* released by the World Economic Forum, Pakistan ranked 111th in terms of electricity access and 99th in terms of electricity supply quality out of 141 countries in comparison. • Essential facilities, such as hospitals, as well as many businesses and richer families in Pakistan have diesel or petrol-fuelled generators as backup power supply.

Turkey

Fast facts

GDP (Jul–Sep 2020)
+6.7% yoy ▲

Manufacturing PMI (Jan 2021)
54.4 ▲

CPI (Jan 2021)
+15.0% yoy

Merchandise exports (Dec 2020)
+16.0% yoy ▲

Knitwear
+22.7% yoy ▲

Woven garments
+19.7% yoy ▲

Furniture
+6.8% yoy ▲

Exchange rate (USD: TRY, as of 22 Feb 2021)
7.02 (6.0% appreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period
Source: Turkish Statistical Institute, Istanbul Chamber of Industry, Bloomberg

12-Month Sourcing Outlook: Slightly positive

Despite containment measures such as curfews and weekend lockdowns since last December, Turkey's economic activity has proved its resilience amid the second wave of COVID-19 outbreak in the country. The Istanbul Chamber of Industry Turkey Manufacturing PMI rose from 50.8 in last December to 54.4 in January, the highest since July 2020. Turkey's economy is among the few countries estimated to have posted growth in 2020. With nationwide vaccination rollout and economic recovery of its trading partners, Turkey's economic prospects are positive for 2021.

Daily new confirmed cases in Turkey have dropped to below 10,000 since mid-January, compared to the peak of over 30,000 in early December last year. The government is planning to gradually ease COVID-19 restrictions starting in March on a provincial basis.

Turkey

	Latest Developments	FBIC's take
Macroeconomic Trends	Foreign direct investment (FDI) inflows in Turkey amounted to US$7.7 billion in 2020, a decline of 16.5% compared to the previous year, according to the Central Bank of the Republic of Turkey. By source of fund, Italy led the capital investment in Turkey with US$977 million, followed by the US with US$798 million and the UK with US$693 million. By sector, finance (US$1.39 billion) and information and communication (US$1.37 billion) were the two most popular sectors for FDI in 2020.	• Global FDI fell dramatically by 42% in 2020, with the contraction concentrated in developed countries, according to the United Nations Conference on Trade and Development (UNCTAD). • Despite uncertainties caused by the prolonged COVID-19 pandemic, Turkey's share in global FDI grew from 0.55% in 2019 to 0.79% in 2020, as the contraction of FDI in Turkey was smaller than many other countries amid the pandemic, according to the UNCTAD.
	The Turkish lira has continued its rally against the US dollar since November last year, after President Recep Tayyip Erdoğan announced the start of a series of economic and legal reforms. The lira closed at 6.9642 against the US dollar on 15 February, the currency's strongest position in the past six months. The exchange rate represented a sharp appreciation of 22.3% from the record low of 8.5153 on 6 November last year.	• The strengthening of the Turkish lira reflects investors' confidence in the country's economic and monetary policies, including the country's new economic management team's market-friendly moves and the central bank's tight monetary policy stance to bring down inflation. • Last November, the Turkish President pledged to initiate a series of judicial and economic reforms. The policy initiative seeks to promote more production, encourage new investment and create new jobs, as well as to prioritise new legislation to improve basic human rights, including the protection of property rights. Such policy change will help boost confidence in the market economy and the rule of law in the country.
FTAs & Trade Preferences	Turkey and the UK signed a free trade agreement (FTA) during a conference call on 29 December last year — just two days before the post-Brexit transitional period expired. The trade deal, ensuring duty-free flows of goods between the two countries after Brexit, took effect on 1 January 2021. Both sides have also committed to working towards a more ambitious FTA in the future, which will cover bilateral investment and services.	• Turkey is the first country that has signed an FTA with the UK after the latter reached a post-Brexit trade deal with the EU, showing strong economic relations between the two countries. • If the trade agreement had faced any delay, about 75% of Turkish exports to the UK would have been subject to tariffs. • In 2020, Turkey's exports to the UK, Turkey's second largest export market after Germany, reached US$11.24 billion, mainly consisting of vehicles, home appliances and apparel. Meanwhile, Turkey was the 21st largest export market for the UK in 2019, importing mostly machinery, precious stones, iron and steel, and automobiles from the UK.

Contact

Helen Chin

Vice President

Tel: (852) 2300 2471

Email: helenchin@fung1937.com

Winnie He

Research Manager

Email: winniehe@fung1937.com

Winnie Lo

Senior Research Manager

Tel: (852) 2300 2488

Email: winnielowl@fung1937.com

Fung Business Intelligence

1/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.com

W: http://www.fbicgroup.com