

COUNTRY SOURCING REPORT

Issue19

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EXECUTIVE SUMMARY

Post-Pandemic Sourcing: Amid Ongoing Uncertainties, Prepare for Opportunities

For nearly two years, the COVID-19 Pandemic has shaken our world from the level of individual livelihoods to macro-economics. Global sourcing and supply chains for fashion and other industries have been similarly disrupted, to the extent there can be no return to the “old normal”.

Coming on top of geopolitical tensions, the pandemic has laid bare for all time the risks of relying on cost-optimized, single-route, single-source, just-in-time lean global supply chains. With COVID-19 continuing to ravage lives and economies across the world, it is too soon to forecast the pandemic's lasting effects on global trade. But it is never too soon to start thinking of opportunities likely to emerge as the pandemic subsides, as eventually it shall with a combination of vaccines, treatments, and natural immunity.

What kinds of opportunities lie over the post-pandemic horizon? How should businesses position and prepare themselves? How best can they identify and mitigate ongoing risks and uncertainty in a post-pandemic world?

Fung Business Intelligence undertakes research and fact-based analysis to help businesses and governments address such questions and adjust their strategies accordingly. Our latest edition of *Country Sourcing Report* examines recent developments in 16 of the world's largest textile and apparel producing countries as a basis for identifying and understanding key factors likely to shape fashion sourcing over the next 12 to 18 months.

Below, we highlight these under six headings. Country specific observations can be found in the body of the report.

1. COVID-19 Pandemic Reaction and Response

According to the World Health Organization, as of 14 October 2021 there have been 239 million confirmed cases of COVID-19, including 4.9 million deaths, globally.¹ The most affected apparel-supplying countries, in terms of number of confirmed COVID-19 cases, were India (34 million), Turkey (7.5 million), and Indonesia (4.2 million).

Despite vaccination campaigns, many countries have experienced higher infection numbers this year because of the more contagious Delta variant. Travel bans and sudden lockdowns at country, regional or city level are still occurring in many parts of the world. But consumer demand has not disappeared, especially for daily necessities such as clothing. Helped by an accelerated adoption of e-commerce, pent-up consumer demand has in fact contributed to an improved export performance by many sourcing countries so far this year, compared with last.

Confidence that the world will somehow find a way to “live with COVID”, has trickled down to the commercial level. Fashion suppliers, brands, and retailers have become more optimistic about the near future, and many have already begun to plan for post-pandemic global economic recovery.

That being said, a resurgence of COVID-19 infections in South and Southeast Asia since April this year has caused major disruptions to factories and supply chains in those regions. This has driven additional order volumes to China, where the Government's “zero-tolerance” strategy has been highly successful in keeping COVID at bay. Many foreign brands and retailers have shifted orders to China or, in some cases, back to China because of its reliability for producing and shipping goods despite the pandemic. One outcome is that the case for adopting a “China plus” supply chain model – namely, producing in China plus one or more other regions – has never been more convincing. This is likely to remain so even as China's government tackles power shortages currently hampering industry in many parts of the country. We see this as a short-term problem that can speedily be addressed through a combination of policy changes and practical measures to increase domestic coal output and power generation.

¹ <https://COVID19.who.int/>

2. Transpacific Geopolitics

High tariffs on China-US trade continue to be the “new normal”. Broader tensions (such as the escalating technology war) between the two countries are also likely to continue indefinitely as it is clear the overriding issue between China and the US is not trade but geopolitical rivalry.

Relations between the two countries have not improved with the Biden administration. For example, import tariffs imposed on Chinese goods by former president Donald Trump during his administration’s trade war remain in place. At this stage, the US is likely only to reinstate a tariff exclusion process allowing US companies to seek exemption from certain tariffs on Chinese products, as most such exclusions expired at the end of last year.² Other points of tension include the blacklisting of Chinese companies by the US, to ban them from doing business there or from buying certain US technologies and services. Given the size of the rift between the two countries, no real progress is expected any time soon, although it is encouraging that both countries are making greater efforts to conduct serious talks.

As noted earlier, China’s trade volume has received a pandemic-related boost from orders redirected from production countries that are experiencing supply chain disruptions. In the medium to long term, however, as the pandemic eases, the ongoing China–US trade conflict will once again spur some multinationals to move part or all of their production to other countries to avoid high tariffs and minimize geopolitical risks. This is also true for Chinese firms exporting to the US market. Some Asian and Central American countries could therefore continue to benefit from the China-US trade war and see further increases in their apparel and footwear exports to the US.

3. Possibilities for a New Multilateral Trading System and FTAs

The World Trade Organization (WTO) was designed primarily to establish and maintain a rules-based system for international trade, to facilitate trade-liberalization and to settle trade disputes. But with the increasing complexity of global trade in the digital era and with intensifying trade frictions involving key WTO members, the WTO has struggled in recent years to deliver on its mission. Since the Doha Round of negotiations effectively ended in 2015 - after 14 years of mostly fruitless discussions - bilateral or plurilateral negotiations between subsets of WTO members have been seen as a more pragmatic way to achieve freer trade. In present circumstances, regional and bilateral free trade agreements (FTAs) are now seen as the building blocks of a revitalized multilateral system.

The renegotiated US-Mexico-Canada Trade Agreement (USMCA) entered into force on 1 July 2020. In November last year, 15 Asia-Pacific countries - China, Japan, South Korea, Australia, New Zealand and the 10 member countries of the Association of Southeast Asian Nations (ASEAN) - signed the Regional Comprehensive Economic Partnership (RCEP) which, when fully ratified, will form the world’s largest free trade region in terms of GDP, population, and trade value. RCEP is expected to promote intra-regional integration between ASEAN and China, increasing their trade flows in intermediate goods, and deepening connections between their supply chains. Over the longer term, as RCEP economies interact with those of USMCA in North America and the EU in Europe, the effect will be to create a new global trade network from which it may be possible to reconstruct a new multilateral trading system.

In the more immediate term, trade protectionism and rising supply chain costs are prompting countries to keep looking for opportunities to develop FTAs and preferential trade arrangements (PTAs) as ways to improve market access and save on import duties, which would clearly bring benefits to the fashion sourcing industry.

In Europe, the UK’s access to the EU’s Single Market and Customs Union ended on 1 January this year, making it necessary for the UK to engineer post-Brexit trade deals with other countries and regional organizations. By the end of September, trade deals and agreements-in-principle were completed with 67 non-EU countries and the EU.

² <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/october/ustr-requests-comments-reinstatement-targeted-potential-exclusions-products-china-subject-section>.

Earlier this year, the UK applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a trade agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. It is also still in negotiations with the US for a free trade agreement. Other developments of note in 2021 include: the UK's Developing Countries Trading Scheme (DCTS) which will be effective in 2022, replacing the EU's Generalized Scheme of Preferences (GSP) for exporters sending goods to the UK market; the Indonesia-Singapore bilateral investment treaty (BIT) that came into force on 9 March; the conclusion of negotiations and signing of the Cambodia-Korea Free Trade Agreement (CKFTA) in February and in October, respectively; the ratification of the Cambodia-China Free Trade Agreement by the Cambodian government, and the Comprehensive Economic Partnership Agreement (IE-CEPA) between Indonesia and the European Free Trade Association (EFTA) that was approved by the Indonesian government in April. Finally, both China and the Philippines have applied this year to join the CPTPP.

4. Sourcing Costs and their Effects on Apparel Production

Even in the age of automation, the apparel and textile industry, particularly garment manufacturing, remains heavily dependent on having human hands along the production line. Fast fashion brands in particular still search constantly for low-wage production bases to remain competitive and profitable in what is typically a low margin business. Pandemic-related factory shutdowns have placed downward pressure on average wages for garment workers. However, with a view to supporting low-paid workers through the COVID-19 crisis, many countries with minimum wage adjustment mechanisms have still gone ahead with planned increases in the first half of 2020, according to the *Global Wage Report 2020/21* by the International Labor Organization (ILO). This year, 11 out of 24 garment-producing countries monitored by Fung Business Intelligence have increased minimum wages (Cambodia, China, El Salvador, Indonesia, Jordan, Lesotho, Mauritius, Mexico, Pakistan, Sri Lanka, and Turkey).

Also this year, exporters of apparel, textiles and other consumer goods have experienced unprecedented operational hurdles because of surging freight rates and frequent shipping delays. These are mainly due to soaring demand for imported goods in developed economies, driven largely by e-commerce during the pandemic; and by a global shortage of available containers, made worse by an imbalance of container distribution between different markets; and temporary closures of some ports due to outbreaks of COVID-19. As an illustration, the China Containerized Freight Index, which reflects freight rates paid by shippers for containers leaving from China, surged from 834.24 on 15 May 2020 to an all-time high of 3,235.26 on 24 September this year. Exporters in Southeast Asian countries have also been suffering from this year's high shipping costs. Meanwhile, in September the American Apparel and Footwear Association requested relief from Section 301 import tariffs, citing the impact of unprecedented disruptions to shipping on US companies and employment.

The accident last March when a massive ship became wedged across the Suez Canal, stopping 30% of the world's container traffic, exposed the vulnerability of today's supply chains to sudden, unexpected incidents. For the apparel industry, especially, it has tested the resilience of "lean manufacturing" practices. The current global apparel supply chain model, which is designed around optimizing both cost and efficiency, is now being challenged. For better risk mitigation, companies need to think more about how much extra stock to hold in reserve, in what form, and where along the value chain. Of course, like any inventory, "safety stock", carries with it the risk of obsolescence and also ties up cash. However, savings achieved through lean manufacturing must be weighed against the high potential costs of a supply chain disruption. These costs include lost revenues and the higher prices that must be paid for materials suddenly in short supply.

5. Domestic Development Policies of Sourcing Countries

Sourcing costs aside, access to skilled talent, along with a competitive supplier ecosystem, infrastructure preparedness, logistics efficiency and a friendly business environment are among factors that increasingly influence sourcing or production relocation decisions by fashion companies. In turn, these factors are largely affected by a country's long-term domestic development policies.

Sourcing countries continue to respond keenly to investors' requirements so as to keep their business environment competitive, capture more foreign investment dollars and bring greater prosperity to their peoples. Recent examples include the Philippine government's launch of the Philippine Good Regulatory Principles (PGRP) to serve as guidelines for regulators in making effective policies and improving administrative efficiency. Cambodia is actively improving its infrastructure with initiatives such as The Project for Improving the Logistics System of Cambodia, and the Phnom Penh Logistics Complex Project, to enhance the efficiency of freight traffic there. Pakistan has accelerated the construction of power facilities to solve its longstanding power shortage problem. India's prime minister announced in August that the country will launch a 100-trillion-rupee (US\$1.35 trillion) national infrastructure plan with an additional goal to help generate jobs and expand the use of cleaner fuels to achieve the country's climate goals.

While digitalization initiatives continue to penetrate deeper into the upper and lower streams of the garment value-chain, initiatives in the mid-stream – encompassing actual production, application of technology and environmental compliance – are gaining traction, too. For example, a new facility opened in Phnom Penh by a Hong Kong-based garment company, became the first building in Cambodia to earn gold certification under the US Green Building Council's LEED v4 Building and Construction rating system – a significant "win" for the country in terms of sustainability. In Turkey, the garment industry is focused on investing in Industry 4.0 across the manufacturing process as the COVID-19 pandemic speeds up widespread adoption of both digitalization and e-commerce.

6. Rapidly Changing Consumer Demand

The global retail environment continues to evolve at an unprecedented pace. Consumer tastes are changing rapidly. New consumer expectations are popping up every day. These, together with exponential advances in technology accessible to the masses, have revolutionized the way retailers operate their businesses and engage with customers. Retailers are adopting various strategies ranging from applying new retail technologies, improving omni-channel capabilities, and offering customized products, to establishing automated production lines, renovating stores, and creating new customer experiences.

The main consequence for supply chains is that they must be much faster, more agile, and more transparent to meet the needs of today's digital, mobile consumer. This is not just about automation, but also about understanding new technologies such as artificial intelligence and machine learning, big data analytics and block chains; to rethink the entire value chain, while making it more responsive, accurate, and agile.

In recent years, retailers' needs for shorter turnaround times have drawn attention to possibilities for nearshoring and onshoring, despite the fact such strategies inevitably come at a higher cost. Besides improved speed to market and greater certainty over compliance, nearshoring and onshoring have the potential to enable retailers to achieve greater customization or perhaps go further by offering consumers on-demand manufacturing. With their proximity to the US market and access to duty preferences, sourcing countries in the Western Hemisphere, including Mexico, Honduras, and Nicaragua, are likely to be indispensable nearshoring sourcing bases for US retailers. Meanwhile, onshoring, with the help of automated production, will largely focus on customized and time-sensitive fashion products.

Conclusions

The ongoing COVID-19 pandemic has wreaked havoc on the world economy, but it has also presented the apparel industry with an opportunity to pause, reflect, and rethink its future. Businesses will need to review their sourcing and supply chain strategies in order to better manage risk and leverage competitive production capabilities and trade advantages across sourcing countries.

The pandemic plus ongoing tensions between China and the US have accelerated global discussions over onshoring/reshoring production. One highly possible scenario in a post-pandemic world is that production of essential goods, such as medical supplies, personal protection equipment (PPE), or food, will be reshored permanently, allowing greater national oversight. There are signs this is already happening. At the same time,

production of many non-essential items is likely to become even more globalized, to take advantage of the various efficiencies and the capabilities of different production countries. This will help to offset and balance the higher cost of reshoring products that are deemed essential.

Businesses will need to find the right mix of trading countries/economies that enable them not only to leverage preferential trade treatment for exports, but also to optimize sourcing/logistics costs. They will need, too, to seek the best combination of business-friendly environments and production capabilities.

As FTAs and PTAs proliferate, different agreements will offer different advantages to businesses in terms of market access and tariff reduction, all of which will help to increase trade flows. Long-term domestic development policies will have a further bearing on the stability and attractiveness of individual production bases. Vigilance over the direction and details of domestic policies will enable companies to forecast labour and material costs more accurately and better inform their decisions on foreign direct investment and where to locate (or relocate) factories.

With COVID-19 uncertainties likely to continue for the foreseeable future, the practice of maintaining safety stock will be given equal, if not more, weight than the usual practice of just-in-time replenishment and lean inventories. The added cost of having such a buffer could be offset through nearshoring, allowing shorter lead-times for delivery and a more responsive supply chain. This trend will favour production countries in Central and South America for the US market, and countries such as Turkey for the EU market. Companies focused on serving a demanding new generation of consumers who want products made on an individualized basis, will also benefit from locating their manufacturing base closer to market. A post-pandemic sourcing model developed along these lines will be more resilient and better able to withstand supply chain shocks and sudden market disruptions, as well as more agile in responding to new consumption trends.

In general, Asia will remain a manufacturing powerhouse for fashion products over the long term. It is also noteworthy that China will continue to play an increasingly important role as a textile supplier for apparel-exporting countries in Asia. The sourcing model of “China plus one” or “China plus many” will remain dominant in the short term and possibly for longer. China is also among the world’s fastest growing consumer markets for fashion products. Its latest “Dual Circulation” strategy strives to boost and enlarge domestic consumption and accelerate the formation of an integrated domestic market. The opportunity to source in China for China’s domestic market will only increase the country’s attractions as a global production base.

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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.

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COUNTRY OVERVIEW

	Population (million), 2020	Median age, 2020	Literacy rate (%), 2019 or most recent year	Real GDP growth (%), 2020	Inflation (%), 2020	Share in world clothing exports (%), 2019	Monthly base wages for manufacturing workers (US\$), 2020*
China	1,402.1	38.4	96.8	2.3	2.4	30.7	531.0
Bangladesh	164.7	27.6	74.7	3.5	5.6	6.7	115.0
India	1,380.0	28.4	74.4	-7.3	6.2	3.5	265.0
Pakistan	220.9	22.8	59.1	-0.5	10.7	1.3	158.0
Turkey	84.3	31.5	96.2	1.8	12.3	3.3	404.5
Cambodia	16.7	25.6	80.5	-3.1	2.9	1.7	222.0
Indonesia	273.5	29.7	95.7	-2.1	2.0	1.7	360.0
Philippines	109.6	25.7	98.2	-9.6	2.6	0.2	272.0
Thailand	69.8	40.1	93.8	-6.1	-0.8	0.8	447.0
Vietnam	97.3	32.5	95.0	2.9	3.2	6.3	250.0
Mexico	128.9	29.2	95.4	-8.3	3.4	0.9	205.9
El Salvador	6.5	27.6	89.0	-7.9	-0.4	0.4	359.2
Guatemala	16.9	22.9	81.3	-1.5	3.2	0.3	365.9
Honduras	9.9	24.3	87.2	-9.0	3.5	0.9	341.5
Nicaragua	6.6	26.5	82.6	-2.0	3.7	0.3	182.2
Haiti	11.4	24.0	61.7	-3.3	22.9	0.2	152.3

Source:

Population (2020): World Bank database, accessed on 15 October 2021

Median Age (2020): *United Nations World Population Prospects 2019*

Literacy rate (2019 or most recent year): World Bank database, accessed on 15 October 2021

Real GDP growth and inflation (2020): *IMF World Economic Outlook*, October 2021

Share in world clothing exports (2019): WTO database, accessed on 15 October 2021

Monthly wages (2020): *JETRO Survey of Japanese-Affiliated Companies in Asia and Oceania*, December 2020

* Wages of Central American and Middle Eastern countries are monthly minimum wages as of mid-Oct 2020. Turkey's wage is the gross minimum wage nationwide effective in 2021 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 30 September 2021.

BANGLADESH

Country & sourcing updates

Macroeconomic trends

- In the 2020-21 fiscal year (July 2020 – June 2021), Bangladesh's **exports** reached US\$38.8 billion, up 15.1% year-on-year (yoy). However, due to the COVID-19 lockdowns, exports in the first two months of the current (2021-22) fiscal year (July-August 2021) dropped by 0.31% yoy to US\$6.9 billion, 7.8% lower than its export target for the period.
 - **GDP** grew 5.4% in the 2020-21 fiscal year to US\$355 billion, US\$19 billion lower than the target. In the September update of the *Asian Development Outlook*, the Asian Development Bank lowered its GDP forecast for Bangladesh for the current fiscal year to 6.8%, down from 7.2% in its April outlook, saying the second wave of COVID-19 has delayed the economic recovery.
 - Foreign direct investment (**FDI**) in Bangladesh decreased by 10.8% yoy to US\$2.6 billion in 2020. This is the second year in a row that FDI inflows have slumped, with a 20.5% fall registered in 2019. In 2020, the top five FDI recipients among the least developed countries (LDCs) were Cambodia, Bangladesh, Ethiopia, Mozambique and Myanmar – All except Mozambique experienced negative growth in FDI in the year.
 - The **exchange rate** of taka remained broadly stable in the first seven months of 2021 but has depreciated against the US dollar since August. On 30 September, the taka has depreciated by 0.8% against the US dollar since the beginning of the year.
- In the first quarter of the current fiscal year, the country's apparel industry was overwhelmed with export orders, following the reopening of markets around the world. Mass vaccination in the US, Europe and other major apparel export markets helped export orders get back on track, giving confidence to Bangladesh's manufacturers.
 - Work orders for the 2022 spring/ summer seasons have already surpassed the pre-pandemic level by 15- 20%, which exceeded the capacity of many factories. Currently, 3,384 export-oriented apparel factories in Bangladesh have employed around 2.7 million workers. According to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), around 300,000 additional workers, or 10% of the existing employment of the industry, are needed to cater for the increased new orders.
 - According to industry insiders, prices of manufactured goods have increased by 6% on average. Nevertheless, manufacturers are still concerned about the hikes in raw materials and freight costs, as well as the price drop of apparel items in the international market.
- According to the Bangladesh Garment Accessories and Packaging Manufacturers and Exporters Association (BGAPMEA), **raw material costs** rose by a range of 40%-80% from January to May 2021. Prices of yarn rose to US\$3.5 from US\$2.5 per kg; polymer came up to US\$1,600 from US\$960 per tonne; kraft paper soared to US\$1,400 from US\$880 per tonne; ink increased to US\$9-12 from US\$7 per kg, and prices of chemicals have jumped to US\$90 from US\$55 per kg.

Industry & sourcing developments

- During the 2020-21 fiscal year, Bangladesh's **apparel exports** reached US\$31.5 billion, up by 12.6% yoy, but was still 6.9% below the annual target of US\$33.8 billion set by the Export Promotion Bureau (EPB).
- The **spinning millers** in Bangladesh have **increased investment on synthetic and blended yarns** to fulfill the growing demand around the world. The number of spinners in the country producing synthetic and blended yarns has increased from 10 to 50 over the last five years.

BANGLADESH

Country & sourcing updates

- According to the International Textile Manufacturer Federation (ITMF), the synthetic fibre-made apparels accounted for 78% of the global fashion market and the rest was made of cotton. However, around 70% of Bangladesh's apparel exports were made of cotton and the rest were made of synthetic fibre.
- Centre for Policy Dialogue (CPD) and Mapped in Bangladesh (MiB) jointly conducted a survey on 610 sampled factories out of 3,211 listed enterprises in four major industrial clusters in Dhaka, Gazipur, Narayanganj and Chattogram in October-November of 2020.
 - According to the study, 232 **factories** were **closed** during the pandemic, accounting for 6.9% of total factories. About 357,000 workers lost their jobs, higher than the official figure of 56,372. The average number of workers in a garment factory declined from 886 in December 2019 to 790 in September 2020.
- 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. Bangladesh has made no schedule for the next adjustment of minimum wage in the near future.
- According to the ActionAid's survey, 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.
- In early December 2020, the International Labour Organization (ILO) released a report calculating the gross **monthly minimum wage** levels globally using the Purchasing Power Parity (PPP) values. Bangladesh ranked fifth from the bottom among 136 countries.

Labour & workplace compliance

- In April 2021, ActionAid, a US-based international organization, published a report titled *COVID-19: Challenges for the Rana Plaza Tragedy Survivors*, and organized a virtual event in memory of the eighth anniversary of the tragedy. The collapse of **Rana Plaza** in 2013 was the worst ever industrial accident to hit the garment industry in Bangladesh.
 - 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.
 - 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. According to the RMG Sustainable Council, workers demanded an increase in
- The monthly minimum wage level in Bangladesh was US\$48 (PPP) or around 4,070 takas in 2019. In the Asia Pacific region, the median minimum wage was US\$381 (PPP), which was US\$333 higher than that of Bangladesh.
- The ILO also reported that Bangladesh saw an annual reduction of 5.9% in real minimum wage between 2010 and 2019. However, the annual labour productivity growth was 5.8% in the country during the period.

FTAs, trade preferences & facilitation

- 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

Country & sourcing updates

- 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.
- In June 2021, the **Dhaka Chamber of Commerce & Industry (DCCI) and the Vietnam Embassy signed a Memorandum of Cooperation (MoC)** to foster trade and investment between the two countries.
 - The Vietnam Embassy will coordinate with DCCI to set up the "Vietnam Desk" at the DCCI office to better support this bilateral business partnership.
 - Both DCCI and the Vietnam Embassy will organize a series of B2B activities, including matchmaking, buyer-seller meets, trade fairs, business promotion activities, and field visits for researching the Bangladeshi market.
 - DCCI invited Vietnamese investors of agro and food processing, shipbuilding, electronics, leather, jute, light engineering, and the handicrafts sectors to invest or set up joint ventures in Bangladesh. DCCI also urged the Vietnam Embassy to help onboarding investors by facilitating technical know-hows and expertise exchange.
- According to DCCI, it is expected that mutual cooperation, exchange of business delegations, and joint research for new business development will help enhance bilateral trade, which currently hovers around US\$650 million.
- Bangladesh is preparing an action plan for supporting the country's export competitiveness to maintain its position in the world market after its graduation from a **least developed country (LDC)** to a developing economy. The plan, being prepared by the Economic Relations Division (ERD), will be included as a strategy in the 8th Five Year Plan.
 - Upon the request of the government, the United Nations Committee for Development Policy (UNCDP) has recommended that the preparation period for the transition will be five years instead of three years, against the backdrop of COVID-19 pandemic. During this period, that is, until 2026, all international facilities applicable to LDCs will continue.
 - Under the current rules, Bangladesh will be able to enjoy duty-free and quota-free market access for another three years, that is, until 2029, when exporting to the EU market.
 - During the preparatory period, Bangladesh will prepare a smooth transition strategy (STS) in cooperation with its trading partners and with the targeted assistance from the United Nations system, especially members of the Inter-Agency Task Force (IATF) on LDC Graduation Support.
 - The STS is expected to provide the basis for a successful transition, ensuring that LDC-specific International Support Measures are phased out in a way that does not disrupt the country's development progress. The ERD and the Ministry of Finance will coordinate the process of preparing the STS by involving all the stakeholders.

BANGLADESH

Country & sourcing updates

- In July, **the UK government has launched** a new scheme, titled “**Developing Countries Trading Scheme (DCTS)**”, aiming at driving trade with developing countries. The DCTS is expected to take effect in 2022 and, for exporters sending goods to the UK market, will replace the EU's Generalised Scheme of Preferences (GSP).
 - The proposed new scheme will mean more opportunity and less bureaucracy for developing countries, for example by simplifying rules of origin requirements or reducing tariffs on imports.
 - The DCTS scheme will apply to 47 countries in the United Nations' Least Developed Country Framework (LDCF) and 23 additional countries classified by the World Bank as low-income and lower-middle-income countries.
 - The scheme signals the UK's appetite to promote global free, competitive and fair trade, as well as demonstrating its commitment to Bangladesh, by enabling Bangladeshi businesses to access the UK market more easily. As Bangladesh would graduate from the LDC group in 2026, the UK already assured that the country would continue to enjoy all the present facilities until 2029.
- On 5 September, **Bangladesh decided to join the Regional Comprehensive Economic Partnership (RCEP)**, in order to stay eligible for duty-free trade facilities in the markets of nearly one-third of the global economy after it graduates from the LDC status in 2026. The Ministry of Commerce will send a formal proposal to the RCEP headquarters, conveying the country's interest in getting a membership to the bloc.
 - Currently, Bangladesh is a member of three multilateral economic alliances – the Developing Eight (D8), the Asia-Pacific Trade Agreement (APTA) and the South Asian Free Trade Area (SAFTA).

Infrastructure & environmental sustainability

- Apparel exporters are facing significant losses due to missing delivery deadlines, as the cargo capacity and the number of Explosive Detective System (EDS) scanners at the **Hazrat Shahjalal International Airport (HSIA)** in Dhaka are insufficient to meet the air freight demand. Furthermore, sea route volatility, high demand for the Christmas season and the return of global orders further increases the demand for air freight services at HSIA and lead to **a jump in air freight rates**.
 - By mid-September, air freight rates from Bangladesh to the US and Europe have nearly doubled against the previous month and that to the Far East have almost tripled.
 - With the growing demand, the cargo village at the HSIA has been overloaded with cargo and failed to process all shipments. Trucks have to wait for cargo unloading on roads or highways outside the cargo village for two to three days.
 - Besides, according to local practitioners, at least four EDS scanners are needed. However, only two EDS scanners were in operations in June, and one has not been functioning since then. Exporters face eight-day delay due to low scanning capacity.
 - According to the Civil Aviation Authority of Bangladesh, a new cargo village, with 63,000 square meters of storage areas, is under construction and will go into operation by the end of 2025.

BANGLADESH

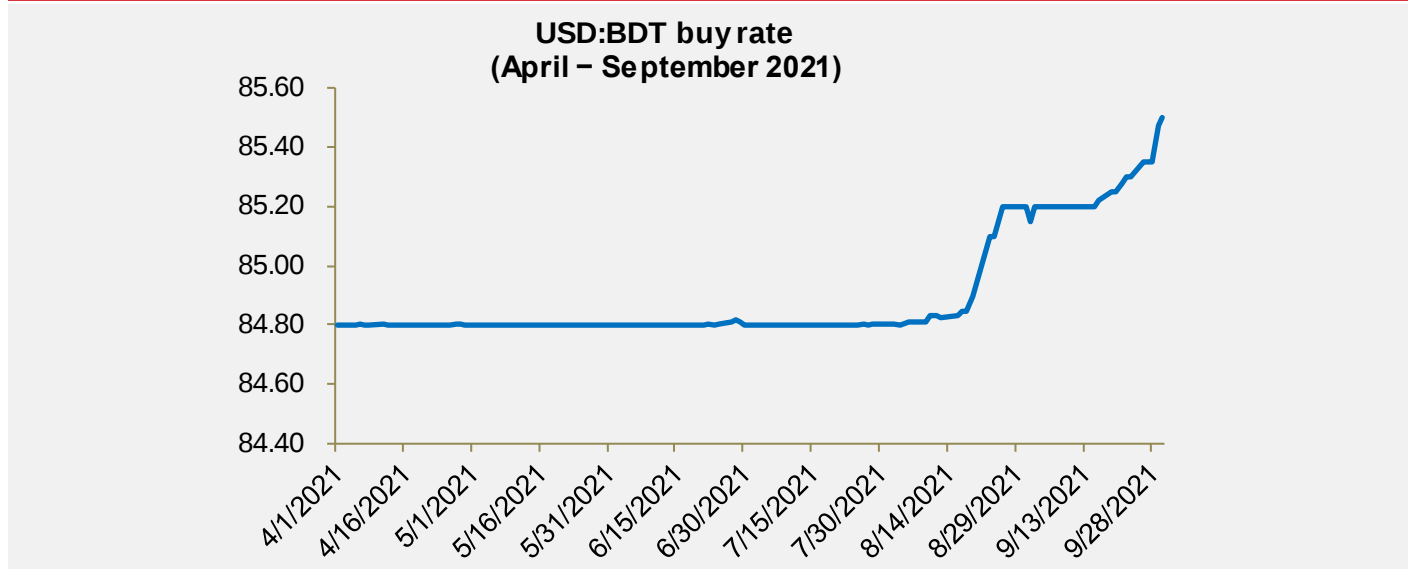
Macroeconomic data

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Quantum index of medium and large-scale manufacturing (Base: 2005-06=100, yoy growth %)	87.6	-0.8	30.1	—	—	—
Consumer price index (yoy growth %)	5.6	5.3	5.6	5.4	5.5	5.6
Exports (yoy growth %)	802.0	5.9	31.8	-11.2	14.0	38.0
Exports (US\$ mn)	4,690.7	1,551.8	3,577.5	3,473.4	3,383.1	4,165.5
<i>Of which:</i>						
- Knitwear (US\$ mn)	1,341.8	1,366.4	1,597.7	1,658.5	1,600.4	1,905.3
- Woven garments (US\$ mn)	1,175.2	1,190.6	1,297.2	1,228.8	1,152.9	1,513.6
- Home textile (US\$ mn)	110.5	81.4	93.7	92.4	82.7	104.2
- Footwear* (US\$ mn)	69.7	76.8	98.0	81.6	87.7	92.1
- Leather products (US\$ mn)	23.1	22.7	26.8	25.2	17.3	28.2
Imports (yoy growth %)	99.3	96.2	54.5	34.1	-	-
Imports (US\$ mn)	4,961.0	4,967.1	6,090.6	4,552.6	-	-

* 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

- Cambodia's **economy** has gradually recovered after a 3.1% yoy contraction in 2020. However, the recovery is unstable and volatile. The Cambodian government downgraded its **economic forecast** for 2021 to 2.5% yoy on 1 August, from the 4.1% yoy forecast made at the beginning of the year, worrying that the new round of COVID-19 outbreaks across the world would have a negative impact on Cambodia's key trading partners and would continue to disrupt the global production chain. The Asian Development Bank (ADB) also lowered Cambodia's economic growth forecast for the year 2021 to 1.9% in September, down from its April projection of 4.0%, due to the prolonged COVID-19 pandemic.
- Cambodia itself has not been severely hit by the Delta variant of **COVID-19** compared with other major Southeast Asian countries. With the effective COVID-19 response by the Cambodian government, the country has one of the lowest COVID-19 deaths per capita.
- Cambodia has an advantage over its neighbours in **vaccination** coverage and will be able to re-open its economy earlier. As of 30 September, 83% of Cambodia's 16 million population have received at least one dose of the COVID-19 vaccine.
- Cambodian **exports** decreased by 5.3% yoy to US\$11.1 billion in the first eight months of 2021, according to the Ministry of Commerce.
 - The US continued to be Cambodia's **largest export destination**. The latest available data shows that, in the first half of the year, exports to the US increased by 32.4% yoy to US\$3.6 billion, accounting for 44% of Cambodia's total exports in the period. Cambodia's predominant export products to the US included clothing, footwear, bags, bicycles, furniture and agricultural products.

➤ Other key **export markets** of the country during this period include the EU, Canada, Japan, China, South Korea, and other ASEAN countries.

- As of 30 June, Cambodia has approved 87 applications for new **investment projects** and expansion of existing ones in 2021, worth more than US\$2.97 billion, the Council for the Development of Cambodia reported.

Policies & regulations

- The draft **Law on Competition** received full support from the National Assembly (NA) leaders, the Senate, and the heads of the NA's ten specialised committees at a meeting on 3 August. The Competition Law aims at promoting fair competition and improving business environment and is expected to take effect before the end of 2021.
- The draft **Law on Investment** was approved by the National Assembly on 9 September and by the Senate on 20 September. The bill will be returned to the National Assembly to proceed with a signature from the King – or acting head of state – to become law. The draft law is designed to create an open and transparent legal framework for investment, as well as to attract and promote quality, efficient and effective investment tailored to support socio-economic development. It will undeniably play a vital role in attracting local and international investors to the domestic market.
- The Cambodian government decided to cut **customs tariff rates** and special tariffs on various imported goods and raw materials used in the manufacturing industry, effective 1 January 2021. Among the goods and raw materials that received tariff reduction or exemption were electromechanical equipment, production materials, electrical appliances, lubricants, and solar photovoltaic panels.

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Country & sourcing updates

Industry & sourcing developments

- Exports of **garments, footwear, travel products** (GFT) and other finished textile goods were up 3.3% yoy to US\$6.8 billion in the first eight months of 2021, according to the Ministry of Commerce. Major buyers during the period included the US, the EU, Japan and the UK.
- In June, the Cambodian government announced its ninth round of **economic mitigation measures**. The measures were available to the textile, garment, footwear, and tourism sectors until September 2021, during which furloughed workers could continue to receive up to US\$40 of financial aid per month. (For the furloughed workers in the textile and garment sector, they can obtain an additional US\$30 on top of the US\$40 per month.) Hotels, guesthouses, and travel agents in selected regions would continue to be exempted from paying monthly taxes until September 2021.

Labour & workplace compliance

- The monthly **minimum wage** for factory workers in the garments, textiles and footwear sectors has been set at US\$194, effective since 1 January 2022, following days of tripartite talks between employers, unions and the government in September. The figure represents a US\$2 increase from this year's minimum wage. The 2021 minimum wage is US\$192 per month, up from US\$190 in 2020, US\$182 in 2019, and US\$170 in 2018.

FTAs, trade preferences & facilitation

- After six months of negotiations, Cambodia and South Korea concluded negotiations over the **Cambodia-Korea Free Trade Agreement** (CKFTA) on 3 February 2021.
 - The Cambodian Commerce Minister Pan Sorasak and the South Korean Trade Minister Yeo Han-koo signed the bilateral agreement on 26 October.

- The CKFTA aims to liberalise bilateral trade and further strengthen the economic partnership between the two economies.

- The draft law on the ratification of the **Regional Comprehensive Economic Partnership** (RCEP) agreement and the draft law on the **Cambodia-China Free Trade Agreement** (CCFTA) received full support at a meeting on 3 August participated by the NA leaders, the Senate, and the heads of the NA's ten specialised committees. The laws are expected to take effect before the end of 2021.

- RCEP will benefit the overall economy of the region covered but could also bring heterogenous effects on individual member countries. As competition from other RCEP countries could be intense, the Cambodian government may need to do ongoing analyses on the impact of RCEP on the country and reserve more policy and fiscal space to take maximum advantage of this trade agreement.

- The National Assembly of Cambodia ratified the CCFTA on 9 September. CCFTA covers sectors such as trade, tourism, investment, transportation, and agriculture. China will provide duty-free status to some 98% of imports from Cambodia, whereas Cambodia has agreed to duty exemptions of up to 90% of its imports from China. The CCFTA extends tariff-free trade to over 340 products, mainly agricultural produce, that are not covered by the ASEAN-China Free Trade Area.

- The CCFTA is expected to boost Cambodia's exports to China, especially exports of agricultural products, processed products and handicrafts, through tariff reductions and customs and trade facilitation. This is particularly important for Cambodia, which has suffered the suspension since last year of its special trade preferences under the Everything but Arms (EBA) arrangement of EU's Generalised Scheme of Preferences (GSP).

CAMBODIA

Country & sourcing updates

- Cambodia is pushing the formal launch of free trade agreement (FTA) talks with the Eurasian Economic Union (**EAEU**) bloc, hoping that this area, which comprises Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia, would one day join the ranks of the US, Europe, China and South Korea as a notable buyer of Cambodian goods.

Infrastructure & environmental sustainability

- This year, Hong Kong-based Luen Thai Holdings Ltd's newest venture, the XO Tex Industrial Co Ltd garment factory located in Phnom Penh became the first building in Cambodia to earn 'gold' certification under the **US Green Building Council's (USGBC) LEED v4 Building and Construction (BD+C) rating system**. The building is a 25,000 sqm facility designed to employ 10,000 staff, producing garments for well-known international sports brands.
- In April, Cambodia and Japan International Cooperation Agency launched the Phase 2 of "The Project for **Improving the Logistics System** of Cambodia" in a bid to enhance the efficiency of freight traffic in Cambodia.
- On 12 May, the Council for the Development of Cambodia, in collaboration with the World Economic Forum, launched the **Supplier Database** with Sustainability Dimensions (SD2), the first of its kind, to provide information on the sustainability operations of domestic companies. SD2 will serve as a key platform linking international and domestic firms that are seeking new partnerships in Cambodia.
- **Sihanoukville Autonomous Port (PAS)** has extended the storage grace period from five to seven days from 1 October for export containers passing through the Cambodia's sole deep-sea port, which will ease the burden for exporters. The two-day extension of the demurrage-free period was motivated by a meeting between PAS and representatives of shipping companies back in 30 August, with an aim to support business and trade,

and to address some of the challenges facing the transportation and logistics sectors.

- **Phnom Penh Autonomous Port** has officially opened its **new container terminal** on 18 September 2021, upgrading its full capacity in handling container to 400,000 TEUs per year. The construction of the US\$18.4 million container terminal began in 2019 and was completed in mid-2021, according to the Director General of Phnom Penh Autonomous Port.

CAMBODIA

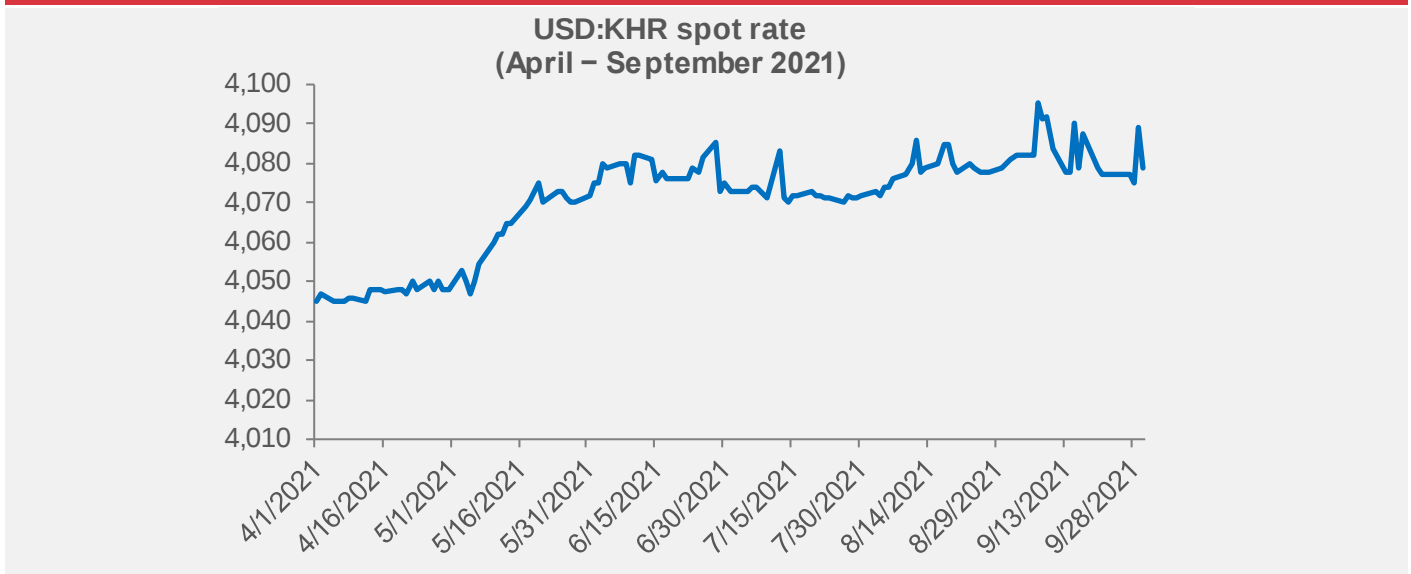
Macroeconomic data

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Consumer price index (yoy growth %)	1.7	2.1	2.7	3.0	2.7	3.3
Exports (yoy growth %)	-1.0	27.9	15.4	-23.6	-21.7	-12.2
Exports (Cambodian riel billion)	4,886.3	5,119.1	4,128.5	4,700.2	5,854.9	7,844.1
<i>Of which:</i>						
- Garments (Cambodian riel billion)	2,280.8	2,205.1	1,716.6	1,705.8	2,519.8	3,830.2
- Footwear (Cambodian riel billion)	410.7	401.3	393.9	418.3	494.8	583.3
- Electrical parts (Cambodian riel billion)	249.4	274.0	228.2	324.8	537.0	759.6
- Bicycles (Cambodian riel billion)	181.0	221.0	181.1	222.7	162.1	267.8
Imports (yoy growth %)	47.1	75.1	34.7	58.1	78.4	68.5
Imports (Cambodian riel billion)	9,408.1	11,553.9	8,139.5	9,110.1	9,822.7	9,512.6

Note: July 2021 figures are the most up-to-date as of the data of publishing.

Source: National Bank of Cambodia

EXCHANGE RATES



Source: National Bank of Cambodia

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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 2021, **merchandise exports** surged by 33.0% yoy to US\$2,400.8 billion. Merchandise exports totalled US\$305.7 billion in September, up by 28.1% yoy. China's merchandise exports have hit record highs for three consecutive months from July to September, indicating a strong performance in exports.
 - Exports of textiles and garments went up by 2.7% yoy to US\$29.13 billion in September. Of which, **exports of garments** rose by 9.9% yoy to US\$16.72 billion, while **exports of textiles** fell by 5.6% yoy to US\$12.41 billion. In the first nine months of 2021, textile and garment exports totalled US\$227.59 billion, up by 5.6% yoy. Of which, exports of garments reached US\$122.41 billion, up by 25.3% yoy, while exports of textiles amounted to US\$105.18 billion, down by 10.7% yoy.
 - **Exports of shoes** totalled US\$4.33 billion, up by 29.8% yoy, in September. In the first nine months of 2021, exports of shoes reached US\$33.73 billion, up by 35.1% yoy.
 - **Exports of toys** amounted to US\$5.75 billion, up by 40.3% yoy, in September. In the first nine months of 2021, exports of toys totalled US\$32.16 billion, up by 45.9% yoy.
- **China's trade and investment with countries along the Belt and Road (B&R)** maintained robust growth in the first eight months of 2021.
 - China's trade with B&R countries jumped by 24.6% yoy to 7.29 trillion yuan in the period.
 - Meanwhile, Chinese companies made outward direct investment (ODI) of US\$12.9 billion in B&R countries, up by 9.2% yoy, and signed contracts of new projects worth US\$70.9 billion.
- **Consumer prices:** CPI growth eased to 0.7% yoy in September from 0.8% yoy in August. In the first nine months of 2021, China's CPI growth was 0.6% yoy.
- **Midstream prices:** Ex-factory prices of industrial products have gone up lately. The producer price index (PPI) rose by 0.7% mom in August and 1.2% mom in September. In the first nine months of 2021, China's PPI growth was 6.7% yoy.
- **Upstream prices:** Domestic prices of production inputs have increased markedly lately. The purchaser price index of industrial products went up by 0.8% mom in August and 1.1% yoy in September. In the first nine months of 2021, the growth in China's purchaser price index was 9.3% yoy.
- **Real GDP growth** moderated from 18.3% yoy in 1Q21 to 7.9% yoy in 2Q21 and 4.9% in 3Q21. In the first three quarters of 2021, China's economy expanded by 9.8% yoy.
- **Total profits of industrial companies** with annual revenue over 20 million yuan shot up by 49.5% yoy to 5.61 trillion yuan in the first eight months of 2021. Among the industries, profits of the textile manufacturing industry rose by 2.3% yoy to 63.95 billion yuan, while profits of the wearing apparel and ornament manufacturing industry climbed 9.5% yoy to 39.62 billion yuan in the period.
- **Industrial production by the textile industry** increased by 3.7% yoy in the first nine months of 2021, compared to the growth of 0.7% yoy in full year 2020.
 - China's **fabric production** contracted by 1.2% yoy to 3.4 billion metres in September. In the first nine months of 2021, fabric production reached 28.7 billion metres, up by 10.1% yoy.
- **Fixed asset investment** (excluding rural households) in the textile industry rose by 13.5% yoy in the first nine months of 2021.
- **Foreign direct investment (FDI)** into China increased by 22.3% yoy to 758.1 billion yuan

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(US\$113.8 billion, up by 27.8% yoy in US dollar terms) in the first eight months of 2021.

- China's **total retail sales of consumer goods** reached 31.81 trillion yuan in the first nine months of 2021, up by 16.4% yoy. Of which, retail sales of garments, footwear, hats and knitwear amounted to 964.1 billion yuan, up by 20.6% yoy. In the period, online retail sales of physical goods grew 15.2% yoy to 7.50 trillion yuan, accounting for 23.6% of total retail sales of consumer goods.
- Supported by China's strong economic recovery and persistent capital inflows, the **Chinese yuan** appreciated by 1.3% against the US dollar in the first nine months of 2021. The USD-CNY spot exchange rate appreciated from 6.5272 on 31 December 2020 to 6.4448 on 30 September 2021, according to Bloomberg.
- From January to October 2021, the **minimum wage levels** in Beijing, Shanghai, Zhejiang, Jiangsu, Tianjin, Gansu, Shaanxi, Ningxia, Xinjiang, Heilongjiang, Tibet, Jiangxi, Hubei and Shanxi were adjusted upward.
- China's **job market** has improved in 2021. The surveyed urban unemployment rate in 31 major cities in China fell from 5.5% in February to 5.0% in September.
- **Surging freight rates and shipping delays** are among the major challenges for exporters, which are due mainly to the soaring demand for imports in developed economies, the imbalance of container distribution between different markets (empty containers are piling up at US ports while there is a shortage of containers in Chinese ports), and temporary closures of some ports due to outbreaks of the COVID-19.
 - The China Containerized Freight Index, which reflects the freight rates paid by shippers for containers leaving from China, surged from 834.24 on 15 May 2020 to a then-record-high of 1,323.83 on 4 December 2020. The index has continued to rise since then and set its latest all-time high of 3,235.26 on 24 September this year.
- Chinese manufacturers have turned to exporting their goods to Europe over land in face of shipping container shortages, high costs and delays. **China-Europe freight train** trips have seen robust growth since the start of 2021, with the total number of trips surging 29% yoy to reach 11,343 in the first nine months of 2021.
- Some retailers have chartered their own vessels to avoid shipping delays. For example, Walmart, Target and Home Depot, the three largest US importers by volume of ocean containers, have all chartered ships that are fully dedicated to the companies, in order to regularly bring merchandise from Asian ports to the US.
- China's **state cotton reserves sales** of 2021 commenced on 5 July and ended on 30 September. About 630,800 tonnes of cotton were sold during the period.
- In the first nine months of 2021, imports of cotton amounted to 1.85 million tonnes, up by 32.2% yoy.
 - On 30 April, the Chinese government announced to issue **additional cotton import quotas of 700,000 tonnes** for the year to meet the domestic demand for imported cotton.

Policies & regulations

- The 2021 session of the National People's Congress has approved the **14th Five-Year Plan (2021-25)**, which provides the blueprint that will guide China's social and economic development over the coming five years.
 - The '**dual circulation**' strategy will be a key direction for China's development in the coming five years and beyond. China will nurture a strong domestic market by stimulating domestic demand and increasing and upgrading consumption. It will further invest in technology and innovation efforts to pursue technological

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independence and self-reliance. China will also further open up itself to the world and foster a world-class business environment to attract foreign investment.

- The 14th Five-Year Plan also calls for 'promoting **common prosperity** for everyone'. Relevant proposals include: Raising household income, growing the middle class, regulating excessively high incomes, strengthening the employment-first policy, providing more equitable access to basic public services such as education and public health, cracking down on anti-competitive behaviour, etc.
- The Chinese government has implemented various **measures to promote foreign trade** this year. For example,
 - Effective from 1 January, China has **reduced or eliminated import tariff rates** on 883 products, including medicines, medical equipment, ingredients for infant formula, hi-tech equipment and components, etc. Moreover, starting from 1 July 2021, China has implemented the sixth reduction on the Most-Favored-Nation (MFN) tariff rates on 176 kinds of information technology products.
 - On 18 March, six government departments including the Ministry of Commerce (MOFCOM) and National Development and Reform Commission (NDRC) jointly published a notice on **expanding cross-border e-commerce retail import pilots** to more cities and regions, including all cities and regions that host free trade zones, cross-border e-commerce comprehensive pilot zones, comprehensive bonded areas, demonstration zones for promoting import trade and trade innovation, and bonded logistics centres (type B).
 - The State Council issued a circular on 9 July, introducing measures to **boost new business formats and models of foreign trade** to advance high-quality development of the trade sector. The Chinese government will promote the utilization of digital technology and tools in foreign trade; designate more areas as comprehensive pilot zones for cross-border e-commerce; encourage traditional foreign trade companies, cross-border e-commerce platforms and logistics firms to develop overseas warehouses and make them more digitalized and intelligent; and promote the development of market procurement trade and offshore trade, etc.
- 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 5 January, the MOFCOM, NDRC and 10 other government departments issued a notice on measures for boosting the consumption of bulk commodities and in key sectors to **tap the potential of rural consumption**. Steps would be taken to expand the consumption of automobiles, electrical appliances, furniture, home decorations, catering consumption, etc., in rural areas.
 - On 25 March, the NDRC and 27 other government departments issued an implementation plan to **encourage new modes of consumption**. Efforts will be made to encourage new business formats and models in retail sales, which call for the development of contactless shopping, 'smart' stores, digitalized convenience-store chains and the live-streaming economy. The plan also urges the development of the 'Internet plus medical health' sector, digital cultural industries and tourism, and online education.
 - The MOFCOM announced on 19 July that Shanghai, Beijing, Guangzhou, Tianjin and Chongqing will take the lead in **developing into international consumption centre cities**. Efforts will be made to pool quality international market entities, goods and services, as well as

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to accelerate the cultivation of local brands. The MOFCOM also pledged efforts to develop commercial districts and improve market regulation services in the five cities.

Industry & sourcing developments

- Since the second half of 2020, the COVID-19 pandemic in alternative production countries has caused foreign buyers to shift orders to China. In particular, the resurgence in COVID-19 infections in South Asia and Southeast Asia since April this year has led to massive production disruptions in these regions, which have in turn driven **shifts in supply chains to China** from those countries.
 - Take smartphones for example. Apple's production in China in 2020 returned to 2017 levels after slowly declining for a few years. In 3Q21, Apple also started the mass production of its latest iPhone 13 series in China instead of Vietnam as previously planned.
 - A number of international shoemakers have moved their supply chains back to China, according to industry sources.
- On 13 January, the US Customs and Border Protection issued a Withhold Release Order (WRO) **banning cotton products produced in Xinjiang**. The WRO was issued against cotton and their downstream products produced in Xinjiang, and downstream products produced outside Xinjiang that incorporate these inputs.
 - The US ban on Xinjiang cotton has had **no obvious impact on the production and prices of cotton, yarn and fabrics in China**, as the proportion of Xinjiang cotton output affected by the ban is relatively small (estimated at 10%).
 - A number of international brands including H&M and Nike have distanced themselves from Xinjiang cotton, which has triggered a wave of backlash from Chinese consumers. Sales of

these brands in the Chinese market have dropped as a result.

FTAs, trade preferences & facilitation

- China and 14 Asia-Pacific countries, including Japan, South Korea, Australia, New Zealand and the 10 Association of Southeast Asian Nations (ASEAN) member countries signed the **Regional Comprehensive Economic Partnership (RCEP)** on 15 November last year. The RCEP will come into force 60 days after a minimum of six ASEAN members and three non-ASEAN partners have ratified the deal, which is expected next year.
 - By eliminating tariffs on at least 92% of goods traded and opening up at least 65% of services sectors, the RCEP will encourage more cross-border trade, investment and flows of people across the Asia-Pacific region, thus expediting economic and trade integration in the region.
 - The RCEP will promote intra-Asian integration around the ASEAN and China. With trade flows in intermediate goods between the ASEAN and China expected to increase, the supply chains of the two economies will be more interconnected than ever.
- China aims to further open up the country and form a high-standard FTA network by **signing more free trade agreements** and upgrading existing ones.
 - In January, China–Mauritius Free Trade Agreement entered into effect, and China and New Zealand signed the FTA upgrade protocol.
 - China is also negotiating a number of FTAs with its trade partners, such as the China–Norway FTA, China–Japan–Republic of Korea FTA, China–Gulf Cooperation Council FTA, and China–Israel FTA.
- On 16 September, China formally applied to join the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**, a trade

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agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

Politics & geopolitics

- The **US administration has stepped up efforts to crack down on Chinese companies** since Joe Biden took office in January.
 - On 12 March, US Federal Communications Commission (FCC) added five Chinese companies to a new blacklist, banning them from supplying equipment and services to the US government. Five days later, the FCC announced the launch of proceedings to determine whether to bar two Chinese telecommunications operators from the US.
 - On 3 June, US President Joe Biden signed a new executive order that would add 28 Chinese companies to a Trump-era investment ban on 31 Chinese companies. Then on 9 July, the US Department of Commerce added 23 Chinese companies to its Entity List, which prohibits these companies from buying certain US technologies and services.
- US Trade Representative Katherine Tai outlined the **Biden administration's new approach to the China-US bilateral trade relationship** on 4 October. Tai said that she would hold 'frank conversations' with her Chinese counterpart over the implementation of the phase one trade agreement. Tai confirmed that the US will restart the tariff exclusion process to allow US companies to seek exemption from certain tariffs on Chinese products. She also said that the US will seek a 'recoupling' with China, rather than a decoupling from China.

Infrastructure & environmental sustainability

- Chinese President Xi Jinping announced last year that China aims to bring its carbon emissions to a peak by 2030 and achieve **carbon neutrality** by 2060.
 - In response, some local governments have taken aggressive steps to curb carbon emissions. For example, Tangshan has

implemented stringent production curbs in the steel industry since March this year and later imposed similar output curbs on coking, cement, and other industries.

- Since July, the Chinese government has urged to put an end to 'campaign-style' carbon reduction efforts, such as a sweeping approach in shutting down energy-intensive projects and a sudden cut-off in loans to those industries.
- Since late August, around 20 provinces and autonomous regions suffered **disruptions in industrial production** due to the 'energy dual control' policy and power shortages.
 - The NDRC published on 17 August a record of the achievements in '**energy dual control**' targets (i.e., targets for total energy consumption and energy intensity) of all provinces for the first half of 2021. On 16 September, the NDRC released a plan to improve the 'energy dual control' policy and urged various provinces to meet the 'energy dual control' targets. A dozen provinces that had missed those targets in the first half of the year, such as the leading industrial provinces Guangdong, Zhejiang and Jiangsu, then adopted measures to curb industrial production and power supply in order to meet the targets before the year-end. For example, in Guangdong, factories were ordered to operate for two or three days per week only, and some energy-intensive manufacturers were even ordered to suspend production for a week in late September. In Zhejiang, at least 160 manufacturers mainly in the textile, dyeing and chemical fibre industries were requested to halt production from the night of 21 September to 26 September.
 - The booming industrial activity this year has led to surging demand for electricity; as a result, the prices of thermal coal have increased since March and risen rapidly since August. With coal prices at all-time high but electricity prices strictly controlled by the government, many coal-fired power plants have reduced their electricity

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output to avoid losses. The resulting **power shortages** have caused both planned and unplanned production interruptions in several provinces. Moreover, a lower-than-usual power supply from renewable energy sources has further exacerbated the power crunch. For instance, a sharp decrease in wind power output in Liaoning in late September caused the three provinces in Northeast China to resort to power rationing for not just industrial customers, but also residential users.

- The Chinese government has been responding fast to the power crunch, taking a slew of measures to ensure power supply, such as urging coal mines to raise output, encouraging coal-fired power plants to increase power generation, raising the cap on electricity prices, rationalizing the distribution of power across the entire power network, etc.

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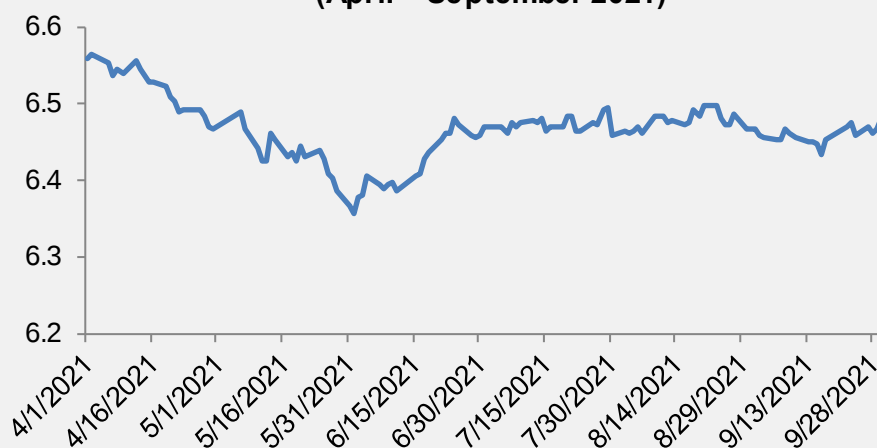
Macroeconomic data

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Quarterly GDP (real yoy growth %)	7.9 (2Q21)			4.9 (3Q21)		
Manufacturing PMI (seasonally adjusted)	51.1	51.0	50.9	50.4	50.1	49.6
Purchaser price index of industrial products (yoy growth %)	9.0	12.5	13.1	13.1	13.6	14.3
Producer price index of industrial products (yoy growth %)	6.8	9.0	8.8	9.0	9.5	10.7
Consumer price index (yoy growth %)	0.9	1.3	1.1	1.0	0.8	0.7
Exports (yoy growth %)	32.2	27.8	32.2	19.3	25.6	28.1
Exports (US\$ bn)	263.6	263.8	281.4	282.7	294.3	305.7
Of which:						
- Garments (US\$ bn)	11.1	12.2	15.1	16.6	17.6	16.7
- Footwear (US\$ bn)	3.0	3.4	4.0	4.3	4.7	4.3
- Toys (US\$ bn)	3.0	3.1	3.5	4.0	5.2	5.8
Imports (yoy growth %)	43.7	51.2	36.8	28.1	33.1	17.6
Imports (US\$ bn)	222.1	219.0	230.1	226.2	236.0	239.0

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

EXCHANGE RATES

USD:CNY official exchange rate
(April – September 2021)



Source: State Administration of Foreign Exchange

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Country & sourcing updates

Macroeconomic trends

- India's **exports** rose by 45.8% yoy to US\$33.3 billion in August 2021. Exports during the first five months of the current fiscal year (April 2021 – March 2022) jumped to US\$164.1 billion, as compared to US\$98.1 billion in the same period of the previous fiscal year.
 - **Imports** in August grew by 51.7% yoy and reached US\$47.1 billion. The country was a net importer for the month with a trade deficit of US\$13.8 billion.
- India's gross domestic product (**GDP**) in the April-June quarter grew by 20.1% yoy, driven by a deep-contracted (-24.4% yoy) base in the same period of 2020.
 - Manufacturing, construction, electricity and mining grew fast enough in the first quarter of the current fiscal year to offset the steep declines in the same quarter of last fiscal year.
- The seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index (**PMI**) rose from 52.3 in August to 53.7 in September, reflecting a strong expansion in overall business conditions across the manufacturing sector.
 - The second COVID-19 wave in India peaked at the beginning of May. Since then, stringent lockdown measures were reimposed. PMI dropped from 50.8 in May to 48.1 in June, the first time the country's manufacturing activities recorded a contraction after 11 months of growth.
- **Inflation**, as measured by the consumer price index, eased to a four-month low of 5.3% in August due to moderation in food prices. In contrast, the wholesale inflation rose marginally to 11.4% in August from 11.2% in July, remaining in double-digit growth for five consecutive months. The high rate of wholesale inflation is mainly due to the low base effect and the rise in prices of crude petroleum and natural gas,

mineral oils, manufactured products like basic metals, food products, textiles, chemical products, etc.

- During the first four months of the current fiscal year, **foreign direct investment (FDI)** inflows into India reached US\$27.4 billion, compared to US\$16.9 billion a year before. Investments remain crucial to the economic resurgence in India as COVID-19 caused income losses that triggered a reduction of private consumption, slowing economic recovery.
 - Total FDI consists of equity inflows, reinvested earnings and other capital. During the first four months of this fiscal year, FDI equity inflows surged by 112% yoy at US\$20.4 billion, of which, automobile industry accounted for 23% of total FDI equity inflows, followed by computer software and hardware (18%) and services sector (10%).
 - India became the fifth largest FDI recipient in the world in 2020. According to *the World Investment Report 2021* released in June by the UN Conference on Trade and Development (UNCTAD), even though 2020's global FDI flows were affected by the pandemic and crashed by 35% yoy, India managed to receive US\$64 billion in FDI in 2020, up by 27% yoy.
- The **Indian rupee** closed at 74.26 per US dollar on 30 September, depreciating by 1.62% since 1 January this year, according to the International Monetary Fund.

Policies & regulations

- In the Union Budget 2021-22 announced in February 2021, the government budgeted an outlay of 1.97 trillion Indian rupees for the **Production-Linked Incentive (PLI) scheme** for 13 key sectors. The PLI scheme is expected to increase the country's manufacturing outputs by US\$520 billion and double the workforce in the next five years. The first 3 PLI schemes and another 10 PLI schemes were approved in March 2020 and November 2020,

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respectively.

- The approved three key sectors include mobile manufacturing and specified electronic components, critical key starting materials/drug intermediates and active pharmaceutical ingredients, and manufacturing of medical devices. The other ten key sectors, approved last November, are automobiles and components, drug manufacturing, telecom and networking products, textiles (manmade fibres and technical textiles), food, solar photovoltaic modules, white goods (air conditioners and LEDs), specialty steel, electronics and advanced chemistry cell (ACC) batteries.
- Under the PLI scheme, cash subsidies will be provided to companies as a percentage of incremental sales of goods manufactured in India from the base year (i.e., the year when the scheme comes into effect). The percentage of the incentive will vary by sector, depending on the challenges faced accordingly.
- The PLI scheme is aimed at enhancing India's manufacturing capabilities, integrating India more deeply into global supply chains, attracting foreign investment in core and cutting-edge technology, and driving export-led growth. As part of the Modi administration's "Atmanirbhar Bharat Abhiyan" (Self-reliant India Campaign) for boosting the Indian economy amid the pandemic, the PLI scheme is expected to attract more manufacturing related investments in India, particularly in the sectors that rely heavily on imports.
- The textile and garment sector has broadly welcomed the **Union Budget** for the 2021-22 fiscal year 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 exports of man-made fibre products.
- The government, however, decided 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%, aiming at helping domestic raw cotton and silk growers. 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.
- The government has officially announced the **Plastic Waste Management Amendment Rules, 2021**, prohibiting certain single-use plastic items by 2022. Under the provision, the manufacture, import, stocking, distribution, sale and use of the single-use plastic (including polystyrene and expanded polystyrene) commodities shall be prohibited in a three-phase manner with effect from 1 January 2022. The current notification has not covered the export of single-use plastic items.
- To allow the reuse of plastic carry bag, with effect from 30 September, the thickness of plastic carry bags has been increased from 50 to 75 microns, and will be increased further to 120

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Country & sourcing updates

microns with effect from 31 December 2022. The provision of thickness will not be applicable to carry bags made of compostable plastic. Manufacturers/sellers of compostable plastic carry bags will have to obtain a certificate from the Central Pollution Control Board before marketing or selling.

- Plastic packaging wastes, which are not covered under the phase-out provision, shall be collected and managed in an environmentally sustainable way, as per the Plastic Waste Management Rules, 2016. Under the Extended Producer Responsibility Framework, producers, importers and brand owners have to take significant responsibility for the disposal of plastic wastes.

FTAs, trade preferences & facilitation

- The Indian government announced on 28 September 2021 that it would extend the existing **foreign trade policy (FTP)** for another six months till March 2022. The current FTP (2015-20) provides guidelines for boosting exports.
 - Under the FTP, the government offers incentives under various schemes, including Duty Free Import Authorization (DFIA) and Export Promotion Capital Goods (EPCG).
 - On 31 March 2020, the government had extended the FTP (2015-20) for one year till this March and further extended the FTP till this September, amid the COVID-19 lockdowns.
- The 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. On 17 August, the government has

announced the rates of tax refunds for 8,555 products ranging from 0.3% to 4.3%.

- This July, the government has also approved the continuation of the **Rebate of State and Central Taxes and Levies (RoSCTL) scheme** under which apparel exporters will continue to get a rebate on central and state taxes on their outward shipments till March 2024. The sectors covered under the RoSCTL scheme would not get benefits under the RoDTEP scheme. The maximum rates of rebate for garments and made-up textile articles (consisting of home textile products, such as bed linen, curtains, pillows and carpets, etc.) were 6.05% and 8.2%, respectively.
- The government has set aside 194 billion Indian rupees in total for refunds under the RoDTEP scheme (124.5 billion Indian rupees) and the RoSCTL scheme (69.5 billion Indian rupees) for the current fiscal year.
- India's Department of Revenue has launched a **new set of "rules of origin" regulations** – the Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 – effective from 21 September 2020. The new norms will impose stricter customs checks on imports of low-quality products and prevent the dumping of goods by a third country routed through one of India's free trade agreement (FTA) partner countries.
 - Under the new rules, in order to claim preferential rate of duty under any FTA, Indian importers are now required to demonstrate that the products have undergone a prescribed value addition in the countries of origin and maintain all supporting documents for at least five years from the date of filing the bill of entry. Previously, a Certificate of Origin (CoO) was sufficient.
 - The new rules impose significant obligations on importers. They may find it challenging to obtain business sensitive information/documentation from suppliers/exporters regarding the value

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content of a product (raw materials, components, other costs and profit margins, etc.)

- The Indian Union Cabinet on 20 April approved the **memorandum of understanding (MoU) signed with Bangladesh** on 27 March on the establishment of a framework of cooperation in the area of trade remedial measures.
 - India is the second largest trading partner of Bangladesh. The MoU, aims at promoting cooperation between the two countries around 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.
- 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.
 - 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.
- On 4 May, in a bilateral virtual summit, India and the UK unveiled a 10-year 'Comprehensive Roadmap 2030' to deepen bilateral ties. 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 FTA.**

- 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.

Infrastructure & environmental sustainability

- The Prime Minister announced in August that the country will **launch a 100-trillion-rupee national infrastructure plan** (US\$1.35 trillion) that will help generate jobs and expand the use of cleaner fuels to achieve the country's climate goals.
 - The infrastructure plan, named "Gati Shakti", will boost productivity of industries and the economy. The plan also aims at helping local manufacturers to compete globally.
 - The Prime minister has yet to announce the details of the plan.

INDIA

Macroeconomic data

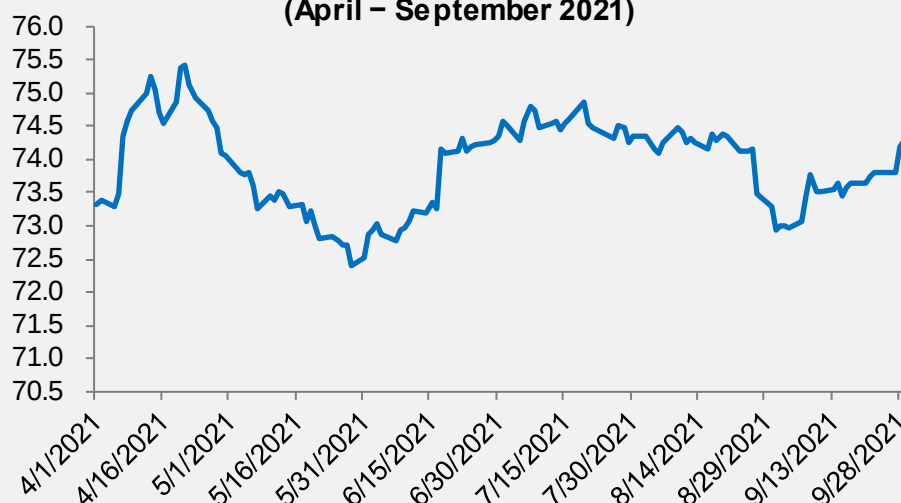
	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Quarterly GDP (real yoy growth %) ^	20.1 (1Q21)			—		
Index of industrial production (yoy growth %)	197.9	33.5	13.0	11.5	11.9	-
Manufacturing PMI (IHS Markit)	55.5	50.8	48.1	55.3	52.3	53.7
Wholesale price index (yoy growth %)	10.7	13.1	12.1	11.2	11.4	10.7
Consumer price index (yoy growth %)	4.2	6.3	6.3	5.6	5.3	-
Exports (yoy growth %)	195.7	69.4	48.3	49.8	45.8	-
Exports (US\$ mn)	30,625.1	32,268.8	32,497.7	35,427.9	33,276.9	33,794.8
Of which:						
- Knitwear (US\$ mn)	638.0	569.4	406.9	714.6	729.1	-
- Woven garments (US\$ mn)	660.0	538.0	596.4	674.5	508.6	-
- Footwear (US\$ mn)	164.4	144.2	187.8	215.0	221.4	-
- Furniture (US\$ mn)	194.5	183.3	208.6	249.2	228.9	-
Imports (yoy growth %)	167.1	73.6	98.3	63.0	51.7	85.9
Imports (US\$ mn)	45,722.4	38,550.9	41,871.9	46,401.3	47,085.5	56,388.4

^ 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

USD:INR spot rate
(April – September 2021)



Source: Bloomberg

INDONESIA

Country & sourcing updates

Macroeconomic trends

- In the second quarter of 2021, the Indonesian **economy** began to recover and grew by 7.1% yoy. Due to the spread of the Delta variant of COVID-19 in July, Bank Indonesia (BI) has announced in the same month to revise downward the country's economic forecast in 2021 to 3.5-4.3% from 4.1-5.1%.
 - Since August, the domestic economy has gradually picked up after the slowdown in July, along with improvements in several indicators, such as PMI, retail sales, and consumer expectations. The ease of restrictions following the improved COVID-19 situations in the country reactivate people's mobility and domestic economic activities.
 - In late September, BI predicted the economy will grow 5% in the third quarter and 4.5% in the fourth quarter of 2021.
- During January to August 2021, Indonesia's **exports** grew by 37.4% yoy. Export value in August 2021 reached US\$21.4 billion, up by 21.0% mom and 64.1% yoy, the highest ever since August 2011, when exports reached US\$18.6 billion.
 - The largest non-oil and gas export destinations in August were China at US\$4.8 billion, followed by the US at US\$2.3 billion and India at US\$1.7 billion. Exports to the three markets combined accounted for 40% of the total exports of the period.
 - The Indonesian government has been reorganizing the industrial structure to strengthen the export potential of industrial and high-tech industrial goods, consisting of iron, steel and automotive. According to the Trade Ministry, the growth of iron and steel exports in the first half of 2021 reflected that Indonesia is evolving from a raw and semi-processed materials production base to an industrial manufacturing country.
- The IHS Markit Indonesia Manufacturing Purchasing Managers' Index (**PMI**) surged to 52.2 in September from 43.7 in August, reflecting a return to expansion for the country's manufacturing sector following two consecutive months of contraction.
- **Investments** in Indonesia grew by 16.2% yoy to 223 trillion rupiah in the second quarter of 2021, according to the Investment Ministry/Investment Coordinating Board (BKPM). The investment comprised domestic investment at 106 trillion rupiah and foreign investment at 117 trillion rupiah, up by 47.8% yoy and 19.6% yoy, respectively.
 - Singapore, Hong Kong, the Netherlands, Japan and China were the top five foreign investors in Indonesia in the second quarter of 2021. The growth in foreign investment indicates that the international community have remained confident to invest in Indonesia.
- Indonesia's **annual inflation rate** edged up to 1.6% in September 2021, the highest since this May, though the rate is slightly below forecasts of 1.69%. The rise is mainly due to the increase in prices of housing and utilities, and transport, amid loosening COVID-19 restrictions.
- Since late August, the Indonesian rupiah has shown an appreciating trend against the US dollar – The rupiah closed at 14,084 per US dollar on 15 October, compared with 14,306 per US dollar on 31 August. The recent appreciation was attributed to a positive market response to President Widodo's latest decision to implement loosened restrictions on public activities in Java and Bali. The appreciation was also supported by the decreases in COVID-19 cases and hospital bed occupancy rate since August.

Policies & regulations

- In February 2021, Finance Minister revealed that the budget for the **National Economic Recovery Program (PEN)** in 2021 increased to 699.4 trillion rupiah from 688.3 trillion rupiah in last year's budgeted PEN. The 2021 budget is 21% higher than last year's PEN realization, which amounted to 579.8 trillion rupiah.

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Country & sourcing updates

- The PEN in 2021 will be spent on five major areas: health, social protection, priority programs, business incentives, and support for micro, small, and medium enterprises (MSMEs) and corporate financing. The PEN is expected to be an effective driving force for economic recovery.
- 186.8 trillion rupiah from the PEN budget was assigned to support MSMEs and corporations recover from the impact of the COVID-19 pandemic, including interest subsidies for MSMEs which amount to 32.0 trillion rupiah. 53.9 trillion rupiah from the PEN budget was apportioned to boost business incentives, including providing tax incentives to businesses.
- As of early July, realization of the PEN had reached 252.3 trillion rupiah, or 36.1% of the 699.4-trillion rupiah ceiling.
- In mid-July 2021, the government further raised the total budget for COVID-19 Handling and National Economic Recovery (PC and PEN) from 699.4 trillion rupiah to 744.8 trillion rupiah.

FTAs, trade preferences & facilitation

- **Indonesia and China signed a memorandum of understanding for the framework of direct settlement between the Indonesian rupiah and Chinese yuan** on 30 September 2020. Under the framework, which officially came into effect on 6 September 2021, Bank Indonesia and the People's Bank of China would promote the use of local currencies for trade and direct investment settlement.
 - In the past, exporters, importers, and investors were required to settle transactions by using US dollar and had to bear higher transaction cost and currency volatility risk. The direct settlement agreement marks a key milestone for trade and investment transactions between China and Indonesia and strengthens bilateral financial cooperation of the two countries.
 - Since 2018, Bank Indonesia has had a local currency settlement framework in place with Malaysia and Thailand respectively. It signed another currency framework with Japan last August.
- On 29 October 2020, the **US** government has officially **extended the Generalised System of Preferences (GSP) facilities for 700 Indonesian export categories**, after 2.5 years of the evaluation process and lobbying.
 - According to the US International Trade Commission, exports from Indonesia using the GSP facilities to the US in 2019 stood at US\$2.6 billion, or 13.1% of Indonesia's total exports to the US of the year. During the first eight months in 2020, Indonesia's exports to the US using the GSP facilities reached US\$1.9 billion, up by 10.6% yoy.
- In December 2020, Indonesia and Turkey agreed to **continue negotiations on the Indonesia-Turkey Comprehensive Economic Partnership Agreement (IT-CEPA)**, which is targeted for completion by 2021.

Industry & sourcing developments

- The government announced to **upgrade the Investment Coordinating Board (BKPM) to the Ministry of Investment** on 28 April. The decision is aimed at creating positive sentiment among domestic and foreign investors. The new ministry is expected to improve the ease of doing business in the country, attract investment and create jobs, which will be key drivers for economic recovery amid the COVID-19 pandemic.
 - The government has targeted a total investment realization of 900 trillion rupiah for 2021; the Ministry of Investment has formulated a strategy to **raise the investment target** to 5,000 trillion rupiah in 2024. The health sector is the top investment priority, followed by automotive, mining, infrastructure, and new and renewable energy.

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Country & sourcing updates

- The two countries commenced negotiations on the IT-CEPA in January 2018 in Jakarta. So far, both nations have concluded the fourth round of IT-CEPA negotiations held in January 2020 in Ankara, Turkey.
- Through IT-CEPA, Indonesia and Turkey agreed to boost the total bilateral trade value to US\$10 billion. Both countries have explored cooperation in the defence industry and the technology and industry sectors. They are currently discussing on several cooperation projects in the areas of shipping, agriculture and infrastructure.
- **Indonesia-Singapore bilateral investment treaty (BIT) came into force** on 9 March 2021 after both countries exchanged instruments of ratification. The treaty gives more certainty and confidence for Indonesian and Singaporean investors in both countries, as it provides more legal protection from discriminatory treatment and illegal expropriation.
 - Even before the BIT came into force, Singapore has been the largest foreign investor of Indonesia in 2020, with total investment worth US\$9.8 billion, significantly increased from US\$6.5 billion in 2019.
- On 9 April 2021, The House of Representatives **approved the draft for the Comprehensive Economic Partnership Agreement (IE-CEPA) between Indonesia and the European Free Trade Association (EFTA)**, which comprises Iceland, Lichtenstein, Norway and Switzerland.
 - The EFTA is the first European body to conclude a trade agreement with Indonesia. The IE-CEPA is expected to help Indonesia facilitate foreign investment from Europe and liberalise trade in goods and services.
 - According to the Indonesian Chamber of Commerce and Industry, the agreement will benefit several Indonesian industries, such as gold, nickel, crude palm oil, coffee, tea, footwear, fisheries products, wood furniture, webbing products and creative economy items.
- In 2020, value of exports from Indonesia to EFTA countries reached US\$2.5 billion, while Indonesia's imports from EFTA reached US\$882.5 million, recording a trade surplus of US\$1.6 billion for Indonesia. The major Indonesian exports to EFTA countries include optic fibres, gold, metal scraps, and jewelry. Meanwhile, Indonesia imports fish, watches, inks, and ammunition from EFTA countries.
- On 5 June 2021, **China and Indonesia inked a memorandum of understanding (MoU) to develop a comprehensive regional economic corridor and form a joint committee for the corridor.**
 - Under the newly signed MoU, the two parties agreed on enhancing cooperation in the fields of finance, maritime, investment, health care, etc. Moreover, the two countries agreed to further align the visions of the Belt and Road Initiative and the Global Maritime Axis.
 - The two countries will mutually support research and development in the vaccine industry. China will assist Indonesia to build a regional vaccine production hub.
- In June 2021, Indonesia and Canada launched a plan for **opening negotiations on the Indonesia-Canada Comprehensive Economic Partnership Agreement (ICA-CEPA)**. The ICA-CEPA is expected to generate trade and investment opportunities for both countries.
 - Canada is the 32nd largest export destination of Indonesia and the 16th largest origin of Indonesian imports. Bilateral trade between the two countries valued at US\$2.4 billion in 2020.
 - In the past five years, Canada has invested US\$718 million in the mining, hotel and restaurant, and logistics sectors of Indonesia. Amid the dynamic global geopolitical changes, the agreement is a strategic effort to strengthen cooperation between the two countries and create opportunities for greater penetration of

INDONESIA

Country & sourcing updates

Indonesian exports into North America.

- The agreement is also expected to support economic growth, trade and investment, and job creation for the two countries.

Infrastructure & environmental sustainability

- In November 2020, the province governor of West Java announced that Amazon will establish a data center for its cloud computing service in the province. The company will invest between US\$2.1 billion and US\$2.8 billion in the project.
 - In February 2021, Microsoft followed suit and announced to build its first data center in Indonesia. The plan is expected to create 60,000 jobs to the local economy over the next four years.
 - The latest investment plans by the two tech giants are expected to support local innovation, economic recovery and digital transformation in West Java and the entire country.
 - It is expected that Indonesia's digital economy would generate US\$124 billion in gross merchandise value in 2025, making it the largest digital market in Southeast Asia, according to a study conducted by Google in 2020. However, the study also mentions that the lack of digital talents is a persistent challenge facing the country.
 - West Java, home to 50 million people, is one of the most competitive provinces in attracting foreign and local investment. According to the province governor, West Java has more productive human resources and better infrastructure compared to any other region in the archipelago. Also, West Java will soon operate the first high speed rail in Southeast Asia, connecting Bandung and Jakarta, hopefully later this year or next year.
- In April 2021, a budget of 1.7 trillion rupiah for developing the new capital of Indonesia in East Kalimantan was allocated for this year.
 - The Indonesian government is hoping to perform the groundbreaking ceremony for the construction of the new capital city in 2021 and hold the commemoration of Indonesia's independence on 17 August 2024 at the new capital.
 - The new Indonesian capital will cover 256,000 hectares of land, of which 5,600 hectares will be reserved for the government use. The new capital, a planned smart and green city, is expected to attract investment and create up to 1.3 million jobs.
- South Korea's Hyundai Motor Group and LG Energy Solution started the construction of a US\$1.1 billion electric vehicle (EV) battery plant in Indonesia in September 2021. The plant is the first EV battery facility in Southeast Asia.
 - Nickel is a key material in the production of electric vehicle batteries. Indonesia has the world largest reserves of nickel, accounting for around 22% of the world total. In 2020, Indonesia produced 760,000 tonnes of nickel, accounting for roughly 30% of the world's nickel production.
 - According to the Indonesian government, this construction project is a manifestation of the commitment of the government to develop the downstream mining industry.
- Indonesia, one of the Paris Agreement signatory countries, is committed to cut its carbon emission by 29% from the business-as-usual scenario by 2030 and achieve zero-emission by 2060. The country is set to introduce a **new Carbon Tax Bill** by imposing a minimum tax of 30 rupiah (around US\$2.1) per metric tonnes of carbon dioxide equivalent (CO₂e) emitted. This is 60% lower than the original carbon tax proposed in June at US\$5.2 per metric tonnes CO₂e, which was opposed by industry associations.
 - According to the final draft of the Carbon Tax Bill, anyone purchasing goods or services that emit carbon in their production process would have to pay the carbon tax.

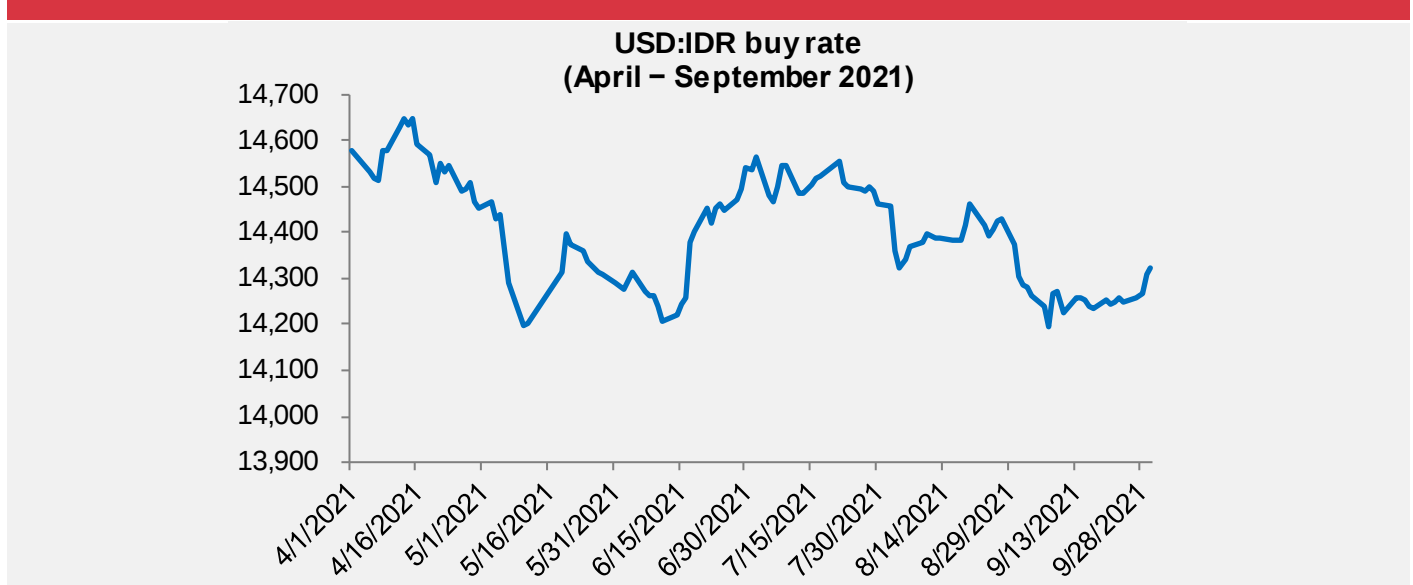
INDONESIA

Macroeconomic data

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Quarterly GDP (real yoy growth %)	7.1 (2Q21)			—		
Manufacturing PMI (IHS Markit)	54.6	55.3	53.5	40.1	43.7	52.2
Real retail sales index (yoy growth %)	15.6	14.7	2.5	-2.9	-2.1	-1.8
Consumer price index (yoy growth %)	1.4	1.7	1.3	1.5	1.6	1.6
Exports (yoy growth %)	52.0	62.0	54.4	29.3	64.1	47.6
Exports (US\$ mn)	18,490.7	16,932.9	18,542.4	17,713.1	21,427.1	20,604.4
Of which:						
- Textile and textile products (US\$ mn)	972.9	821.8	1,069.5	1,108.0	1,274.1	-
- Footwear (US\$ mn)	520.3	369.7	490.6	518.9	537.2	-
- Furniture (US\$ mn)	228.2	159.7	200.0	177.7	206.6	-
- Sports requisites (US\$ mn)	54.5	39.5	55.2	45.5	62.6	-
Imports (yoy growth %)	29.3	68.7	60.0	44.4	55.3	40.3
Imports (US\$ mn)	16,204.3	14,234.8	17,218.4	15,114.5	16,678.9	16,233.8

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

EXCHANGE RATES



Source: Bank Indonesia

PAKISTAN

Country & sourcing updates

Macroeconomic trends

- Pakistan's economy showed encouraging recovery in 2020-2021 fiscal year (July 2020 – June 2021, henceforth FY2021) with a **GDP growth rate** of 4.0% yoy; this is compared with a 0.4% contraction in the last fiscal year.
 - The positive momentum is expected to continue in the coming months given several indicators: the strong output improvements in the large-scale manufacturing industries (a 14.9% yoy increase in FY2021), an excellent export performance, the reopening of economic activities, and the acceleration of vaccination.
 - The Pakistani government has set its growth target for the 2021-2022 fiscal year (FY2022) at 4.8% and promised to continue with its stimulus packages, solve the electricity shortage problem, optimize the tax structure, and improve the business environment.
 - The Asian Development Bank (ADB) predicts Pakistan's economic growth for FY2022 at 4%, as private investment and business activities pick up with steady COVID-19 vaccine rollout and various economic stimulus measures.
- Pakistan's **exports** increased 18.1% yoy in FY2021 to US\$25.3 billion. In the first quarter of FY2022 (July - September 2021), exports increased by 27.3% yoy to US\$7.0 billion. However, as imports in the same period also surged 65.1% to US\$18.6 billion, trade deficit rose by 100% yoy to US\$11.7 billion in the period.
 - The country has recorded increases in exports to all major markets in FY2021: Pakistan's exports to the US was up 39% yoy to US\$5.2 billion; exports to China increased by 34% yoy to US\$2.3 billion; exports to Germany grew by 19% yoy to US\$1.5 billion; and exports to the Netherlands increased by 23% yoy to US\$1.2 billion.
 - The Commerce Ministry has set an export target of US\$38.7 billion for FY2022.
 - The surge of trade deficit in the first quarter of FY2022 was in part due to the large amount of vaccine imports in August and September.
- Net **FDI inflows** into Pakistan was US\$1,847.4 million in FY2021, a 28.9% yoy decrease from US\$2,597.5 million in FY2020. During July – August 2021, the first two months of FY2022, net FDI inflows decreased by 20.3% yoy to US\$203.1 million.
 - **China** continued to be the **largest foreign investor** in Pakistan during July – August 2021, with an investment of US\$53.9 million (accounting for 26.5% of the total value of net FDI flows into Pakistan), followed by the US (US\$32.2 million, 15.9% of total), and Singapore (US\$ 23.1 million, 11.4% of total).
 - In this period, the **power generation sector** (electricity, gas, steam, and air conditioning supply) attracted the highest FDI of US\$85.6 million (accounting for 42.2% of the total value of net FDI inflows), followed by the financial and insurance activities sector (US\$38.9 million, 19.1% of total), the manufacturing sector (US\$34.2 million, 16.8% of total), and the mining and quarrying sector (US\$29.7 million, 14.6% of total).

Policies & regulations

- In July, the Ministry of Commerce and the Trade Development Authority of Pakistan (TDAP) started to develop a coherent and comprehensive National Priority Sectors Export Strategy (**NPSES**) for Pakistan to achieve its trade growth ambition.
 - Ten priority sectors were chosen to develop implementable and measurable strategic plans to increase their export competitiveness in the global market. These included: engineering goods, leather, processed food and beverages, fruits vegetables, meat and poultry,

PAKISTAN

Country & sourcing updates

pharmaceuticals, software development and services, business process outsourcing, logistics, and institutional coordination.

- The State Bank of Pakistan introduced, as part of the COVID-relief stimulus package, the **Temporary Economic Refinance Facility** (TERF) in March 2020 to refinance the costs of new plant and equipment. TERF offers a very low interest rate on these loans to the industrial sector with the intent to foster industrial growth. The scheme expired on 31 March 2021 and about US\$3 billion had been availed by various industries to increase capacity, diversify product ranges, and for BMR (Balancing, Modernization and Replacement) of existing facilities. The TERF has been welcomed by the private sector as it took the successful model of export oriented LTFF (Long Term Financing Facility, historically benefiting mainly the textile sector) and extended it to all other sectors of the economy.

Industry & sourcing developments

- The textile industry is the **pillar exporting sector** of Pakistan, generally contributing about 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.
- During the period of July-August, the first two months of FY2022, textile and clothing shipments recorded a growth of 28.7% yoy to US\$2.9 billion.
- 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 surged 3.4 times to US\$6.7 million during July to August 2021 compared with the US\$1.5 million from the same period last year, but this only accounted for 3.3% of the total net FDI inflows in this 2021 period.

Labour & workplace compliance

- In May 2021, **Punjab province** announced to raise workers' **minimum wage** from 18,000 Pakistani rupee per month to 20,000 Pakistani rupees, becoming the first province in the country to raise minimum wage since July 2019.
- In June 2021, when unveiling the federal budget for FY2022, the Pakistani government announced the increase of the **country's monthly minimum wage** for all workers from 17,500 to 20,000 rupees, effective on 1 July.
- Meanwhile, the government of the **Khyber Pakhtunkhwa province** announced to increase its minimum wage for unskilled workers to 21,000 rupees, while Sindh provincial government sets its new minimum wage for unskilled workers at 25,000 rupees, up from 17,500 rupees, all effective on 1 July 2021.
- In March 2021, the Ministry of Commerce of Pakistan signed an agreement with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), a German development agency, 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 with up to €7,500,000 for a period of three years.

Politics & geopolitics

- Uncertainty brought by the changing regime in the neighbouring country of **Afghanistan** may affect the export performance of Pakistan, as well as foreign investors' confidence in Pakistan. The Afghan Taliban took over Kabul on 15 August with the withdrawal of US troops from the country and formed Afghanistan's caretaker government on 7 September. The impact on the Pakistani economy is so far mixed and observers need to watch closely on how the situation further unfolds in Afghanistan.

PAKISTAN

Country & sourcing updates

FTAs, trade preferences & facilitation

- Pakistan has signed **Bilateral Investment Treaties** (BITs) with 49 countries and 27 have entered into force.
- Pakistan has a **Trade and Investment Framework Agreement** (TIFA) in place with the US and has **free or preferential trade agreements** with China, Malaysia, Sri Lanka, Iran, Mauritius, and Indonesia. It is also a signatory of the South Asian Free Trade Agreement (SAFTA) and the Afghanistan-Pakistan Transit Trade Agreement (APTTA). A revised China-Pakistan Free Trade Agreement entered into force on 1 January 2020.
- In February, Pakistan approved a three-month extension of its decade-old Transit Trade Agreement with landlocked Afghanistan, allowing more time for the two sides to finalize and sign a revised version of the document, which are currently under review.
- Pakistan is negotiating free trade agreements with Turkey and Thailand.

Infrastructure & environmental sustainability

- This year, the Pakistan Customs has 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 the previous two to five days. The new system will be implemented at all international airports of Pakistan in the near future and will cover more sectors apart from the textile and pharmaceutical cargoes at the current stage.
- In April, the Private Power & Infrastructure Board revealed that the construction work of two large size **hydropower projects**, with an 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 the 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.
- 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.

PAKISTAN

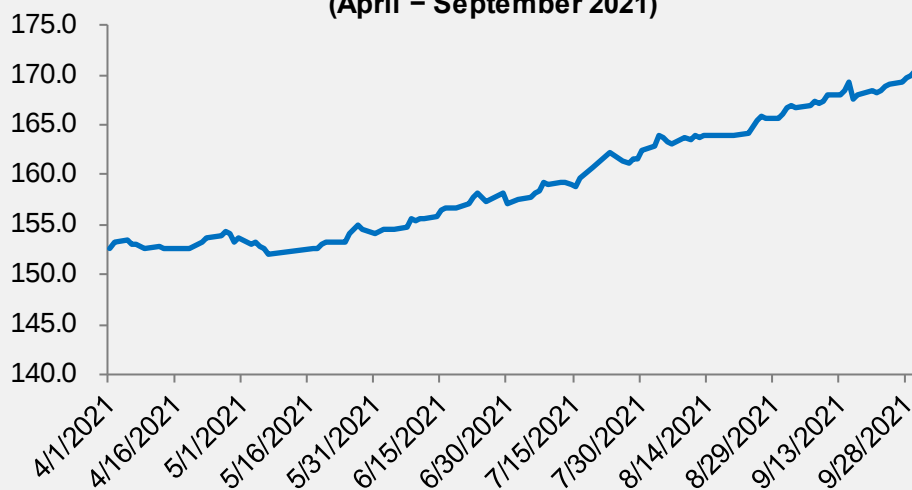
Macroeconomic data

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Quantum index of large-scale manufacturing (yoy growth %)	68.1	36.8	18.4	2.3	12.7	–
Consumer price index (yoy growth %)	11.1	10.9	9.7	8.4	8.4	9.0
Exports (yoy growth %)	132.2	19.7	73.1	16.9	41.9	27.7
Exports (US\$ mn)	2,217.8	1,670.8	2,768.0	2,339.8	2,247.7	2,410.0
<i>Of which:</i>						
- Garments (US\$ mn)	583.9	488.0	735.8	693.9	647.9	944.3
- Bed linen (US\$ mn)	239.5	181.0	299.0	263.3	264.8	275.2
- Sporting goods (US\$ mn)	25.8	19.6	30.2	26.4	24.1	27.3
Imports (yoy growth %)	63.6	85.8	69.7	51.7	98.9	53.5
Imports (US\$ mn)	5,242.1	5,307.6	6,286.0	5,575.0	6,593.3	6,595.0
Balance of trade (US\$ mn)	-3,024.3	-3,636.9	-3,518.0	-3,235.2	-4,345.6	-4,185.0

Source: Pakistan Bureau of Statistics

EXCHANGE RATES

USD:PKR weighted average customer buy rate
(April – September 2021)



Source: State Bank of Pakistan

PHILIPPINES

Country & sourcing updates

Macroeconomic trends

- The Philippine economy increased 11.8% yoy in the second quarter of 2021, the **highest growth** since the fourth quarter of 1988 and snapping five consecutive quarters of contraction.
 - The strong rebound in the second quarter was mainly due to the **low base** in the same period last year, during which GDP contracted by a record 16.9%. On a quarter-on-quarter basis, the economy in the second quarter of 2021 contracted by 1.3% due to strict lockdowns in April.
 - While the World Bank in September downgraded the Philippine's 2021 economic growth forecast from its June projection of 4.7% to 4.3%, the Asian Development Bank maintained its forecast for the country's GDP growth at 4.5% in 2021 and 5.5% in 2022 in its latest *Asian Development Outlook* report, citing the sustained growth in public infrastructure spending, improving consumer confidence, and progress in the national COVID-19 vaccination programme as supporting factors.
 - A new round of lockdowns in the National Capital Region and nearby provinces on 6-20 August to contain the spread of the more contagious COVID-19 Delta variant has not held back the growth in **manufacturing activities**. The Value of Production Index (VaPI) for manufacturing increased by 523.3% yoy in August 2021. This was the second highest annual growth rate in the 2018-based data series of VaPI after hitting its highest annual increase in the previous month at 528.7%. The growth of the Volume of Production Index in the period followed a similar trend. As mobility restrictions were slowly eased in September, the **IHS Markit Philippines Manufacturing Purchasing Managers' Index (PMI)** also rose back to 50.9, after a severe contraction of 46.4 in August. This uptick has been the strongest one since March 2021.
- As of 6 October, the country has completely vaccinated 22.6 million Filipinos, or 29.4% of its target population. The country's health officials were confident that the Philippines would be able to achieve its target of fully inoculating 50% to 70% of its target population by the end of this year.
- The Philippines' **exports** in the first seven months of 2021 increased by 20.0% yoy to US\$42.5 billion. In July alone, exports increased by 12.7% yoy to US\$6.4 billion.
 - **Electronic products** continued to be the country's top exports in July, with a total export value of US\$3.7 billion. This amount accounted for 57.4% of the total exports during the month.
 - Of the **top 10 major commodity** groups in terms of export value, nine recorded year-on-year increases, led by coconut oil (US\$124.7 million, up 207.7% yoy). This was followed by cathodes & sections of cathodes, of refined copper (US\$218.6 million, up 84.6% yoy), ignition wiring set and other wiring sets used in vehicles, aircrafts and ships (US\$194.5 million, up 28.6% yoy), and other manufactured goods (US\$389.6 million, up 27.5% yoy).
 - China replaced the US as the Philippines' largest **export market** in July, accounting for 16.1% of the total value of Philippine exports in the month, followed by the US (16.0%), Hong Kong (13.6%), Japan (13.2%), and Singapore (5.6%).
- The Philippine's net inflow of **foreign direct investment (FDI)** in the first half of 2021 increased by 40.7% yoy to US\$4.3 billion. Net FDI inflow in June 2021 rose by 60.4% yoy to US\$833 million. Approved FDI decreased by 32.9% yoy in the first quarter of 2021 but increased by 45.5% yoy in the second quarter. FDI performances in the first half of the year indicated an increased confidence of foreign investors in the Philippines' long-term economic prospects.

PHILIPPINES

Country & sourcing updates

Policies & regulations

- In July, the Bureau of Internal Revenue (BIR) **deferred the implementation** of Revenue Regulation 9-2021 that imposes a 12% value-added tax (VAT) on raw material purchases of exporting firms from domestic suppliers.
 - The regulation announced in June 2021 aims at compensating the government's revenue loss from the grant of fiscal incentives to exporters and cooperatives since 2019.
 - This deferral decision will provide relief to the export sector, which has already been suffering from supply chain disruptions brought about by the pandemic.
 - This is also good news to both local suppliers of raw materials and their workers. According to the Semiconductor and Electronics Industries in the Philippines Foundation Inc. (SEIPI), if the regulation was implemented, its members would have to divert their sourcing from home to abroad, which would result in an estimated job loss of 50,000 in the semiconductor and electronics industries alone in the country.
- On 1 July, the **Anti-Red Tape Authority (ARTA)** launched the **Philippine Good Regulatory Principles (PGRP)** that will serve as guidelines for regulators to make effective policies, improve administrative efficiency, but not add bureaucratic layers in governmental offices.
 - It is hoped that the launch of the PGRP, together with ARTA's other initiatives in the pipeline such as the Regulatory Assessment Impact (RIA) manual, the Philippines Business Regulation Information System, etc. would reduce regulatory burden and improve regulatory quality, thereby improving the business and investment environment in the country.
- On 19 May 2021, the Senate of the Philippines approved **amendments to the Retail Trade**

Liberalization Act (RTLA), or Senate Bill (SB) 1840. After the amendments, the minimum paid-up capital requirements for foreign retail enterprises have been reduced from US\$2.5 million to US\$1 million. The bill also removes the pre-qualification requirements for foreign retailers who have been engaged in the retailing industry for the past five years, or who have at least five retailing branches located anywhere worldwide.

Industry & sourcing developments

- In July 2021, the **exports of garment and accessories** decreased by 9.7% yoy to US\$71.3 million. However, in the first seven months of 2021, garment and accessories exports increased by 22.4% yoy to US\$420 million.
- In May, garment and furniture exporters asked the government to step in and address the **deteriorating shipping and logistics situation** in the country. The country's garment industry is losing millions of dollars due to the supply chain squeeze, according to Robert Young, Philippine Exporters Confederation, Inc. (PHILEXPORT) trustee for the textile sector. Exporters are facing transport issues, including vessel capacity constraints and surging freight prices, leading to cargo delays of two weeks to two months and revenue setbacks.
- In August, the Foreign Buyers Association of the Philippines (FOBAP) expected that garment exports of the Philippines would fall below the US\$1.4-billion projection for the year 2021 due to **disruptions from the pandemic-induced lockdowns and shipping space constraints**.

Labour & work compliance

- In June, President Rodrigo Duterte signed Executive Order No. 140 (EO 140), officially adopting the **National Employment Recovery Strategy (NERS)** as the Philippine government's master plan for the revival of the labour market. The President approved the NERS on 22 February during the 52nd Cabinet meeting and ordered the development of an

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Country & sourcing updates

executive order institutionalizing the plan and the task force.

- The EO 140 institutionalizes the 20-agency strong NERS Task Force that will implement the strategy until 2022 in response to the effects of the COVID-19 pandemic.
- EO 140 strengthens the NERS Task Force's implementation of its 8-Point Employment Recovery Agenda. First unveiled to the public during the TGER-NERS Job Summit on 1 May 2021, the 1.139-trillion peso plan is expected to generate at least 220,000 jobs and assist over 1.4 million Filipinos struggling with unemployment and income losses.
- According to initial figures gathered in June by the NERS Task Force secretariat and the Department of Labour and Employment (DOLE) - Bureau of Local Employment (BLE), 1.191 million Filipinos had received aid through the task force's Employment Recovery Agenda with around 2.232 billion pesos of its allocated 1.139 trillion pesos budget having been disbursed.
- The DOLE of the Philippines has issued the *Revised Rules and Regulations for the Issuance of Employment Permits to Foreign Nationals*, effective on 5 May 2021. Employers seeking to employ foreign national employees are required to follow new policies under the **Alien Employment Permit (AEP)** programme.
 - Beginning May 5, 2021, employers in the Philippines must publish job vacancies in a local newspaper at least 15 days before applying for an AEP.
 - Employers are required to submit a notarized affidavit to the DOLE Regional Office that proves no applications were received for the vacancy and no national of the Philippines was eligible for the position.

- After 5 May, foreign nationals working in the Philippines under a valid AEP who change employers or positions will be required to terminate their current AEP and apply for a new AEP under their new employer or updated position.

FTAs, trade preferences & facilitation

- In April 2021, Ramon Lopez, Secretary of the Department of Trade and Industry (DTI), sent a signed letter of intent to New Zealand, the depositary nation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (**CPTPP**), to formally express the Philippines' **interest in joining** this trade bloc, with the goal of building new relationships with countries outside its existing bilateral free trade agreements.
- On 30 March 2021, a memorandum of understanding (MOU) was signed to establish the **Joint Economic Cooperation (JEC) between the Philippines and Chile** to strengthen trade and investment ties between the two nations. It is the first JEC that the Philippines had with a South American country.
- The Philippines has been working with **India** on a preferential trade agreement (PTA) between the two countries since September 2020, and with South Korea on a bilateral FTA since 2019.

Infrastructure & environmental sustainability

- On 5 May 2021, the government launched the country's **artificial intelligence (AI) roadmap** that aims at making the Philippines an AI centre of excellence in the region. A private sector-led research centre, the National Centre for AI Research (N-CAIR), will be established under the national AI roadmap to be responsible for advancing scientific discoveries in AI and play a pivotal role in nurturing and developing AI talents and data science leaders.

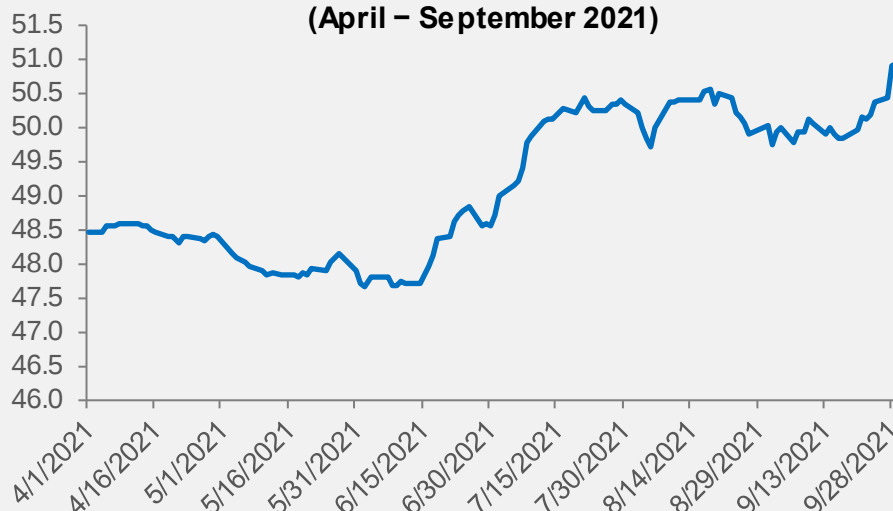
PHILIPPINES

Macroeconomic data

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Quarterly GDP (real yoy growth %)	11.8 (2Q21)			—		
Value of production index, manufacturing (yoy growth %)	145.5	248.1	444.6	528.7	523.3	—
Volume of production index, manufacturing (yoy growth %)	155.6	263.2	459.0	539.7	534.6	—
Manufacturing PMI (IHS Markit)	49.0	49.9	50.8	50.4	46.4	50.9
Producer price index for total manufacturing (yoy growth %)	-3.9	-4.1	-2.6	-1.7	-1.8	—
Consumer price index (yoy growth %)	4.5	4.5	4.1	4.0	4.9	4.8
Exports (yoy growth %)	76.8	30.8	18.8	12.7	17.6	—
Exports (US\$ mn)	5,870.5	5,941.5	6,573.9	6,421.1	6,466.0	—
Of which:						
- Woodcrafts and furniture (US\$ mn)	39.0	45.1	52.5	51.3	57.8	—
- Garments and accessories (US\$ mn)	42.0	47.6	79.3	71.3	81.5	—
- Travel goods and handbags (US\$ mn)	40.8	51.6	64.1	65.2	46.8	—
Imports (yoy growth %)	153.1	55.6	34.2	24.0	30.8	—
Imports (US\$ mn)	8,878.0	9,112.1	9,331.8	9,712.0	10,043.3	—

Source: Philippine Statistics Authority, IHS Markit PMI reports

EXCHANGE RATES

USD: PHP BSP reference rate
(April – September 2021)

Source: Bangko Sentral ng Pilipinas (BSP)

THAILAND

Country & sourcing updates

Macroeconomic trends

- Thailand's **GDP** increased by 7.6% yoy in the second quarter of 2021, from a low base in the same period last year when the economy contracted 12.1% yoy.
- The country's economic performance has shown signs of improvement, but successive waves of **COVID-19 outbreaks** bring huge **uncertainty** to the recovery. The World Bank cut Thai GDP growth outlook for 2021 to 1.0% in September, down from 2.2% projected in July, due to a spike in COVID-19 cases in August and a delayed reopening to visitors. The Bank of Thailand (BoT) in August further slashed its economic growth projection for this year to 0.7%, after cutting the forecast from 3.0% to 1.8% in July.
- The rate of contraction for Thailand's manufacturing sector eased in September according to the latest PMI data. **IHS Markit** Thailand Manufacturing PMI improved to 48.9 in September from 48.3 in August, but remained below the 50.0 neutral value for the fifth consecutive month, indicating lacklustre performance for Thailand's manufacturing sector.
- **Exports** of goods have provided substantial support to the Thai economy, driven by recovering global demand for automotive parts, electronics, machinery, and agricultural products.
 - In the first eight months of 2021, Thai exports grew by 15.3% yoy to US\$177.0 billion. In August, exports rose at a slower pace of 8.9% yoy to US\$22.0 billion, attributed to the government's tighter restrictions in July and August which had affected manufacturing and logistics systems. Still, it was the sixth consecutive monthly increase for Thai exports.
 - Key export products in the first eight months of 2021 included automotive (US\$27.4 billion, 15.5% of the total exports of the period), electronics (US\$26.9 billion, 15.2% of total exports), machinery and equipment (US\$14.8 billion, 8.3% of total exports), agriculture produce (US\$14.6 billion, 8.2% of total exports), and electrical appliances (US\$10.8 billion, 6.1% of total exports).
 - Key export markets in the same period included the US (US\$26.9 billion, 15.2% of total exports), China (US\$25.2 billion, 14.2% of total exports), Japan (US\$16.6 billion, 9.4% of total exports), Vietnam (US\$8.5 billion, 4.8% of total exports), and Hong Kong SAR, China (US\$7.6 billion, 4.3% of total exports).
 - The Thai National Shippers' Council (TNSC) maintained its forecast in October for Thai export growth of 12% in 2021 to US\$260 billion. It believes that an economic recovery and rising demand in major trading partners such as the US, China, the EU and Japan would support Thailand's export growth, while mass vaccination progress has resulted in greater public confidence around the world in the resumption of economic activities.
- Applications for **investment projects** increased in the first half of the year comparing with the same period last year, reflecting the confidence of foreign investors in the country's economy.
 - In the first half of 2021, the total number of domestic and foreign investment applications increased 14% yoy to 801 with a total value of 386.3 billion baht, a 158% increase from 149.8 billion baht in the same period last year.
 - The investment pledged were mainly in the electrical appliances and electronics sector (77 projects, 61 billion baht), the medical sector (47 projects, 43 billion baht), and the petrochemicals and chemicals sector (43 projects, 28.2 billion baht).
 - Foreign direct investment (FDI) project applications during the first half of 2021 decreased 6.2% yoy in number to 403 but surged 287.6% yoy in value from 71.9 billion

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Country & sourcing updates

baht to 278.7 billion baht.

- Japan ranked first as the largest foreign investor during the period, with 87 projects worth 42.8 billion baht; followed by the US, with 18 projects worth 24.1 billion baht; and China, with 63 projects worth 18.6 billion baht.

Policies & regulations

- In March, the Thai Cabinet approved **financial measures** worth 350 billion baht to help business cope with the impact of the COVID-19 pandemic, including 250 billion baht of soft loans provided by the central bank and 100 billion baht for the 'asset warehousing' scheme to assist debtors who are unable to service their loans.
- In June, the Thai Cabinet approved 140 billion baht for **COVID-19 relief measures**, including cash handouts and co-payment subsidies. Money for the relief package will be drawn from the 1.1-trillion-baht programme of borrowing agreed last year to combat COVID impacts. The Finance Ministry said this package will cover 51 million people and help sustain purchasing power and support the economy in the second half of 2021.
- On 24 August, the Council of Ministers of Thailand approved the extension of the **7% value-added tax (VAT)** rate for another two years until 30 September 2023, to help reduce the financial burden of consumers, enhance business confidence and boost economic recovery. The 7% tax rate, which has been extended several times, was set to expire on 30 September this year.

Industry & sourcing developments

- In the first eight months of 2021, Thai exports of textile and apparel increased by 10.8% yoy to US\$4.3 billion. Textile and apparel is not a key export sector of Thailand, but Thailand is one of a few countries in the world that provides the **whole value chain of the textile 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.

Labour & workplace compliance

- A series of COVID-19 relief measures were announced by the government to provide financial support to employers and employees affected by the continued rise in COVID-19 infections. Key measures include the following:
 - **THB 2,000 Cash Transfer** – Eligible employees of private operators who registered with the Social Security Fund will receive an additional payment of 2,000 baht, in two weekly instalments of 1,000 baht each, through the government's Pao Tang e-wallet application.
 - **Low-interest Loans** – Low-interest loans are offered by the Government Savings Bank and Bank of Agriculture and Agricultural Cooperatives to people who receive regular income (e.g. employees of private operators), self-employed people, and farmers until 31 December 2021. The interest rate is fixed at 0.35% per month with a maximum loan period of three years. The first six instalments are also interest free and the borrower is not required to repay during this period.
 - **Reduction of the contribution rate to the Social Security Fund ('SSF')**. On 18 May 2021, the Thai Cabinet approved in principle the draft Ministerial Regulation regarding the Contribution Rate to the SSF ('Ministerial Regulation'). According to the Ministerial Regulation, the monthly contribution rates of the employers and the employees to the SSF will be reduced from 5% to 2.5% of wage applicable for the period between 1 June 2021 and 31 August 2021.

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Country & sourcing updates

- Reduction of the contribution rate to the **Skill Development Promotion Fund** ('Fund'). On 7 May 2021, the Ministry of Labour issued the *Notification regarding the Contribution Rate and Method for Collecting the Contributions to the Fund to Alleviate the Hardship of Business Operators Affected by the COVID-19 Outbreak* ('Notification'). According to the Notification, effective from 1 January 2021 onwards, the contribution rate is reduced from 1.0% to 0.1% for 2021.
- Director-general of the Trade Negotiations Department said in July that Thailand aims to conclude talks on a free trade agreement (FTA) with **Pakistan** by the end of this year. The first round of negotiations between the two countries took place in September 2015 and nine rounds of talks have been conducted in the following years, resulting in a conclusion of 12 chapter out of a total of 13 chapters of the agreement. The remaining issues pending negotiations include customs protocol, trade facilitation, as well as related regulations regarding market access.

FTAs, trade preferences & facilitation

- Thailand is actively forming **mini free trade agreements** (mini-FTA) with regions in other countries as a key policy to boost trade, investment, and economic cooperation. The Thai government signed on 9 July 2021 a memorandum of understanding (MoU) to form a 'mini-FTA' with Kofu city of Japan. In addition, Thailand is making efforts to clinch the deals to form deeper trade partnerships through 'mini-FTAs' with China's Hainan province, India's Telangana state, and Korea's Gyeonggi province.
- 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. However, it should be noted that the enforcement of the RCEP depends on the ratification progress of the other RCEP member countries, as it requires at least six ASEAN countries and three non-ASEAN countries to ratify the pact before the RCEP will officially enter into force.

Infrastructure & environmental sustainability

- A project initiated by the Hong Kong Monetary Authority and the Bank of Thailand was ranked first by the 'PwC Global CBDC Index 2021' for **interbank/wholesale central bank digital currency** development.

THAILAND

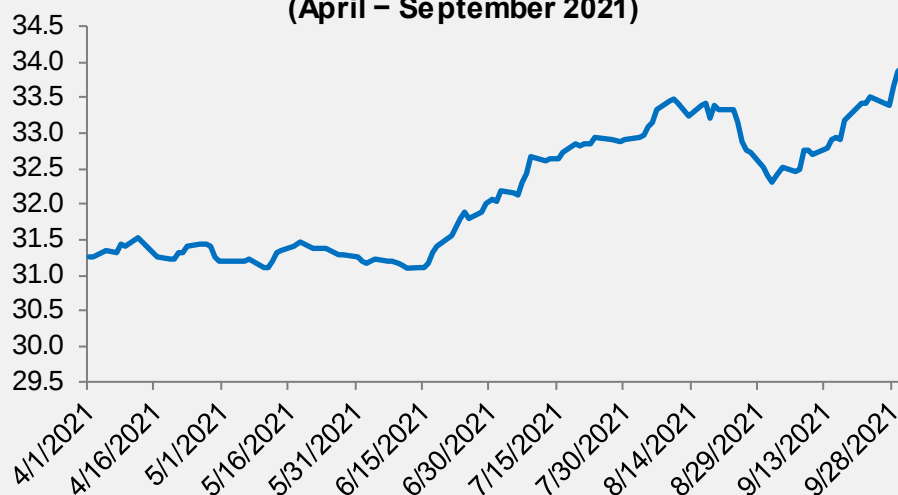
Macroeconomic data

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Quarterly GDP (real yoy growth %)	7.5 (2Q21)			–		
Industrial production index (value added weight, not seasonally adjusted, yoy growth %)	18.0	25.7	18.3	3.9	-4.2	–
Manufacturing PMI (IHS Markit)	50.7	47.8	49.5	48.7	48.3	48.9
Producer price index, manufactured products (yoy growth %)	4.7	5.7	5.7	5.6	5.5	6.1
Consumer price index (yoy growth %)	3.4	2.4	1.3	0.5	-0.02	1.7
Exports (yoy growth %)	13.1	41.6	43.8	20.3	8.9	-
Exports (US\$ mn)	21,429.3	23,057.9	23,699.4	22,650.8	21,976.2	-
Of which:						
- Textiles and apparel (US\$ mn)	529.3	525.0	573.4	551.9	527.4	-
- Furniture (US\$ mn)	133.3	139.6	153.9	145.2	135.6	-
- Footwear (US\$ mn)	41.4	52.3	54.2	49.3	44.0	-
Imports (yoy growth %)	29.8	63.5	53.8	45.9	47.9	-
Imports (US\$ mn)	21,246.8	22,262.0	22,754.4	22,467.4	23,191.9	-

Source: National Economic and Social Development Council, Office of Industrial Economics, Bank of Thailand, Ministry of Commerce, IHS Markit PMI reports

EXCHANGE RATES

USD: THB mid-rate
(April – September 2021)



Source: Bank of Thailand

TURKEY

Country & sourcing updates

Macroeconomic trends

- **Exports** – For the first time, Turkish monthly exports have exceeded US\$20 billion in September 2021. August was also another record month, with export sales increasing 52% yoy to US\$18.9 billion, which also exceeded pre-pandemic performance with an increase of 43% versus August 2019. The January to August export performance increased by 37% yoy to US\$140.2 billion; and compared to the same period in 2019 was a 20% increase. 2021 export figures are forecasted to be approximately US\$211 billion, surpassing the original target of US\$184 billion and exceeding the 2022 target of US\$198 billion.
 - Turkish government policies were a factor for the impressive export performance as the government had assisted firms to expand production capacity and had even made exemptions for factory closures during the nationwide pandemic lockdowns, which allowed manufacturing to continue operations.
 - The textile industry aims to export US\$12 billion for 2021, with a target growth of US\$2 billion this year, up from 2020's US\$9.7 billion. The textile industry is of upmost importance to Turkey, with textile products exported to more than 200 countries; the industry sustains employment for more than one million people; furthermore, it is also a top-ranking provider of trade surplus and foreign exchange earnings.
- **GDP** – The economy grew to US\$765 billion in the second quarter of 2021 with a substantial increase of 21.7% compared with the same April-to-June period of 2020. These impressive figures signal strong recovery following an upwardly revised 7.2% yoy growth in the first quarter of 2021. The Turkish government's official 2021 full year GDP forecast is a growth of 5.8%, but recently some top government officials said the full-year growth could be over 8%, with current unparalleled growth momentum in services (growing at approximately 46% yoy), industrial production (approximately 41% yoy), and household consumption (approximately 23% yoy).
 - Turkey has put tremendous effort into fighting COVID-19 throughout 2021, including the implementation of curfews, social distancing rules, temporary business closures, and even a nationwide lockdown in April and May. The country is getting closer to the possibility of mass immunity with over 112 million vaccine doses already administered. In terms of vaccine supply, the first domestically created jab, Turkovac, has been approved as a booster shot for those who already have received two doses of the China-made CoronaVac. These various measures have led to a robust V-shape economic recovery.
- **PMI** - With drops in daily COVID-19 cases from the height of 50,000 in mid-April and relaxation on restrictions, economic activity has increased with the headline Purchasing Manager's Index (PMI) for August and September coming in at 54.1 and 52.4, respectively. A figure above 50 shows growing manufacturing activities, such as new orders and expanded hiring. The PMI index for Turkey has been above 50 for four consecutive months since June 2021.
- **FDI** - Foreign direct investment (FDI) inflows in Turkey amounted to US\$3.35 billion in the period of January to May, representing a 13% increase yoy.
 - In June 2021, the Investment Office of the Presidency of Turkey released 'Turkey's Foreign Direct Investment (FDI) Strategy (2021-2023)', a roadmap for attracting value-added, knowledge-intensive investments and increasing Turkey's share in global direct investment to 1.5% by 2023. President Erdogan wishes to position the country as "a production, export and management center." The country sits between three continents making it an attractive location as an alternative to Asian-based manufacturing locations. 11 strategies and 72 actions have been designed to achieve Turkey's FDI target.

TURKEY

Country & sourcing updates

- **Inflation** – Turkey's inflation rate increased to 19.6% in September, the highest level in two years after the Central Bank of the Republic of Turkey (CBRT) cut the policy rate to 18% from 19%, in its first monetary easing since May 2020. The CBRT's governor has emphasized that the policy is tight enough and he expects a cooling of prices in the fourth quarter. There has been pressure from the Turkish President's office for monetary easing in order to continue economic stimulus support. Annual inflation rates are expected to decrease to 16.2% by end of 2021 and 9.8% by end of 2022, according to government forecast.
 - In the last two and a half years, the Turkish President has replaced four CBRT governors, the last of which increased interest rates. The current governor has previously maintained rates at 19% since March 2021, before September's rate cut.
 - Recent inflation has also been driven by increase in consumer demand after a nationwide pandemic lockdown was lifted, high international commodity prices, as well as a depreciated currency which has kept import prices high.
- **Turkish lira** – In September the Lira depreciated to an all-time low against the US dollar as the CBRT cut interest rates by 100 basis points to 18%. As of 24 September, the Lira closed at 8.8995 per US dollar, weakening from a three-month high of 8.3. There are continuing concerns regarding further rate cuts, high inflation and the CBRT's autonomy; on the other hand, the devaluation of the Lira has made the Turkish export industry much more competitive, contributing to the outstanding Turkish export performance so far this year.
 - and has 98 "Actions and Projects" aligned with these targets to be implemented within a certain timeline; the actions range from facilitation of trade and export, to establishing Foreign Logistic Centers, expanding upon current preferential trade agreements, and developing domestic innovative technologies, etc.
 - GDP targets in current prices set by the MTP are US\$735 billion (growth 5.8%) for 2021; US\$801 billion (growth 5%) for 2022; and US\$875 billion (growth 5%) for 2023.
- **Employment** - In July 2021, the government lifted layoff bans and ended a government wage support program, both implemented since early 2020. The wage program partially covered the wages from workers whose hours were decreased over the course of the pandemic. Approximately US\$4 billion was supplemented to over 3.7 million workers from 506,611 firms over 15 months.
 - The measures were aimed to cushion the effects of COVID-19 by supporting businesses and employees across different industries, while containing unemployment rates. Some experts indicate ending the two measures could lead to an increase in unemployment. Turkey's unemployment rate rose to 12.0% in July and 12.1% in August, up from 10.6% in June.
- On 24 June, The Union of Municipalities of Turkey (TBB), the European Bank for Reconstruction and Development (EBRD), and the International Labor Organization (ILO) signed a memorandum of understanding (MoU) to advance childcare access which will allow for more women to join the labour force.
 - As reported, one of the main reasons for the lower women's participation in the Turkish labour force is the unequal sharing of childcare responsibilities. Moreover, the pandemic has forced many women to leave the workforce because childcare services were unavailable

Policies & regulations

- **The New Economy Program 2021-2022-2023**, also known as the Medium Term Program (MTP), was published on 5 September and highlighted the economic transformation and growth plan for the next three years. The MTP sets economic targets,

TURKEY

Country & sourcing updates

The MoU is aimed to encourage women's employment and improve gender equality through scaling up accessible, quality, and affordable early childhood care and education services in the country. More workers in the labour force will also help support industrial development and bolster economic growth.

to expand the original agreement further to encompass investments and services. The talks and negotiations would commence in 2022.

- As part of a movement to boost exports and attract foreign capital, Turkey is building a new generation of expanded FTAs. In the Asia-Pacific region, FTA negotiations are currently taking place with Japan, Thailand and Indonesia; in Eastern Europe, with Georgia, Moldova and Ukraine; in Latin America, with Peru, Ecuador, Colombia and Mexico.

Industry & sourcing developments

- The Turkish government has approved the construction of Kanal Istanbul, a canal which will connect the Black Sea to the Marmara Sea and will cost approximately US\$15 billion. The 45km canal is intended to reduce congestion and accidents in the Bosphorus Strait, which is currently one of the busiest waterways in the world with an average waiting time of about 14 hours for normal vessels. According to the Minister for Transport and Infrastructure, the profits from Kanal Istanbul will be able to cover the estimated construction cost within 12 years after the canal is completed.
- The Turkish Exporters Assembly (TIM) has established the TIM Brand Council and coined the concept of TURQUALITY, a combination of Turkey and quality. It is 'the world's first and only state-supported branding program', designed to boost the image of Turkish products.
 - The new council will be the gatekeeper as Turkey strives to maintain quality for branded exports and to elevate export unit value. 178 product exporters and 22 organizations from the service sector have joined the program.

FTAs, trade preferences & facilitation

- The US\$25 billion worth free trade agreement (FTA) with the UK became effective on 1 January 2021, as the transition period of the UK's access to the EU's Single Market and Customs Union ended on 1 January 2021. Trade volume between the two countries increased to US\$9.95 billion in January to July 2021, up by 36.5% compare to the same period in 2020. There are already aims from both countries

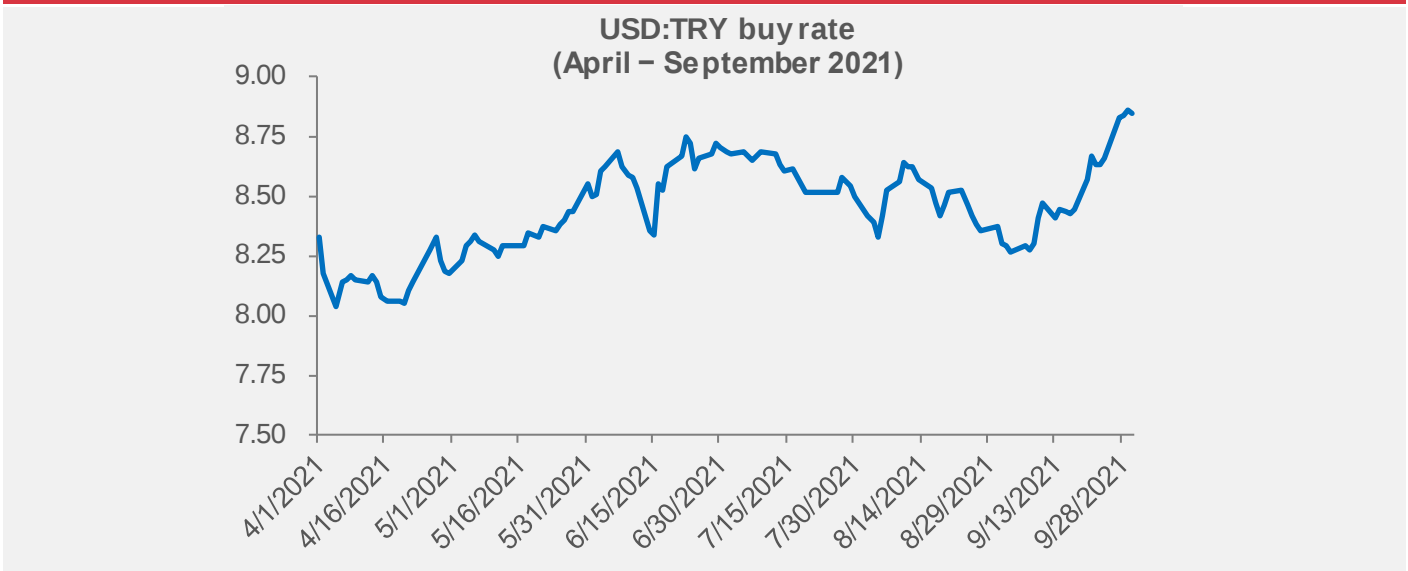
TURKEY

Macroeconomic data

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Quarterly GDP (real yoy growth %)	21.9 (2Q21)			—		
Industrial production index, manufacturing (yoy growth %, 2015=100)	72.5	43.0	25.1	7.9	-	-
Industrial turnover index, manufacturing (yoy growth %, 2015=100)	122.2	99.8	78.6	54.6	-	-
Manufacturing PMI (Istanbul Chamber of Industry)	50.4	49.3	51.3	54.0	54.1	52.5
Producer price index (yoy growth %)	35.2	38.3	42.9	44.9	45.5	44.0
Consumer price index (yoy growth %)	5.5	6.4	8.5	10.4	11.7	13.0
Exports (yoy growth %)	109.0	65.3	46.7	10.0	51.9	-
Exports (US\$ mn)	18,761.5	16,460.9	19,750.7	16,373.0	18,916.2	-
Of which:						
- Knitwear (US\$ mn)	827.2	706.4	967.3	937.2	967.6	-
- Woven garments (US\$ mn)	631.3	478.4	666.1	631.7	621.3	-
- Furniture (US\$ mn)	417.9	337.3	439.6	348.8	388.2	-
Imports (yoy growth %)	61.1	54.0	38.7	16.8	23.6	-
Imports (US\$ mn)	21,841.5	20,626.6	22,625.7	20,691.4	23,175.3	-

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

- Vietnam's **exports** in September stood at US\$27 billion, down slightly by 0.6% yoy – the second consecutive month reporting a decline in export. The export figure from January to September, however, was up by 18.8% yoy to reach US\$241 billion.
 - The US remained the largest export destination for Vietnam, with exports valued at US\$70 billion, up by 27.6% yoy. It was followed by China (US\$39 billion, up by 18.3% yoy), and the EU (US\$29 billion, up by 11.6% yoy).
- Vietnam's **economy** contracted by 6.2% yoy in the third quarter of 2021 due to the severe disruption from a new wave of COVID-19; overall, the GDP in the first nine months of 2021 grew by 1.4% yoy.
 - In September, the Asian Development Bank (ADB) has cut its 2021 growth forecast for Vietnam from 6.7% to 3.8%, due to the latest COVID-19 lockdowns. The ADB has also revised downward its 2022 growth forecast for Vietnam to 6.5%, even assuming that the pandemic will be brought under control by the end of 2021 and full vaccination will cover 70% of the country's population by the second quarter of 2022.
- The **index of industrial production (IIP)** in September 2021 dropped by 5.5% yoy, due to the negative impact of the COVID-19 pandemic. Vietnam's **Purchasing Managers Index (PMI)** plunged to 40.2 in August, the lowest level since May 2020, showing a serious decline in Vietnam's production. The PMI remained at 40.2 in September.
- **Consumer price index (CPI)** stood at 1.8% yoy for the first nine months of 2021, the lowest increase for the same period since 2016. The September CPI edged down by 0.6% mom and grew by 2.1% yoy. The monthly drop in CPI was mainly due to the reduction in rental prices, tuition fees and electricity prices under social distancing measures, and stable food supplies that had lowered food prices.
- In the first nine months of 2021, Vietnam attracted **foreign direct investment (FDI)** of US\$22 billion, up by 4.4% yoy. The investment went into 18 sectors, of which, manufacturing and processing industries took the lead with US\$11.8 billion, accounting for 53.4% of the total FDI.
 - Singapore was the largest investor, accounting for 28.4% of total FDI at US\$6.3 billion, followed by South Korea with US\$3.9 billion and Japan with US\$3.3 billion.
 - According to the *World Investment Report 2021* released by the UN Conference on Trade and Development (UNCTAD), Vietnam ranked 19th in the world as FDI recipient in 2020, with an FDI inflow of US\$16 billion.
- In the third quarter of 2021, Vietnam's **unemployment rate** increased to 3.7%, the highest level since early 2020. The unemployment rate during the first nine month this year stood at 2.9%.
 - Vietnam's economy witnessed a serious decline in the number of employed people for the first time in 10 years. A survey showed that the average labour force of the entire country was 54.84 million people in 2020, down 924,000 people from the previous year. Over 41.6 million people, around 76% of the labor force, were untrained and haven't achieved a certain level of technical expertise.

Policies & regulations

- Foreign-invested enterprises (FIEs) in Vietnam tend to recruit **high-skilled talents** from overseas, as local workers cannot meet the requirements of FIEs. According to the current **Labour Code** in Vietnam, enterprises shall be entitled to hire foreign workers only in the positions of managers, executive directors, experts and technical workers, in which Vietnamese workers cannot fulfill the demands for production and trade.

VIETNAM

Country & sourcing updates

- Despite being an attractive destination for **overseas workers**, Vietnam has set certain policy barriers on the recruitment of foreign employees. For instance, Decree No.152/2020/ND-CP, effective on 15 February this year, added provisions that make it difficult for businesses to apply for new work permits for foreign experts.
- According to the Ministry of Labour, Invalids and Social Affairs (MoLISA), there were 101,550 skilled workers from over 110 countries and territories around the world working in Vietnam in April 2021. 12% of these foreign workers are managers, 8% are managing directors, and 58% are experts.
- The Vietnamese government issued Decree No.18/2021/ND-CP (hereafter 'Decree 18') on 11 March, amending a previous 2016 decree (No.134/2016/ND-CP) to implement the **Law on Export and Import Taxes**. Decree 18 aimed to create favourable conditions for import-export activities, attract investment, promote high value-added export production, and enhance national competitiveness.
 - Decree 18, effective on 25 April, made some changes to the 2016 version. For example:
 - On-spot exported goods are ineligible for export taxes exemptions.
 - On-spot imported goods are subject to most-favoured-nation (MFN) preferential import tax rates.
 - On-spot imported goods from non-tariff zones to the domestic market will be applied MFN preferential import tax rates, FTA special preferential tax rates or normal import tax rates.
 - On-spot imported goods under processing model are exempt from import duty if the required conditions are satisfied.
 - On-spot imported goods under other models are subject to import duty and will be able to get refund when being exported to overseas or non-tariff zones.
 - According to local practitioners, Decree 18 is intended to target local material suppliers but now has affected 95% of garment and footwear firms. Instead of sourcing local materials and investing in local material production, companies would purchase materials from overseas to avoid additional taxes.

Industry & sourcing developments

- Due to the new wave of COVID-19 pandemic since mid-2021, nearly 35% of textile and garment factories in Vietnam were shut down, according to the Vietnam Textile and Apparel Association (VITAS). During January to September, Vietnam's **garment exports** reached US\$23.5 billion, up by 5.8% yoy; however, the **export earnings** of the sector in September plunged by 18.6% yoy to US\$2.4 billion.
 - According to a report released by VITAS in early October, Vietnam's textile and garment exports may not reach the export target of US\$39 billion in 2021. Instead, the exports of the sector may reach about US\$37.5-38 billion, provided that the COVID-19 Delta variant is under control by early October. However, if the pandemic situation is still unresolved by early December, the export forecast may further decrease to US\$33.5-34 billion.
 - According to the *World Trade Statistical Review 2021* released by the World Trade Organization (WTO) in July, Vietnam has surpassed Bangladesh and become the world's second largest readymade garment (RMG) exporter, with China holding first position, in 2020. The share of Vietnam in global RMG exports reached 6.4% in 2020 with a market value of US\$29 billion, up from the 6.2% share a year earlier.

VIETNAM

Country & sourcing updates

Meanwhile, Bangladesh's share in the global RMG market slid to 6.3% in 2020 from 6.8% in 2019.

- According to US-based media, Furniture Today, Vietnam has overtaken China as the **largest exporter of wooden furniture to the US** in 2020. Despite the COVID-19 disruptions, Vietnam shipped over US\$7.4 billion of furniture to the US in 2020, up by 31% yoy. In comparison, China's export value of furniture to the US was US\$7.3 billion, down by 25% yoy.
 - In the first nine months of 2021, Vietnam's exports of wood and wooden products to the rest of the world surged by 30.9% yoy to US\$11 billion. The major export destinations include the US, Japan, China, the EU and Korea, accounting for over 90% of the total export value of wood and wooden products.
 - Sales of Vietnamese wooden products have enjoyed robust growth in recent years, especially after the US government imposed an additional 25% tariff on almost all furniture categories exported from China.
- **Texhong**, a Chinese yarn company, is relocating its production line to Vietnam by implementing a US\$500 million investment plan in Vietnam this year.
 - The establishment of Texhong knitting Vietnam Ltd. will be part of the plan. The new company will have an annual production capacity of 82,500 tonnes. The first phase of the company will become operational in late 2021.
 - Most of Texhong's cotton supplies have been reportedly sourced from Xinjiang. Under the US boycott of cotton items originating in Xinjiang, the company is facing risk of order cancellations by US buyers. The establishment of a new manufacturing facility in Vietnam may help the company solve the origin issue of its garment products.
- Taiwan's **Hon Hai Technology Group (Foxconn)**, the major contract manufacturer of Apple Inc., recruited 1,000 electronic assembly workers for its plants in the northern Vietnamese provinces of Bac Giang and Bac Ninh in early 2021.
 - According to The Economist Intelligence Unit, Vietnam continues to be an attractive option for manufacturers and those seeking to diversify their supply chains in Asia. Vietnam has become a big electronics production base in the world, and an increasing portion of foreign invested projects in Vietnam register in the technology-based sectors.
 - However, Vietnam mainly undertakes the assembling stage, which brings the lowest value-added to the global supply chain. The overseas manufacturers, when coming to Vietnam, usually bring in satellite enterprises and do not use local vendors. In order for local enterprises to join the global supply chains, they must strive to become vendors of large global manufacturers.

FTAs, trade preferences & facilitation

- In December 2020, Vietnam and the UK concluded a **UK–Vietnam Free Trade Agreement (UKVFTA)**, which will strengthen the relationship of the two countries across trade liberalisation, legal regulation, and alignment in global standards.
 - The UKVFTA, entered into force on 1 January 2021, is important to both Vietnam and the UK as it ensures no interruption to bilateral trade due to Brexit, the transition period of which expired on 31 December 2020. The trade deal helps secure the trade benefits the two countries enjoyed under the EU–Vietnam Free Trade Agreement (EVFTA) that took effect on 1 August 2020.
 - Under the UKVFTA, the UK will abolish import duties on 99.2% of tariff lines within six years, equivalent to 99.7% of Vietnam's export

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Country & sourcing updates

turnover to the UK.

- In 2020, the UK is Vietnam's third largest trading partner in Europe (after Germany and the Netherlands). The UKVFTA is anticipated to deliver annual tariff savings of 114 million pounds on Vietnam's exports to the UK and 36 million pounds on the UK's exports to Vietnam. The agreement will also encourage a new wave of foreign investment from the UK to Vietnam.
- During the 10th meeting of the Vietnam–Republic of Korea (RoK) Joint Committee on Energy, Industry and Trade Cooperation in December 2020, the two countries signed an action plan targeting for raising their bilateral trade to US\$100 billion by 2023.
- On the occasion, the ministers also co-chaired the 4th Joint Committee on the Implementation of the **Vietnam–RoK Free Trade Agreement (VKFTA)**. The two countries signed a series of documents, including a letter of exchange regarding the implementation of the cumulation of origin for textile materials between Vietnam and South Korea as set out in the EVFTA.
- As South Korea previously signed an FTA with the EU, the signing of the letter of exchange between Vietnam and South Korea allows Vietnam to source high-quality textile materials originated from South Korea while the finished apparel products are still eligible for preferential tariff rates when exported to the EU market.

Infrastructure & environmental sustainability

- Under the draft planning submitted by the Ministry of Transport to the prime minister for approval in August 2021, the **national railway network** will have 25 major routes with a total length of 6,409km by 2050. Seven main routes, with a total length of about 2,500km, are currently in use and travel through 34 cities and provinces.
- For the 2021-2030 period, Vietnam aims to construct 9 new routes with a total length of

2,362km. Top priority will be given to the 1,545km-long high-speed railway project running north-south between Hanoi and Ho Chi Minh City. And, by 2050, Vietnam will add another 9 new routes with an additional length of 1,538km to its national railway network, according to the draft planning.

- The draft envisages regional and interregional rail lines according to actual travel demand, such as a coastal route connecting several locations, including one heading to Laos.

Other issues

- The Office of the US Trade Representative (USTR) issued a formal determination in the **Vietnam Currency Section 301 investigation** on 23 July and determined that no tariff action is warranted against Vietnam.
- In mid-December last year, the US Department of the Treasury (DOT) under the administration of President Donald Trump labeled Vietnam a currency manipulator, accusing the latter of intervening in the foreign exchange market. The US threatened to impose punitive tariffs on Vietnam's exports.
- In mid-April, the US DOT removed Vietnam from the list of countries manipulating their currencies, reversing the decision of the Trump administration.
- On 19 July, the US DOT and the State Bank of Vietnam (SBV) have reached an agreement and issued a joint statement to address the concerns of the US over Vietnam's currency practices. In the joint statement, Vietnam confirms its commitment under the Articles of Agreement of the International Monetary Fund "to avoid manipulating its exchange rate in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage", and that it will "refrain from any competitive devaluation of the Vietnamese

VIETNAM

Country & sourcing updates

dong". The SBV also pledged to make efforts to improve exchange rate flexibility and to modernize its monetary policy and exchange rate framework.

- Benefiting from the shift of US supply chains away from China amid the trade war, Vietnam's trade surplus with the US surged by 25% yoy to US\$69.7 billion in 2020, despite the COVID-19 pandemic. Vietnam is a growing source of US imports of furniture, electronics, computers and apparel. The currency truce and tariff threat withdrawal would reduce business uncertainty and bode well for bilateral trade and investment between the two countries.

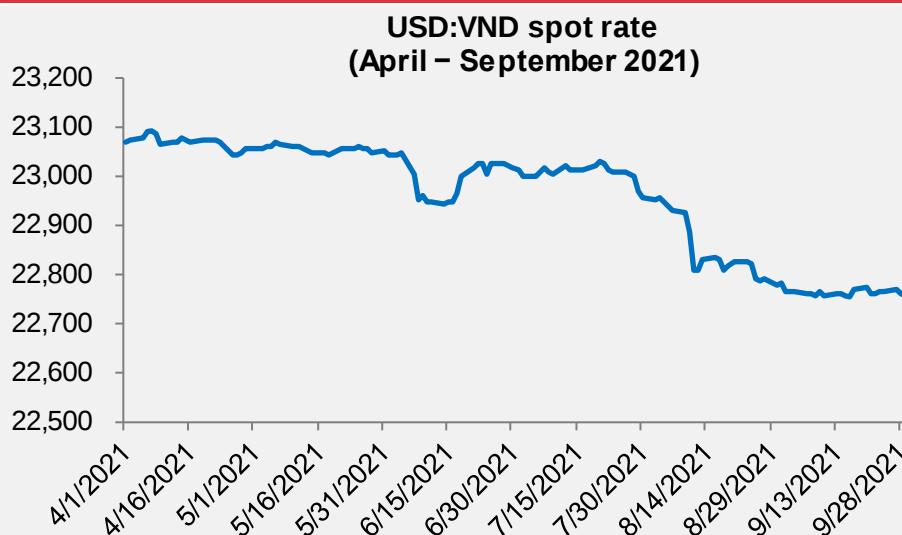
VIETNAM

Macroeconomic data

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Quarterly GDP (real yoy growth %)	6.6 (2Q21)			-6.2 (3Q21)		
Industrial production index (yoy growth %)	22.2	11.9	4.9	-0.3	-7.0	-7.5
Manufacturing PMI (IHS Markit)	54.7	53.1	44.1	45.1	40.2	40.2
Price index of materials used for production (yoy growth %)	5.0 (2Q21)			5.4 (3Q21)		
Producer price index for industrial products (yoy growth %)	3.4 (2Q21)			3.7 (3Q21)		
Consumer price index (yoy growth %)	2.7	2.9	2.4	2.6	2.8	2.1
Exports (year-to-date, yoy growth %)	50.8	36.6	20.5	11.9	-1.7	-0.5
Exports (US\$ mn)	26,549.7	26,192.9	27,204.3	27,864.6	27,228.5	27,025.8
Of which:						
- Textiles & garments (US\$ mn)	2,458.8	2,573.8	3,064.6	3,118.8	2,654.6	2,277.4
- Footwear (US\$ mn)	1,720.3	1,885.6	1,984.3	1,397.9	836.1	678.4
- Toys and sports requisites (US\$ mn)	232.8	254.5	216.6	225.0	233.9	233.4
Imports (year-to-date, yoy growth %)	47.6	57.5	34.0	31.7	20.4	10.2
Imports (US\$ mn)	27,774.5	28,266.7	27,659.1	29,111.8	27,340.0	26,665.7

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), released on 5 October, show that US import volume of apparel, as measured by square metre equivalent (SME), increased by 20.0% yoy for the year ended 31 August 2021 (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 29.8% yoy and 21.3% yoy, respectively, in the period.

In SME terms, the CAFTA–DR countries represented 9.7% of total US apparel imports in the period. The top regional supplier of apparel in the period was Honduras,

followed by El Salvador and Nicaragua, with shares of 3.1%, 2.4% and 2.0%, respectively, in the US apparel import market. In US dollar terms, imports from Honduras increased by 24.7% in the period, while imports from El Salvador surged by 33.4%, compared with the same period last year. Imports from Nicaragua also increased by 22.2% yoy.

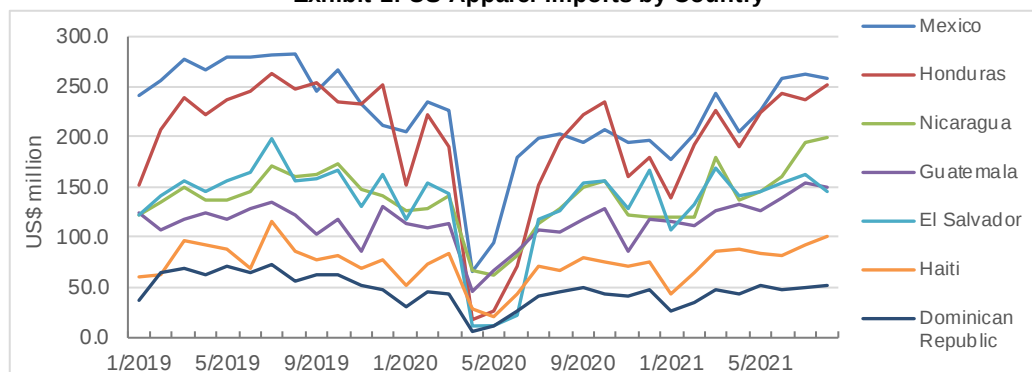
Total value of US apparel imports from Central American countries has been on the rise since April this year (Exhibit 2). Over the period of January to August 2021, all the seven countries have achieved over 30% yoy growth in their apparel shipments to the US. Compared with the same period of pre-pandemic 2019, the apparel shipments of both Nicaragua and Guatemala to the US in

Exhibit 1: US Apparel Imports for the Year Ended 31 August 2021

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	27,572.4	22,971.4	20.0	100.0	74,118.9	66,848.5	10.9	100.0
Mexico	792.0	680.8	16.3	2.9	2,628.7	2,365.3	11.1	3.6
CBI	404.2	311.5	29.8	1.5	945.6	748.2	26.4	1.3
CAFTA-DR	2,677.7	2,207.3	21.3	9.7	8,118.4	6,486.0	25.2	11.0
<i>Of which:</i>								
- Honduras	851.1	745.7	14.1	3.1	2,500.1	2,004.9	24.7	3.4
- El Salvador	652.2	505.0	29.2	2.4	1,764.7	1,322.5	33.4	2.4
- Nicaragua	560.8	456.8	22.8	2.0	1,804.1	1,476.6	22.2	2.4
- Guatemala	375.2	306.3	22.5	1.4	1,505.5	1,189.4	26.6	2.0
- Dominican Republic	237.3	191.7	23.8	0.9	534.7	478.0	11.9	0.7
- Costa Rica	1.2	1.8	-35.6	0.004	9.4	14.5	-35.1	0.01

Source: Compiled by the Fung Business Intelligence based on data from the US Office of Textiles and Apparel (OTEXA), October 2021

Exhibit 2: US Apparel Imports by Country



Source: US Department of Commerce, Office of Textiles and Apparel (OTEXA)

CENTRAL AMERICA

Country & sourcing updates

the period of January to August 2021 exceeded their pre-pandemic levels, while those of Haiti, Honduras and El Salvador recovered to over 90% of their pre-pandemic 2019 levels. Apparel shipments of Mexico and Dominican Republic to the US also recovered to 84.6% and 70.9%, respectively, of their pre-pandemic levels.

Key sourcing countries highlights

1. Mexico

- **US denim clothing** import soars 32.9% in 1H21; Mexico emerges **top shipper**.
 - The revival in the US apparel market is driving the growth of apparel exports worldwide. In the first half of 2021 (1H21), the US imports of denim clothing increased by 32.9% yoy to US\$1.44 billion, as compared with US\$1.08 billion in 1H20. Bangladesh was the top ranked denim apparel shipper to the US in 2020, but it was surpassed by Mexico in 1H21: Denim clothing exports from Mexico to the US registered US\$286.28 million in 1H21, representing a 54.8% yoy surge, while the Bangladesh figures were US\$283.65 million with a 49.3% yoy growth. Mexico, which ships high-end denim products to the US, has benefited from the nearshoring approach of US buyers for high value-added products in the denim segment.
- **Mexico COVID-19 Updates**
 - In Mexico, as of 8 October 2021, there had been 3,699,621 confirmed cases of COVID-19 with 280,610 deaths reported to the World Health Organization (WHO). As of 7 October 2021, a total of 105,320,232 vaccine doses had been administered.
 - The daily number of new infections has continued to fall since its peak on 18 August. Hospital occupancy has decreased considerably since August. Local government of Mexico City is considering approving massive events and festivals, as their plan is to have 100% of adult Mexico City population fully vaccinated by end of October 2021.

2. Guatemala

- **Apparel exports** to Walmart surged in July. As the largest buyer in the country, Walmart accounted for 21.8% in quantity terms and 12.7% in US dollar value terms of Guatemala's apparel exports to the US market. Target Stores followed with 9.8% in quantity terms and 8.9% in US dollar value terms. GAP Inc. ranked third, accounting for 8.7% in quantity terms and 5.9% in US dollar value terms. Other growing customers include Hanes and Carhartt Inc., whose apparel purchases accounted for 3.3% in quantity terms and 3.0% in US dollar value terms of the country's apparel exports, respectively.
- **Guatemala COVID-19 Updates**
 - In Guatemala, as of 8 October 2021, there had been 574,713 confirmed cases of COVID-19 with 13,902 deaths reported to WHO. As of 7 October 2021, a total of 7,392,283 vaccine doses had been administered. Around 26% of the population have received at least one dose of vaccine, and 14% of the population have been fully vaccinated.
 - The daily number of new infections has fallen markedly since its peak in late August. However, as of early October, hospital occupancy still stood high at 90%, in addition to medicine shortages.
 - No restrictions to mobility or working hours have been imposed by the government.

3. El Salvador

- **Bitcoin** - El Salvador became the **first country** in the world to adopt Bitcoin as legal tender, in addition to the US dollar. Any businesses with the technological capabilities to do so are required to accept bitcoin in transactions. Recent public opinion surveys in El Salvador have shown a majority of Salvadorans oppose making it an official currency. Meanwhile, the value of Bitcoin plummeted on 7 September, dropping from above US\$52,000 per coin to US\$42,000, before recovering about half of that loss — an example of the volatility that

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worries many.

• El Salvador COVID-19 Updates

- As of 8 October 2021, there had been 107,664 confirmed cases of COVID-19 with 3,345 deaths reported to WHO. As of 7 October 2021, a total of 7,891,779 vaccine doses had been administered, enough to have vaccinated about 61.1% of its population. The number of new infections were decreasing in September and early October.
- The El Salvador government announced that, starting from October, they will begin administering a third dose of COVID-19 vaccine to various groups including the elderly, health workers and people with underlying health conditions.
- No restrictions to mobility or working hours have been imposed by the government.

4. Honduras

- Proyecto Arena, the **largest sportswear factory** in Central America, began pilot phase production in July 2021. Located in San Pedro Sula, the facility is expected to create more than 6,000 jobs when in full operation. The investors of the project are Grupo Kattan and Tegra Global. Among the brands that will be manufactured in Proyecto Arena are Nike and Under Armour.
- Honduras COVID-19 Updates
 - As of 8 October 2021, there had been 369,030 confirmed cases of COVID-19 with 9,949 deaths reported to WHO. As of 7 October 2021, a total of 5,817,602 vaccine doses had been administered. Around 33% of the population have received at least one dose of vaccine, and 20% have been fully vaccinated.
 - New infections have been declining since its peak in mid-August.
 - No restrictions to mobility or working hours have been imposed by the government.

5. Nicaragua

- General Elections will be held in Nicaragua on 7 November 2021 to elect the President, the National Assembly, and members of the Central American Parliament. President Daniel Ortega is seeking re-election.
- Nicaragua COVID-19 Updates
 - As of 8 October 2021, there had been 11,739 confirmed cases of COVID-19 with 205 deaths reported to WHO. As of 7 October 2021, a total of 999,990 vaccine doses had been administered.
 - Vaccination campaign is on stage 4 (people over 30). Nicaragua continues to receive donations of doses to continue the immunization program. At least 4% of the Nicaragua population has been fully vaccinated and 7% have received at least one dose.
 - No restrictions to mobility or working hours have been imposed by the government.

6. Haiti

- Parliamentary and Presidential Elections were postponed again to 7 November 2021. Prime Minister Ariel Henry stated that the government hopes to hold the elections as early as possible; however, situation in Haiti is tense and unpredictable, following the assassination of President Jovenel Moise. The country has also seen a resurgence of gang violence. There have been frequent gang clashes, forcing the displacement of more than 16,000 Haitians from their homes, and cutting off the access to four regions in the southern part of the country. This has also led to severe fuel and food shortages.
- Haiti COVID-19 Updates
 - As of 8 October 2021, there had been 22,354 confirmed cases of COVID-19 with 634 deaths reported to WHO. As of 7 October 2021, a total of 88,260 vaccine doses had been administered.
 - Vaccination campaign was launched in the first

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week of August with doses donated by the US government through the COVAX facility. The vaccination campaign was delayed for over two weeks because of the 14 August earthquake in Haiti, but has been resumed afterwards. Infections rates increased after the earthquake due to the larger number of people interacting and the lack of vaccination.

- No restrictions to mobility or working hours have been imposed by the government.

- Caracol Knits is adding 59,600 spindles in Honduras.
- Textiles San Juan's brand-new knitting and dying facility for cotton and synthetic fabrics started operation in 3Q21.

Central America textile investments update

- The supply chain **disruptions** developed during the COVID-19 pandemic created a large imbalance between **yarns production** and the elevated demand from consumption recovery. This has resulted in higher prices of cotton and synthetic yarns and longer production lead time. Without reliable or committed sources of yarns and fabrics, the ability to 'react with speed' has been greatly reduced.

- **New regional investments** in textiles and yarns production.

The disruptions affecting US and Asian yarn production and exports have exposed the vulnerabilities of the yarn supply chain, and the situation has led vendors and textile mills to ramp up their investment in yarn production capacity to reduce the dependency on US and Asia yarns. Some new investments are taking place:

- SAE-A will start yarn production from its second yarn facility in Costa Rica by April 2022. A third phase expansion is under consideration.
- Karim's will increase production capacity by 55,000 spindles in Honduras in June 2022.
- MT Textiles confirmed a three-phase spinning expansion plan to start operations by early 2023.
- INT. S.A in Guatemala will increase their production capacity by March 2023.

Costs of production

1. Updates on minimum wages

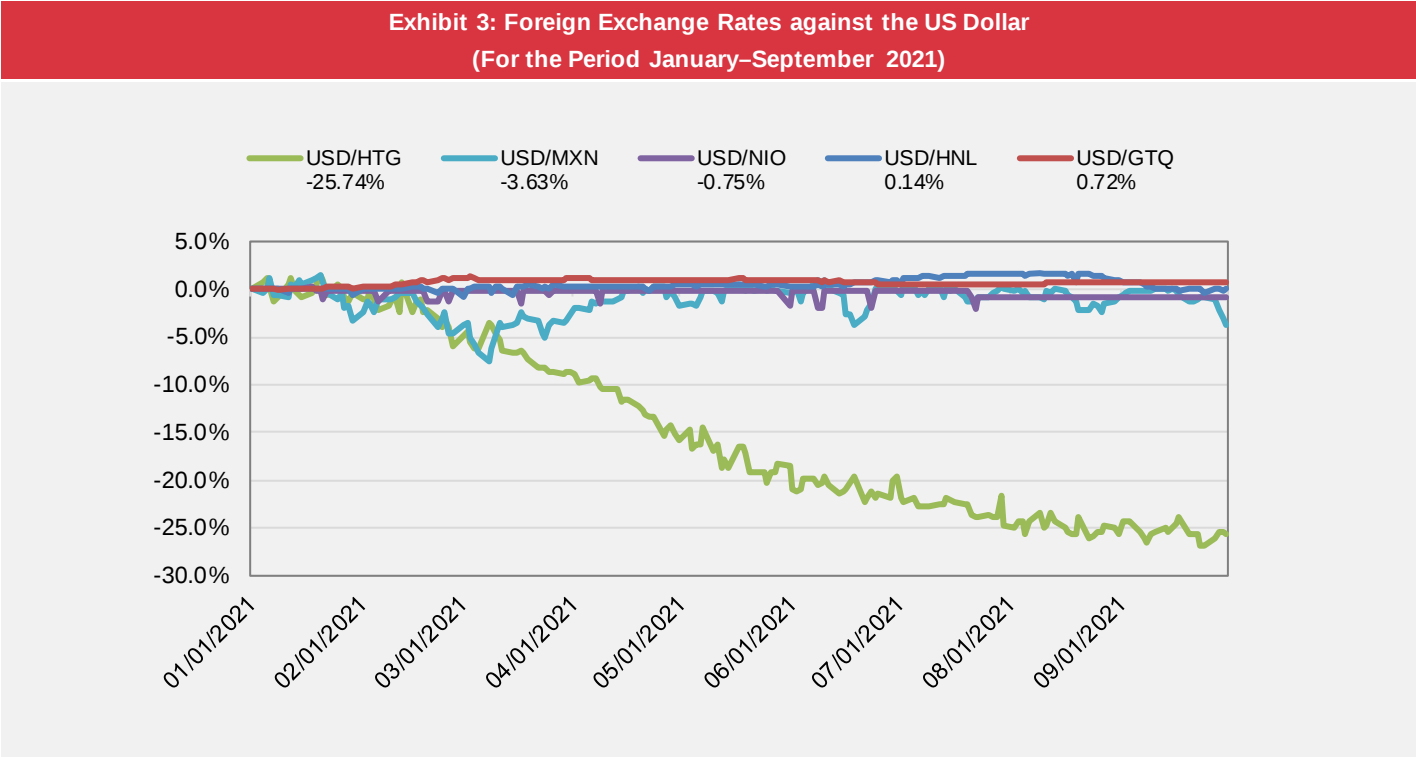
In the year 2021, two countries in the region adjusted their minimum wages, i.e. Mexico (up by 15.0% from the previous level, starting 1 January) and El Salvador (up 20%, starting 1 August). The effective monthly minimum wage rates are 2,831.76 quetzals (equivalent to US\$366.0) for Guatemala, 8,226.39 lempiras (US\$344.6) for Honduras, 6,399.07 córdobas (US\$182.2) for Nicaragua, 4,251.00 pesos (US\$211.78) for Mexico, 15,000 gourdes (US\$153.7) for Haiti and US\$359.2 for El Salvador, as of October 2021.

2. Exchange rates

For the first nine months of 2021, all the currencies except Haitian gourde in the region remained relatively stable against the US dollar. The Haitian gourde posted the sharpest depreciation (-25.74%) against the greenback, followed by the Mexican peso (-3.63%), and the Nicaraguan córdoba (-0.75%), while the Honduran lempira and the Guatemalan quetzal appreciated slightly against the US dollars (0.14% and 0.72% respectively) amid the COVID-19 crisis, based on exchange rates provided by Bloomberg.

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Note: The percentage change denotes the selected currency's performance against the US dollar based on exchange rate on 1 January 2021
Source: Compiled by the 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 FTA	GSTP, <u>BIMSTEC FTA</u>	GSTP	D-8 FTA, GSTP, SAFTA, <u>BD-PK FTA</u>	D-8 FTA, GSTP	APTA, GSTP, SAFTA, <u>BIMSTEC FTA</u>	APTA	
Cambodia			<u>ASEAN-EU FTA</u>	AFTA, RCEP		AFTA, RCEP	AFTA, RCEP		AFTA, RCEP	AIFTA	ACFTA, CCFTA, RCEP	
China			<u>EU-China IA</u>	ACFTA, RCEP		ACFTA, RCEP	ACFTA, RCEP	CPFTA	ACFTA, RCEP	APTA		
India			<u>EU-IN BTIA</u>	AIFTA, GSTP		AIFTA, GSTP, <u>BIMSTEC FTA</u> , <u>IN-TH FTA</u>	AIFTA, GSTP	GSTP, SAFTA	AIFTA, GSTP, <u>IN-ID CECA</u>			
Indonesia			<u>ASEAN-EU FTA</u> , <u>EU-ID CEPA</u>	AFTA, GSTP, RCEP	D-8 FTA, <u>IT-CEPA</u>	AFTA, GSTP, RCEP	AFTA, GSTP, RCEP	D-8 FTA, GSTP, ID-PK PTA				
Pakistan				GSTP	D-8 FTA, ECOTA, <u>PK-TR FTA</u>	GSTP, <u>PK-TH FTA</u>	GSTP					
Philippines			<u>ASEAN-EU FTA</u> , <u>EU-PH FTA</u>	AFTA, GSTP, RCEP		AFTA, GSTP, RCEP						
Thailand			<u>ASEAN-EU FTA</u> , <u>EU-TH FTA</u>	AFTA, GSTP, RCEP	<u>TH-TR FTA</u>							
Turkey	UK-TR FTA		EU-TR CU									
Vietnam	UKVFTA		<u>ASEAN-EU FTA</u> , 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 EU¹ and selected Asian Countries²

FTAs in force							
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2020 ⁴ (% of world total)	Total GDP of signatories, 2020 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	2,069 million (27%)	US\$17,725 billion (21%)	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	667 million (9%)	US\$3,002 billion (4%)	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 FTA. The next ASEAN-India Leaders' Summit will be held in November 2021.	Brunei, Cambodia, India, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	2,047 million (26%)	US\$5,625 billion (7%)	Zero duty for 79.6% of all tariff lines.	Cumulation: RVC 35% and CTH.
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	3,031 million (39%, including Mongolia)	US\$19,413 billion (23%, including Mongolia)	Covers 10,001 tariff lines after the 4 th 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).
CPFTA	China–Pakistan Free Trade Agreement	In force since 2007. The 2 nd phase of the CPFTA was signed in April 2019 and came into force in December 2019.	China, Pakistan	1,623 million (21%)	US\$14,986 billion (18%)	Under the 2 nd 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%.

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 EU¹ and selected Asian Countries²

FTAs in force							
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2020 ⁴ (% of world total)	Total GDP of signatories, 2020 ⁵ (% of world total)	Highlights	Rules of Origin ⁶
D-8 PTA	Preferential Tariff Arrangement – Group of Eight Developing Countries	In force since 2011	Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, Turkey	1,168 million (15%)	US\$3,690 billion (4%)	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	523 million (7%)	US\$1,481 billion (2%)	Tariffs in a positive list will be lowered to below 15% gradually. Although Pakistan, Iran, Turkey, Afghanistan and Tajikistan agreed in 2008 to operationalise 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%, excluding the UK)	US\$15,913 billion (19%, excluding the UK)	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	515 million (7%)	US\$17,900 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.
EVFTA	EU-Vietnam Free Trade Agreement	In force since 2020	EU, Vietnam	545 million (7%, excluding the UK)	US\$15,464 billion (18%, excluding the UK)	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'.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU¹ and selected Asian Countries²

FTAs in force							
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2020 ⁴ (% of world total)	Total GDP of signatories, 2020 ⁵ (% of world total)	Highlights	Rules of Origin ⁶
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	3,814 million (49%, no data of the Democratic People's Republic of Korea)	US\$13,460 billion (16%, no data of Cuba and the Democratic People's Republic of Korea)	In the 3 rd 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 IPPTA to FTA launched in July 2019, but were suspended due to COVID-19	Indonesia , Pakistan	494 million (6%)	US\$1,322 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%.
SAFTA	South Asian Free Trade Area	In force since 2006. Afghanistan formally acceded to the SAFTA as the eighth member on 7 August 2011	Afghanistan , Bangladesh , Bhutan , India , Maldives , Nepal , Pakistan , Sri Lanka	1,818 million (24%)	US\$3,352 billion (4%)	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-US MRA	UK-US Mutual Recognition Agreement	In force since 2019	UK , US	397 million (5%)	US\$23,644 billion (28%)	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 EU¹ and selected Asian Countries²

FTAs in force							
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2020 ⁴ (% of world total)	Total GDP of signatories, 2020 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\$2,979 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 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.

FTAs pending ratification							
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2020 ⁴ (% of world total)	Total GDP of signatories, 2020 ⁵ (% of world total)	Highlights	Rules of Origin ⁶
CCFTA	Cambodia-China Free Trade Agreement	Signed in October 2020. Cambodia ratified the FTA on 9 September 2021	Cambodia, China	1,419 million (18%)	US\$14,748 billion (17%)	Although the majority of Cambodia's exports to China are tariff-free through the ACFTA, the CCFTA extends tariff-free trade to over 340 products, such as seafood products, garlic, cashew nuts, dried chili, etc. China will provide duty-free status to nearly 98% of imports from Cambodia whereas Cambodia will eliminate tariffs on up to 90% of the imports from China.	N/A

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU¹ and selected Asian Countries²

FTAs pending ratification							
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2020 ⁴ (% of world total)	Total GDP of signatories, 2020 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, and on 14 January 2019 for Vietnam and on 14 July for Peru. In 2021, the UK has formally started negotiations to join the CPTPP in June and China applied to join the CPTPP in September. Besides, the Philippines has formally expressed interest to join CPTPP this March.	Australia, Brunei, Canada , Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam	511 million (7%)	US\$10,726 billion (13%)	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 CTS. "Yarn-forward" rule on textile and garment products.
RCEP	Regional Comprehensive Economic Partnership	Signed in November 2020. As of 2 November 2021, six ASEAN members (Brunei, Cambodia, Lao PDR, Singapore, Thailand, and Vietnam) and four non-ASEAN countries (Australia, China, Japan, and New Zealand) have ratified the RCEP. Will enter into force on 1 January 2022.	Australia, Brunei, Cambodia , China , Indonesia , Japan, Republic of Korea, Lao PDR, Philippines , Malaysia, Myanmar, New Zealand, Singapore, Thailand , Vietnam	2,278 million (29%)	US\$25,947 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%
UK-TR FTA	UK-Turkey Free Trade Agreement	Signed in December 2020. Entered into force provisionally on 1 January 2021. Pending ratification by the two states for full implementation.	UK , Turkey	152 million (2%)	US\$3,428 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. Both sides have committed to working towards a more comprehensive trade pact in 2022, which will cover bilateral investment and services.	Single transformation rule. Cumulation rule. Percentage of non-originating materials to the 'ex works price'. Knit-to-shape; yarn forward rule.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU¹ and selected Asian Countries²

FTAs under negotiation						
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2020 ⁴ (% of world total)	Total GDP of signatories, 2020 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	Brunei, Cambodia, EU, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	1,115 million (14%, excluding the UK)	US\$18,195 billion (21%, excluding the UK)	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	386 million (5%)	US\$588 billion (1%)	Little progress was made as the two countries cannot resolve their differences over rules of origin and phase-out period.
BIMST EC 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 21 st 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 Meeting also advanced the draft agreements on Investment, Services, and Trade Facilitation.	Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand	1,651 million (21%)	US\$3,140 billion (4%)	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.
EU-CN IA	EU-China 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	1,850 million (24%, excluding the UK)	US\$29,915 billion (35%, excluding the UK)	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.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU¹ and selected Asian Countries²

FTAs under negotiation						
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2020 ⁴ (% of world total)	Total GDP of signatories, 2020 ⁵ (% of world total)	Highlights
EU-ID CEPA	EU-Indonesia Comprehensive Economic Partnership Agreement	Negotiations started in 2016. The 10 th full round of negotiations was held virtually from 22 February to 5 March 2021. Both sides agreed on a list of follow-up items and inter-sessional discussions in advance of the next round, planned for July 2021.	EU, Indonesia	721 million (9%, excluding the UK)	US\$16,251 billion (19%, excluding the UK)	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 BTIA	EU-India Bilateral Trade and Investment Agreement	Under negotiation since 2007, but negotiations have been at a de facto standstill since 2013. On 8 May 2021, both sides agreed to resume negotiations for the agreement.	EU, India	1,828 million (24%, excluding the UK)	US\$17,816 billion (21%, excluding the UK)	India and the EU have agreed to eliminate tariffs on over 90% of all tradable goods during the next 10-year period, but EU's demand on India to drastically cut tariffs on specific products remain contentious.
EU-PH FTA	EU-Philippines FTA	Negotiations formally launched in December 2015	EU, Philippines	556 million (7%, excluding the UK)	US\$15,554 billion (18%, excluding the UK)	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.
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. Thailand's Commerce Ministry planned to submit the negotiating framework for the FTA to the cabinet in the third quarter.	EU, Thailand	517 million (7%, excluding the UK)	US\$15,694 billion (19%, excluding the UK)	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 two sides agreed to continue the negotiations, which is expected to be completed in 2021.	Indonesia, Turkey	358 million (5%)	US\$1,779 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	1,654 million (21%)	US\$3,681 billion (4%)	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	1,450 million (19%)	US\$3,125 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.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the UK, the EU¹ and selected Asian Countries²

FTAs under negotiation						
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2020 ⁴ (% of world total)	Total GDP of signatories, 2020 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 include in the FTA. In May 2021, both sides agreed to work together for early conclusion of a mutually beneficial FTA. Thailand aims to conclude talks on the FTA with Pakistan by the end of this year.	Pakistan, Thailand	291 million (4%)	US\$765 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 FTA	Pakistan–Turkey Free Trade Agreement	Negotiations launched in 2004. As of July 2019, nine rounds of negotiations have taken place.	Pakistan, Turkey	305 million (4%)	US\$984 billion (1%)	N/A
TH–TR FTA	Thailand–Turkey Free Trade Agreement	Negotiations launched in 2017. The 7 th round of negotiations will take place in December 2020.	Thailand, Turkey	154 million (2%)	US\$1,222 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

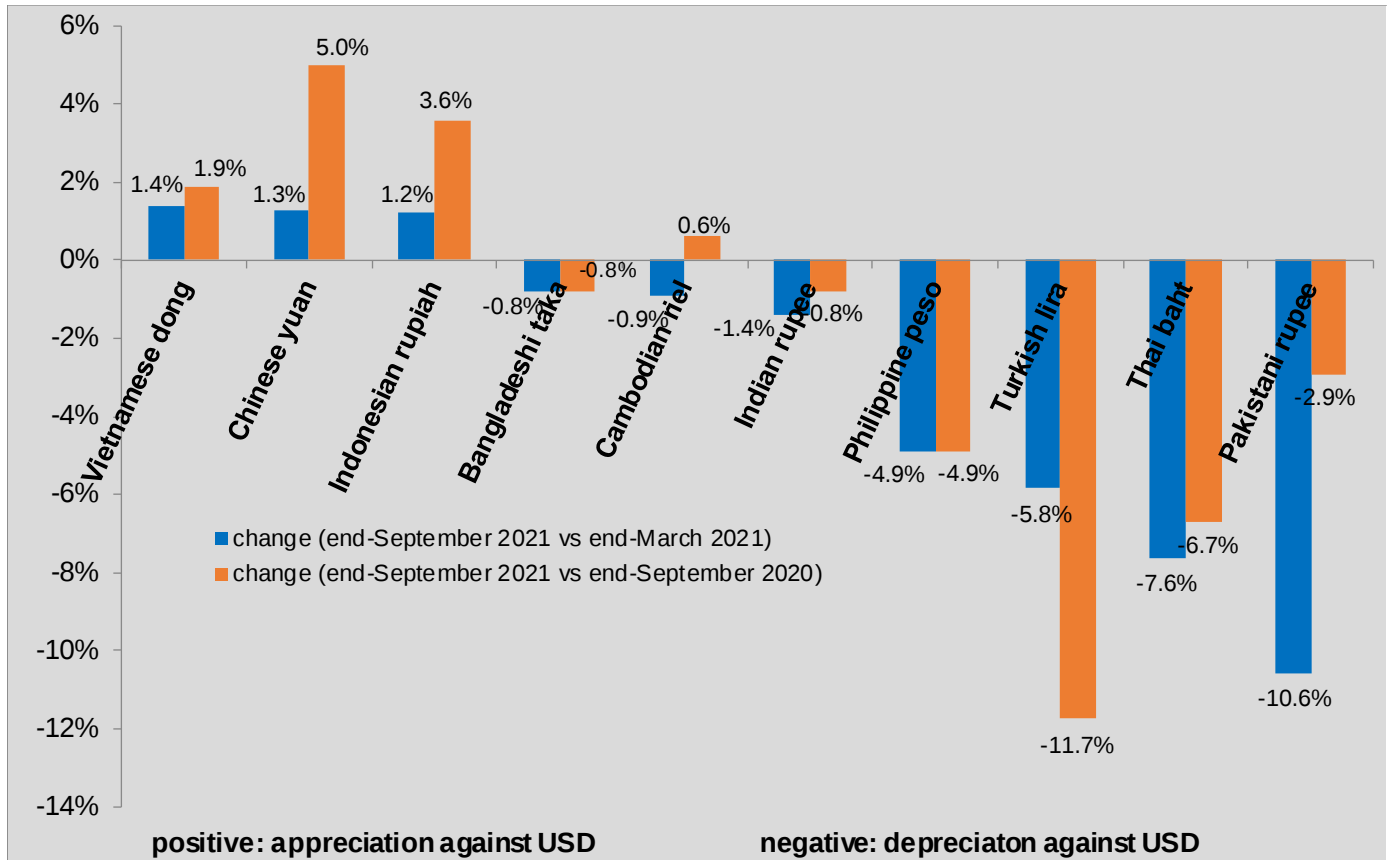
LDC: Least Developed Countries. Includes Bangladesh and Cambodia in the selected countries in the present matrix.

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



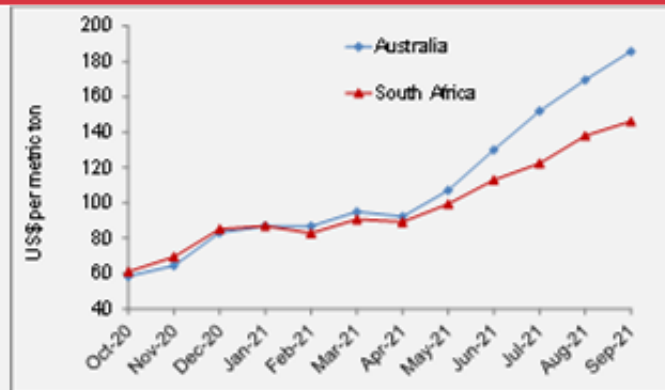
Source: Calculations based on exchange rates retrieved from sources quoted in preceding sections

INPUT PRICES

Trends and forecasts

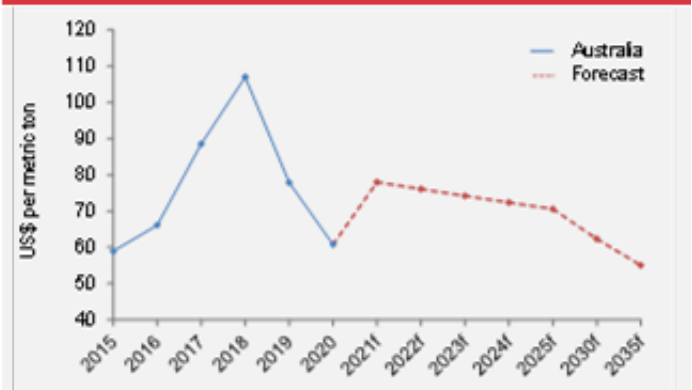
ENERGY

Coal, Oct 2020 – Sep 2021



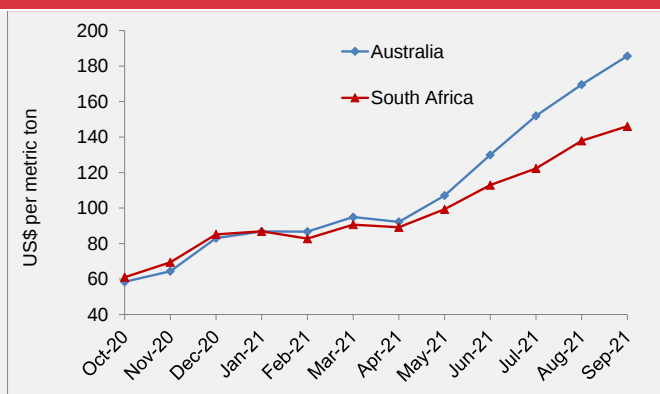
Source: World Bank

Coal: Trends and forecasts



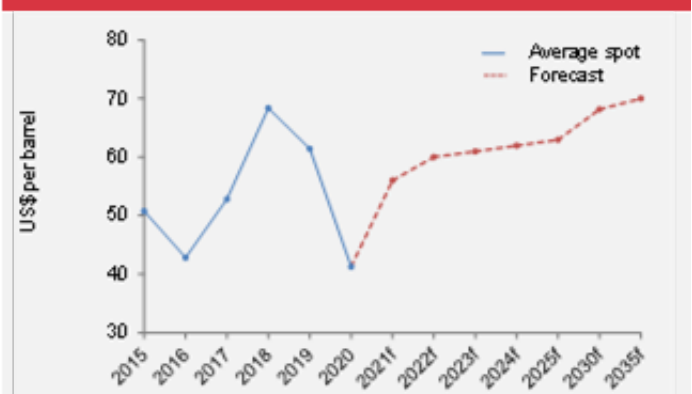
Source: World Bank

Crude oil, Oct 2020 – Sep 2021



Source: World Bank

Crude oil: Trends and forecasts



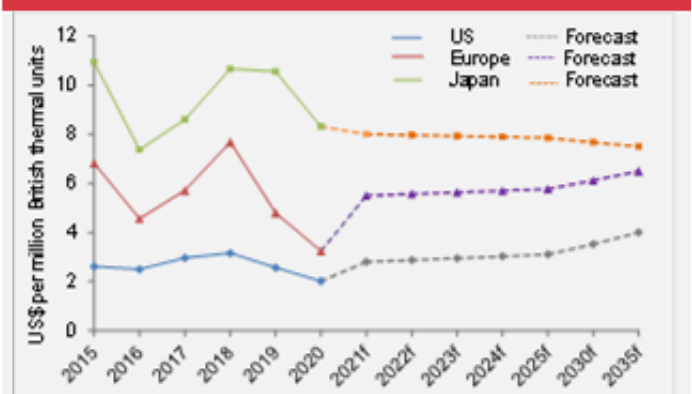
Source: World Bank

Natural gas, Oct 2020 – Sep 2021



Source: World Bank

Natural gas: Trends and forecasts



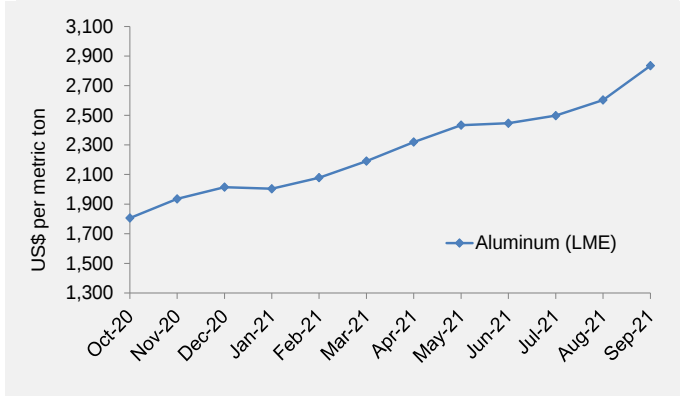
Source: World Bank

INPUT PRICES

Trends and forecasts

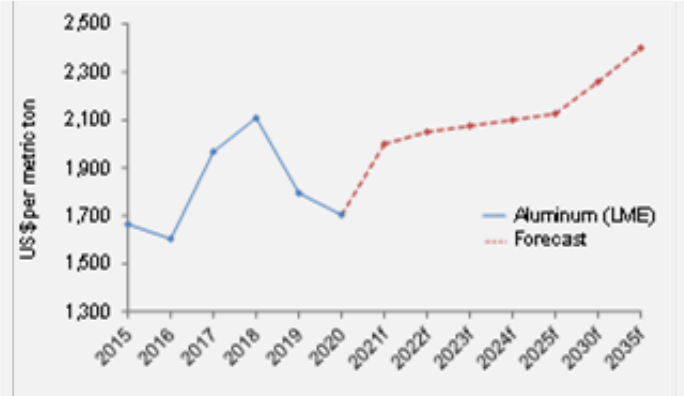
METAL AND MINERALS

Aluminum, Oct 2020 – Sep 2021



Source: World Bank

Aluminum: Trends and forecasts



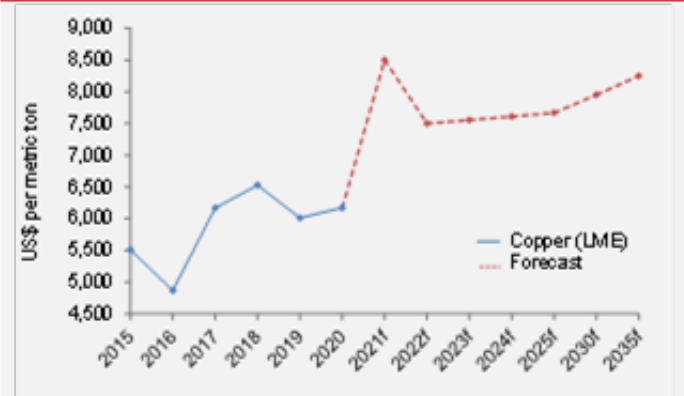
Source: World Bank

Copper, Oct 2020 – Sep 2021



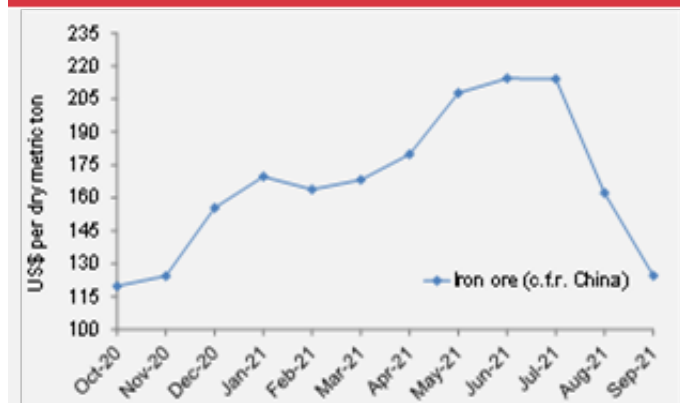
Source: World Bank

Copper: Trends and forecasts



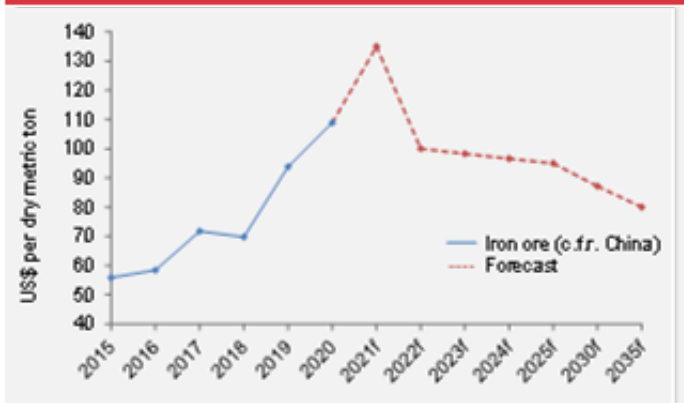
Source: World Bank

Iron ore, Oct 2020 – Sep 2021



Source: World Bank

Iron ore: Trends and forecasts



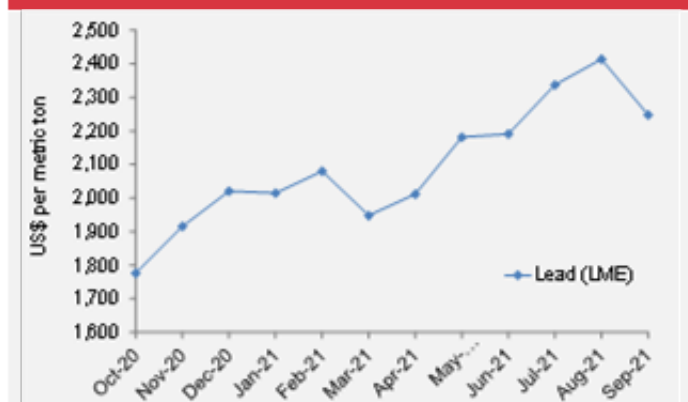
Source: World Bank

INPUT PRICES

Trends and forecasts

METAL AND MINERALS

Lead, Oct 2020 – Sep 2021



Source: World Bank

Lead: Trends and forecasts



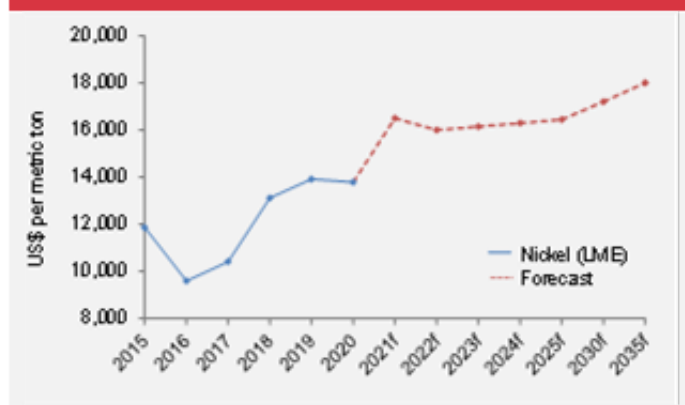
Source: World Bank

Nickel, Oct 2020 – Sep 2021



Source: World Bank

Nickel: Trends and forecasts



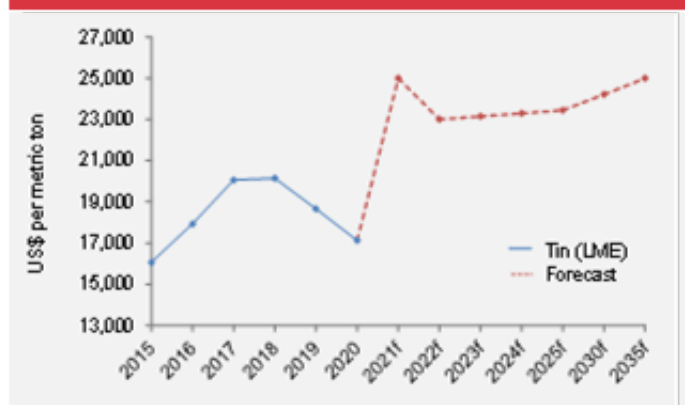
Source: World Bank

Tin, Oct 2020 – Sep 2021



Source: World Bank

Tin: Trends and forecasts



Source: World Bank

INPUT PRICES

Trends and forecasts

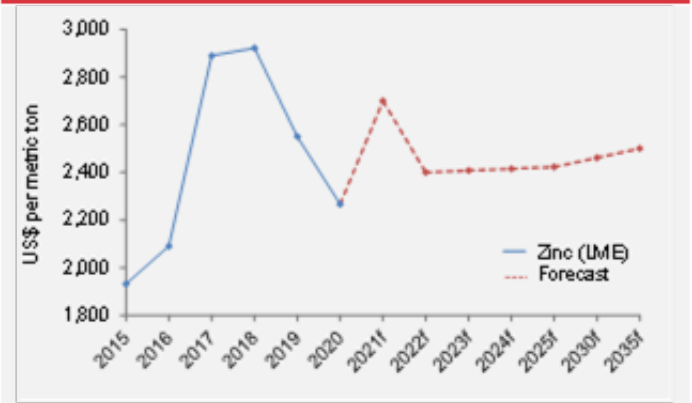
METAL AND MINERALS

Zinc, Oct 2020 – Sep 2021



Source: World Bank

Zinc: Trends and forecasts



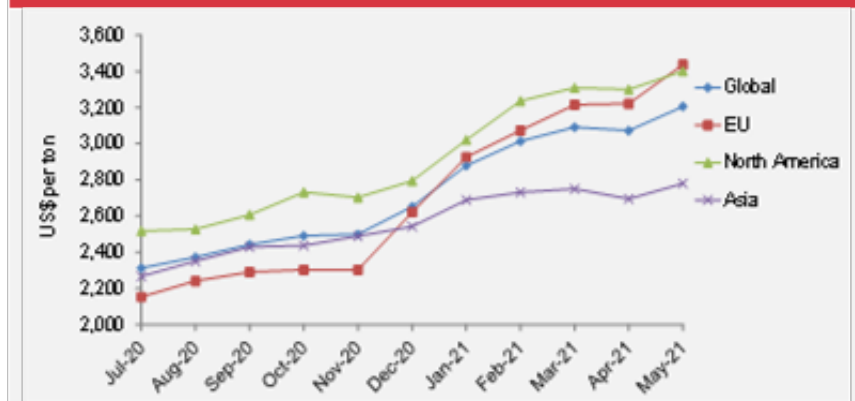
Source: World Bank

All Carbon Steel Products Composite Price, Jul 2020 – May 2021



Source: MEPS Online Steel Prices

Composite Stainless Steel Price – Grade 304, Jul 2020 – May 2021



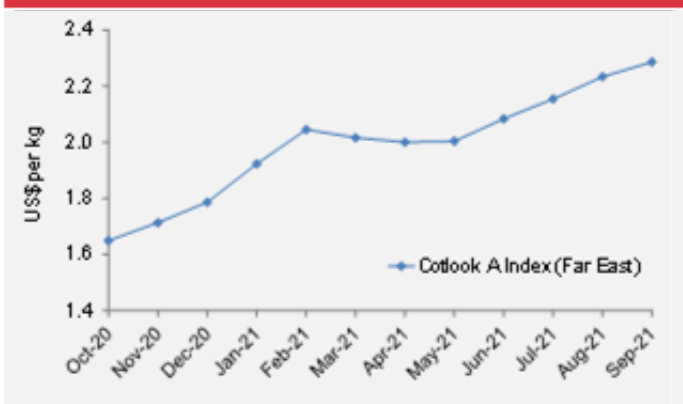
Source: MEPS Online Steel Prices

INPUT PRICES

Trends and forecasts

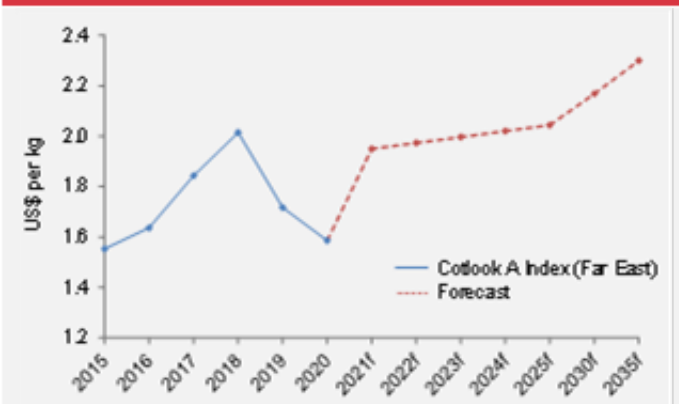
TEXTILE FIBERS

Cotton, Oct 2020 – Sep 2021



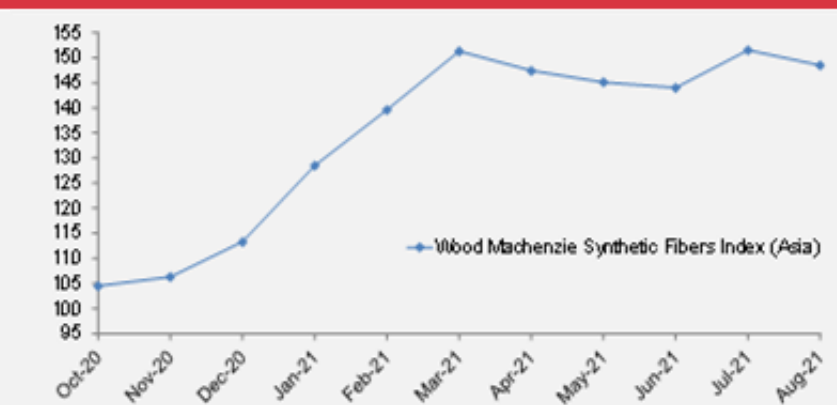
Source: World Bank

Cotton: Trends and forecasts



Source: World Bank

Synthetic fibers, Oct 2020 – Sep 2021



Source: Wood Mackenzie

Silk (China), Oct 2020 – Sep 2021



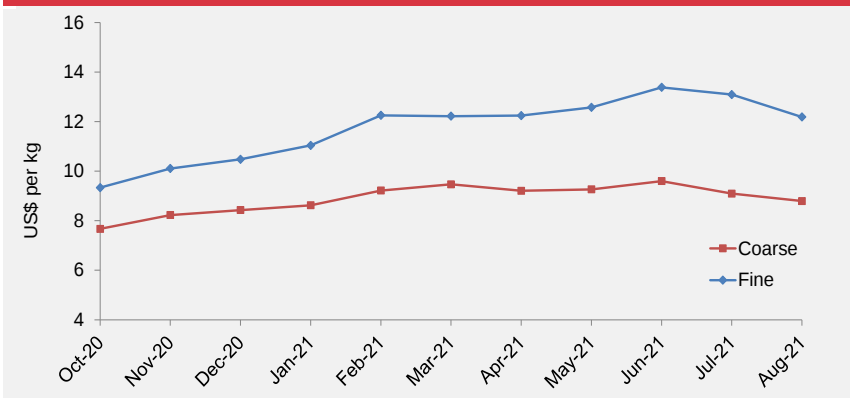
Source: Ministry of Commerce, China

INPUT PRICES

Trends and forecasts

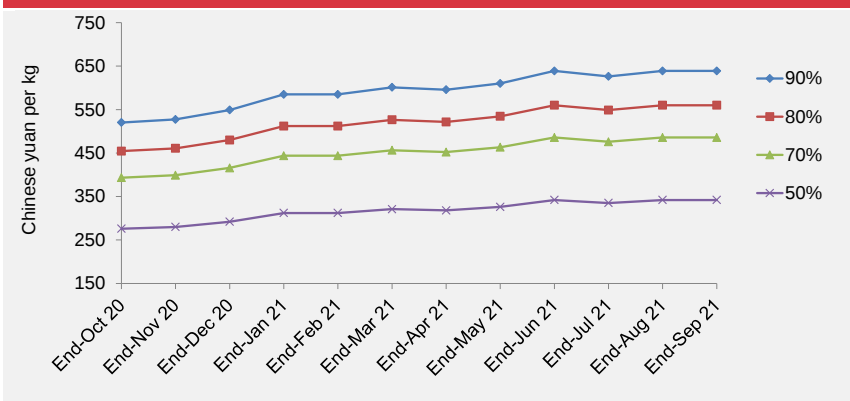
TEXTILE FIBERS

Wool (Australia), Oct 2020 – Sep 2021



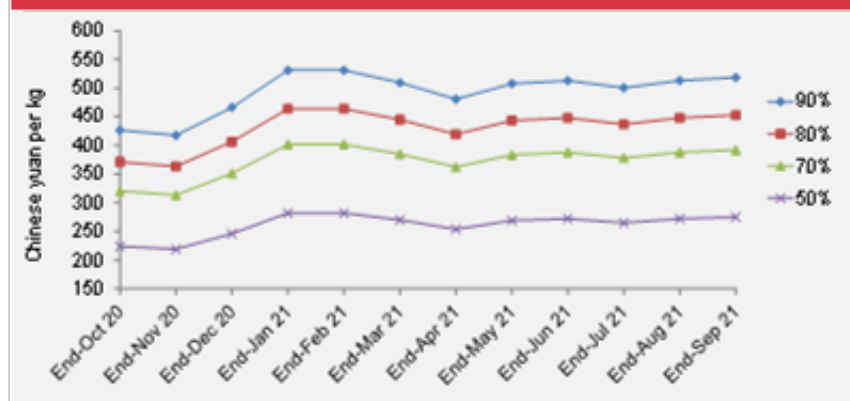
Source: International Monetary Fund

White goose down (China), Oct 2020 – Sep 2021



Source: cn-down.com

Grey goose down (China), Oct 2020 – Sep 2021



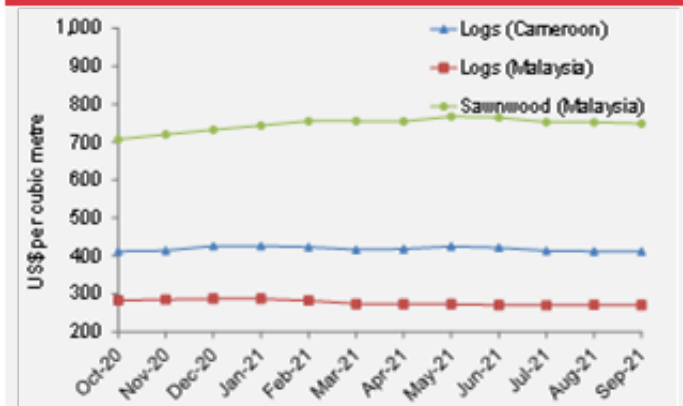
Source: cn-down.com

INPUT PRICES

Trends and forecasts

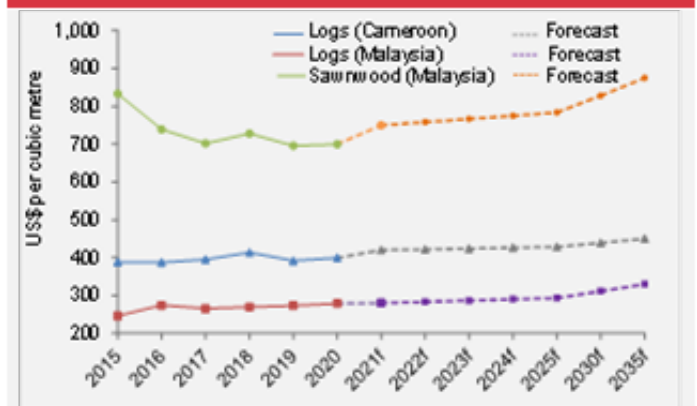
HARD GOODS

Timber, Oct 2020 – Sep 2021



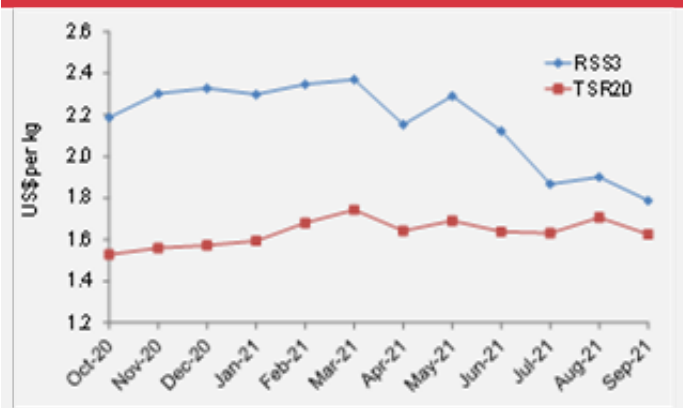
Source: World Bank

Timber: Trends and forecasts



Source: World Bank

Rubber, Oct 2020 – Sep 2021



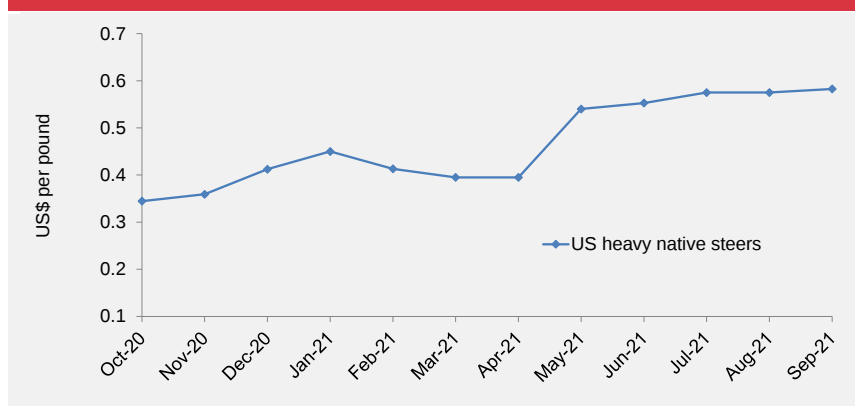
Source: World Bank

Rubber: Trends and forecasts



Source: World Bank

Hides, Oct 2020 – Sep 2021



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\$192	1 January 2021	Exclusively for garment and footwear workers; Up by 1.1% from the previous level. Starting January 2022, monthly minimum wage for the sector will rise to US\$194.
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: 1,800; Class 2 district: 1,720; Class 3 district: 1,570; Class 4 district: 1,420	1 January 2020	Up from 1,700, 1,650, 1,500, 1,380 and 1,280 respectively (effective 1 July 2017 to 31 December 2019) Also note revision of district classification.
- 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: 1,810; Class 2 district: 1,610; Class 3 district: 1,480; Class 4 district: 1,300	1 November 2019	Up from 1,620, 1,420, 1,300 and 1,120 respectively (effective 1 January 2018 to 31 October 2019)
- 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: 1,700; Class 2 district: 1,540; Class 3 district: 1,380; Class 4 district: 1,220	1 October 2019	Up from 1,580, 1,430, 1,280 and 1,130 respectively (effective 1 July 2017 to 30 September 2019)
- 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: 1,800; Class 2 district: 1,700	1 January 2019	Up from 1,500 and 1,400 respectively (effective 1 January 2016 to 31 December 2018)
- Hainan	Class 1 district: 1,670; Class 2 district: 1,570; Class 3 district: 1,520	1 December 2018	Up from 1,430, 1,330 and 1,280 respectively (effective 1 May 2016 to 30 November 2018)
- Anhui	Class 1 district: 1,550; Class 2 district: 1,380; Class 3 district: 1,280; Class 4 district: 1,180	1 November 2018	Up from 1,520, 1,350, 1,250 and 1,150 respectively (effective 1 November 2015 to 31 October 2018)
- Henan	Class 1 district: 1,900; Class 2 district: 1,700; Class 3 district: 1,500	1 October 2018	Up from 1,720, 1,570, and 1,420 respectively (effective 1 October 2017 to 30 September 2018)
- 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: 1,780; Class 2 district: 1,650; Class 3 district: 1,550	1 July 2018	Up from 1,500, 1,380 and 1,260 respectively (effective 1 July 2015 to 30 June 2018)
- Guangdong	Class 1 district: 2,200 (Shenzhen), 2,100 (Guangzhou); Class 2 district: 1,720; Class 3 district: 1,550; Class 4 district: 1,440	1 July 2018	Shenzhen: Up from 2,130 (effective 1 June 2017 to 30 June 2018) Other districts: Up from 1,895, 1,510, 1,350 and 1,210 respectively (effective 1 May 2015 to 30 June 2018)
- Shandong	Class 1 district: 1,910; Class 2 district: 1,730; Class 3 district: 1,550	1 June 2018	Up from 1,810, 1,640 and 1,470 respectively (effective 1 June 2017 to 31 May 2018)
- Yunnan	Class 1 district: 1,670; Class 2 district: 1,500; Class 3 district: 1,350	1 May 2018	Up from 1,570, 1,400, and 1,180 respectively (effective 1 September 2015 to 30 April 2018)
- 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: 1,700; Class 2 district: 1,600; Class 3 district: 1,500; Class 4 district: 1,400	1 October 2017	Up from 1,620, 1,520, 1,420 and 1,320 respectively (effective 1 May 2015 to 30 September 2017)
- Jilin	Class 1 district: 1,780; Class 2 district: 1,680; Class 3 district: 1,580; Class 4 district: 1,480	1 October 2017	Up from 1,480, 1,380 and 1,280 respectively (effective 1 December 2015 to 30 September 2017) Also note revision of district classification.
- Inner Mongolia	Class 1 district: 1,760; Class 2 district: 1,660; Class 3 district: 1,560; Class 4 district: 1,460	1 August 2017	Up from 1,640, 1,540, 1,440 and 1,340 respectively (effective 1 July 2015 to 31 July 2017)
- 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: 15,908; Semi-skilled: 17,537; Skilled: 19,291	1 April 2021	Applicable to all scheduled employments except clerical and supervisory staff; up from 15,492, 17,069 and 18,797 respectively (effective 1 October, 2020).
- Gujarat	<u>Zone I (per day)</u> Unskilled: 348.2; Semi-skilled: 356.2; Skilled: 365.2	1 April 2021	Applicable to all scheduled employment. <u>Zone I</u> 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; <u>Zone II</u> is defined as other areas excluded in <u>Zone I</u> ;
	<u>Zone II (per day)</u> Unskilled: 340.2; Semi-skilled: 348.2; Skilled: 356.2		

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
- Karnataka	<u>Zone I</u> Unskilled: 13,311.03; Semi-skilled: 14,469.81; Skilled: 15,744.47; Highly-skilled: 17,146.60	1 April 2021 - 31 March 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.
	<u>Zone II</u> Unskilled: 12,759.23; Semi-skilled: 13,862.83; Skilled: 15,076.79; Highly-skilled: 16,412.15		
	<u>Zone III</u> Unskilled: 12,233.70; Semi-skilled: 13,284.75; Skilled: 14,440.91; Highly-skilled: 15,712.68		
	<u>Zone IV</u> Unskilled: 11,733.20; Semi-skilled: 12,734.20; Skilled: 13,835.30; Highly-skilled: 15,046.51		
Pakistan			
- Punjab	20,000 rupees	1 July 2021	For unskilled workers; up 14.3% from the previous level.
- Balochistan	17,500 rupees	1 July 2019	For unskilled workers
- Khyber Pakhtunkhwa	21,000 rupees	1 July 2021	For unskilled workers; up 20.0% from the previous level.
- Sindh	25,000 rupees	1 July 2021	For unskilled workers; up 42.9% from the previous level.
- Islamabad Capital Territory	20,000 rupees	1 July 2021	For unskilled workers; up 14.3% from the previous level.
Philippines			
- National Capital Region (NCR)	537 pesos (per day)	22 November 2018	For non-agriculture workers; up by 25 pesos per day from the previous level that took effect on 5 October 2017.
Thailand			
- Bangkok	331 baht (per day)	1 January 2020	Applicable for all industries; up by 6 baht per day from the previous level. Starting from 1 January 2020, daily minimum wages in Thailand have increased by 5-6 baht to 313-336 baht. The 6-baht increment applies in Bangkok, Chon Buri, Phuket, Prachin Buri, Samut Prakan and Samut Sakhon, while the 5- baht rise applies in the other provinces.

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
Turkey	3,577.5 liras (before taxes and deductions)	1 January 2021 – 31 December 2021	For all workers over the age of 16; Up by 21.6% from the previous level; After taxes and deductions, the net minimum wage is 2,828.9 liras per month.
Indonesia (wage rates in Indonesia rupiah)			
- Aceh	3,165,030	1 January 2021	Regulation No. 78/2015 issued in October 2015 introduced a fixed formula to determine provincial minimum wages: <i>New Minimum Wage = Previous Regional Minimum Wage + (Previous Regional Minimum Wage x (% annual inflation rate + % annual GDP increase))</i>
- North Sumatra	2,499,422		
- West Sumatra	2,484,041		
- South Sumatra	3,043,111		
- Riau	2,888,563		
- Riau Islands	3,005,383		
- Jambi	2,630,161		
- Bangka Belitung Islands	3,230,022		
- Bengkulu	2,213,604		
- Jakarta	4,416,187		
- Banten	2,460,996		
- West Nusa Tenggara	2,183,883		
- East Nusa Tenggara	1,950,000		
- West Kalimantan	2,399,698		
- South Kalimantan	2,877,447		
- Central Kalimantan	2,903,144		
- East Kalimantan	2,981,378		
- Bali	2,494,000		
- Moluccas	2,604,960		
- North Moluccas	2,721,530		
- Gorontalo	2,586,900		
- Southeast Sulawesi	2,552,014		
- Central Sulawesi	2,303,710		
- West Sulawesi	2,571,328		
- South Sulawesi	3,165,876		
- North Sulawesi	3,310,723		
- Papua	3,516,700		
- West Papua	3,134,600		
- Lampung	2,432,001		
- West Java	1,810,350		
- Central Java	1,798,979		
- East Java	1,868,777		
- Yogyakarta	1,765,000		
- North Kalimantan	3,000,803		

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	4.42 million	1 January 2020	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	3.92 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	3.43 million		Zone 3 comprises the remaining provincial cities and some districts of some provinces.
- Zone 4	3.07 million		Zone 4 consists of the remaining localities.

Source: Governments of respective countries/provinces, as of mid-October 2021

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 trading, logistics, distribution and retail. The Fung Group comprises over 26,000 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 Global Brands Group Holding Limited (SEHK: 00787) and Convenience 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 <http://www.funggroup.com>.

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