

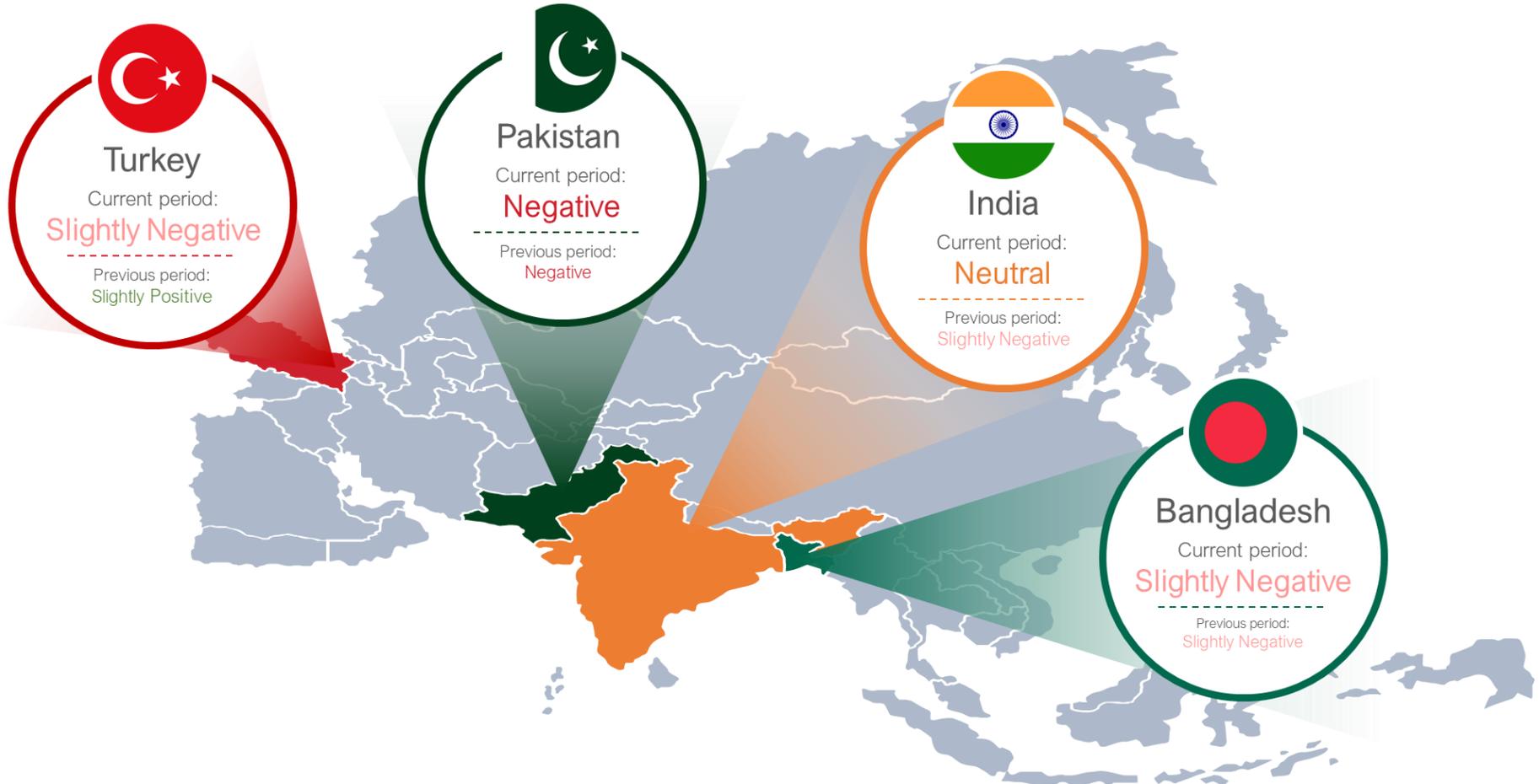
Asia Sourcing Update

Bangladesh, India, Pakistan and Turkey

Southeast Asia | **South and West Asia**



Highlights: 12-month sourcing outlook



Bangladesh

Fast facts



Quantum index of medium and large-scale manufacturing (Sep 2022)
-2.0% yoy ▼



CPI (Jan 2023)
+8.6% yoy



Exchange rate (USD: BDT, as of 28 Feb 2023)
107 (No depreciation year-to-date)



Merchandise exports (Feb 2023)
+7.8% yoy ▲



Knitwear
+16.9% yoy ▲



Woven garments
+7.5% yoy ▼



Home textiles
-52.6% yoy ▼



Footwear
-21.1% yoy ▼

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

12-Month Sourcing Outlook: Slightly Negative

According to the Bangladesh Bureau of Statistics, Bangladesh's economy grew by 7.1% yoy in the fiscal year 2021-22 (July 2021 – June 2022). The growth figure was lower than the provisional estimate of 7.25%, but was still impressive.

However, due to the slowdown in global economy and global demand, a dip in global apparel orders is observed, and the growth momentum of Bangladesh is fading. In addition, the costs of manufacturing in the country, such as energy, raw materials, and salary costs, are ballooning. We expect to see a downward trend in apparel exports of Bangladesh for the coming months.

Bangladesh

Latest Developments

FBIC's take

Macroeconomic Trends

Bangladesh's exports in February increased by 7.8% yoy to US\$4.6 billion. The total exports during July 2022 – February 2023, the first eight months of the fiscal year 2022-23, stood at US\$37.1 billion, up by 9.6% yoy. During the eight-month period, apparel exports, accounting for 85% of the total exports, rose by 14.1% yoy to US\$31.4 billion.

- The growth in total export earnings of the country in February was driven by significant growth in apparel export earnings, owing to an increase in high-value apparel orders shifted from China. According to CAL Bangladesh, Bangladesh apparel exports are expected to reach US\$56 billion by the end of 2026 with a compound annual growth rate of 5.3%, driven by expansion in the man-made fiber segment, global fashion retailers' orders shifting from China, and market diversification.
- However, February's export earnings have dipped below US\$5 billion for three straight months, which raise market concerns. Contractions in exports in various sectors are observed, including leather goods, home textiles, agricultural products, jute and jute goods, engineering products, and fish exports.
- Going forward, a dip in global apparel orders and inflation pressure will pose challenges to the Bangladeshi apparel sector in 2023.

According to the latest *Bangladesh Business Confidence Survey 2022–23*, the Business Confidence Index (BCI) of Bangladesh reached 74.4 over 100 in December 2022 – June 2023, up from 63.6 for the March – August 2022 period, indicating an improved business outlook.

- Supported by the USAID-funded "Feed the Future Bangladesh Trade Activity," the Business Initiative Leading Development's (BUILD) survey on the BCI was conducted between September and November 2022.
- Among the 567 surveyed business entities, the Bangladeshi businesses are confident in market demand, order volume, selling prices, business activities, employment, and investment during December 2022 – June 2023, despite economic headwinds.
- However, the surveyed business entities are pessimistic about controlling business costs, including electricity, water, gas, rent, and materials. The confidence index for business cost for December 2022 – June 2023 dropped to 22.4, down from 35.8 for March – August 2022, reflecting deep cost concerns.

Bangladesh

Latest Developments

FBIC's take

Infrastructure & Environmental Sustainability

Containers handled by the Chattogram Port in February reached 168,074 twenty-foot equivalent units (TEUs), dropped from 235,861 TEUs in the same month last year.

India has opened the Delhi Air Cargo complex for handling Bangladeshi transit cargo, effective 15 February. The move comes after Bangladesh allowed India to use the Chattogram and Mongla ports for Indian transit cargo in 2022.

- The Bangladeshi government restricted the import of goods to curb the depreciation of the local currency, leading to a decline in imports, especially the imports of luxury goods.
- Moreover, the slowdown in global trade amidst the Russia-Ukraine war is another factor leading to the reduction in container handling in Bangladesh.
- The Chattogram port, the major Bangladeshi seaport, transships around 98% of the cargo containers to/ from other Bangladeshi seaports. In 2022, containers handled by the Chattogram Port were 3,133,020 TEUs, down from 3,214,548 TEUs in 2021.
- Bangladeshi exporters have been allowed to use the Kolkata Air Cargo Complex since June 2020. However, as the Kolkata airport offers fewer flight connections than other transshipment hubs, there is little incentive for Bangladeshi exporters to transship goods via the Kolkata airport.
- Comparatively, Delhi airport has extensive international flight connections and a larger chartered cargo capacity. Nevertheless, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) commented that only some exporters are using India's air transshipment services, which are expensive and require a long lead time for delivery between the land ports of both countries.
- The BGMEA urged India's government to enhance infrastructure at their land ports to facilitate smooth trading and logistics activities between the two countries. According to the BGMEA, it currently takes 18 days to import goods from China to Bangladesh, while moving goods from India takes 30 days.
- Also noteworthy is that rather than relying on regional transshipment services offered by neighbouring countries, Bangladesh has set an ambition to be a regional transshipment centre and has already opened its sea-land ports to serve the surrounding markets. The Chattogram Bay terminal and Matarbari Deep Sea Port will be developed as major regional transshipment hubs.

India

Fast facts



GDP (Sep-Dec 2022)
+6.3% yoy ▼



Manufacturing PMI (Feb 2023)
55.3



CPI (Feb 2023)
+6.44% yoy



Merchandise exports (Dec 2022)
-8.8% yoy ▼



Knitwear
-7.8% yoy ▼



Woven garments
+10.7% yoy ▼



Footwear
+5.1% yoy ▼



Furniture
-22.8% yoy ▼



Exchange rate (USD: INR, as of 28 Feb 2023)
82.7 (0.12% appreciation year-to-date)

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

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

12-Month Sourcing Outlook: Neutral

India's economic growth slowed to 4.4% yoy in the October-December quarter of 2022, down from the previous two quarters – 6.3% in the July-September quarter and 13.5% in the April-June quarter. The economic slowdown in India was mainly due to declining global demand and the contraction in manufacturing.

Despite an expected slowdown in global trade, the International Monetary Fund (IMF) believes India will remain a 'relative bright spot' in the global economy, driven by strong domestic demand. The IMF projects that India's economy will grow 6.8% yoy this fiscal year (April 2022 – March 2023, hereafter fiscal year 2022–23), before slowing to 6.1% in the fiscal year 2023–24 and posting a recovery to 6.8% in the fiscal year 2024–25.

India

Latest Developments

FBIC's take

Macroeconomic Trends

In February, India's merchandise exports and imports contracted by 8.8% yoy and 8.2% yoy, respectively. The trade deficit narrowed to US\$17.4 billion, down from US\$17.8 billion in January, the lowest in 13 months.

Merchandise exports and imports in January dropped by 6.6% yoy and 3.6% yoy, respectively.

India's inflation in January jumped to 6.5% yoy after falling for three months in a row and breached the Reserve Bank of India's (RBI) upper tolerance band at 6%.

Four of the six subgroups of the consumer price index – food and beverages, clothing and footwear, fuel and light, and miscellaneous – recorded an inflation rate above 6% in January.

- In February, India's exports were US\$33.9 billion. A number of exporting sectors saw a sharp contraction during the month, including petroleum products (down 28.8% yoy), engineering goods (down 9.7%), organic and inorganic chemicals (down 12.3%), and cotton yarn/ fabrics/made-ups products. The contraction in India's exports in early 2023 was mainly attributed to declining global demand.
- However, thanks to strong growth in the starting months of fiscal year 2022-23, overall exports in the whole fiscal year increased by 7.5% yoy to US\$405.9 billion.

- The increase in the inflation rate in January was mainly driven by the price hike in food and the sticky core inflation.
- Food inflation increased 6.2% yoy in January, compared to 4.2% in December 2022. In addition, price hikes of imported metals, minerals, crude oil, and edible oil drove the increase in the Indian inflation rate.
- To cope with the high inflation, the Indian government has encouraged local farmers to increase output and has reduced the import duty on selected imported goods and edible oils.

India

Latest Developments

FBIC's take

FTAs, Trade Preferences and Investment Agreements

On 10 March, US commerce secretary Gina Raimondo and Indian Minister of Commerce & Industry Piyush Goyal signed a memorandum of understanding (MoU) in New Delhi on establishing a semiconductor supply chain and innovation partnership under the framework of the India–US Commercial Dialogue, which was re-launched after a gap of three years.

- The MoU aims to establish a collaborative mechanism between the two countries on the resiliency and diversification of the semiconductor supply chain. The MoU also targets to facilitate commercial opportunities and the development of innovative ecosystems. According to Gina Raimondo, India could become a key supplier in the semiconductor sector and the entire electronics supply chain.
- The two parties also agreed to further enhance their commercial collaboration and explore market potentials across multiple sectors, including digital and emerging technologies.
- In addition, the US and India announced the launch of a new Working Group on Talent, Innovation, and Inclusive Growth.

On 29 December 2022, the India- Australia Cooperation and Trade Agreement (ECTA) entered into force.

The ECTA is an interim trade deal. Australia and India are currently negotiating to widen the scope of the ECTA to a more ambitious free trade agreement, the Comprehensive Economic Cooperation Agreement (CECA).

- According to Indian Minister of Commerce & Industry Piyush Goyal, the ECTA is the first stage of economic engagement between the two countries. The ECTA is expected to cover 90% of the bilateral trade between India and Australia. On the one hand, India will benefit from the preferential market access provided by Australia on all of its tariff lines. On the other hand, India will offer preferential access to the Indian market to Australian goods on over 70% of tariff lines. These goods include raw materials and intermediate goods such as coal, mineral ores, and wines.
- The ECTA was set to be the foundation for resuming the CECA negotiations. Australia and India launched the CECA negotiations in May 2011, and then decided to suspend the talks in 2016 after nine rounds of negotiations, pending the outcome of other multilateral negotiations.
- In the coming months, the two countries will discuss deeper market access and cooperation in various areas, including digital trade, government procurement, education, and technology.

This March, India and Australia committed to conclude the negotiations for the CECA by the end of this year, aiming to boost bilateral trade to US\$100 billion. The CECA is also expected to create new employment opportunities and improve the living standards of the two countries.

Pakistan

Fast facts



Quantum index of large-scale manufacturing
(Dec 2022)
-3.5% yoy ▲



CPI (Feb 2023)
+31.5% yoy



Exchange rate (USD: PKR, as of 28 Feb 2023)
261.4438 (13.5% depreciation year-to-date)



Merchandise exports (Jan 2023)
-14.1% yoy ▲



Garments
-12.3% yoy ▲



Bed linen
-20.0% yoy ▼



Towels
+0.1% yoy ▲



Leather products
-7.5% yoy ▼

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

Source: Pakistan Bureau of Statistics, State Bank of Pakistan

12-Month Sourcing Outlook: Negative

Pakistan's economy is falling to a lower growth path since the start of fiscal year 2023 (July 2022 to June 2023, hereafter FY2023). The Large Scale Manufacturing Industries output decreased by 3.7% yoy in the first half of FY2023 and exports decreased by 8.7% yoy in the first eight months of the same fiscal year. Inflation rate soared to a record high of 35.1% yoy in February and is expected to remain around 28-30% in the coming months due to an uncertain political and economic environment, ongoing rise in energy prices, and increases in administered prices.

Even worse, the Pakistan government's external debt stock jumped by 38% yoy to 20.7 trillion rupees (about US\$77.3 billion) at the end of January 2023. Meanwhile, Pakistan's foreign exchange reserves held by the central bank fell to US\$3.1 billion, barely enough to cover three weeks of imports. In light of the country's increasingly fragile liquidity and the risk of sovereign default, Fitch, Moody's and S&P, the three top rating agencies, have downgraded Pakistan seven times since July 2022.

There is no short-term remedy for all these problems, so it will take some time for the country to bring its economy back on track.

Pakistan

Latest Developments

FBIC's take

Macroeconomic Trends

Pakistan's exports were down 8.7% yoy to US\$18.8 billion in July 2022 – February 2023, the first eight months of this fiscal year. In February 2023 alone, exports shrank 18.7% yoy to US\$2.3 billion.

Textile exports fell 28.1% yoy to US\$1.2 billion in February, marking the fifth consecutive year-on-year decline in monthly textile exports. However, it still accounted for 52.2% of Pakistan's total export value in the month.

Imports in July 2022 – February 2023 decreased by 23.6% yoy to US\$40.1 billion, as the government put strict measures to limit imports to reduce the soaring trade deficits of the country.

- Pakistan's exports shrank for the fifth month in a row in February due to the global economic slowdown and the fallout of the catastrophic floods last summer.
- Textile, Pakistan's key export sector, was also the largest victim of the disastrous floods and the government's restrictions on imports to handle its deficit problem. Due to the floods, Pakistan's cotton production dropped by 34.5% yoy in February alone. Furthermore, raw material shortages caused by restrictions on imports severely affected production activities in the textile industry.

Pakistan

Latest Developments

FBIC's take

Macroeconomic Trends

Net FDI inflows into Pakistan were US\$683.5 million during the period of July 2022 – January 2023, a 44.2% yoy drop from US\$1,224.7 million in the same period of the previous year. However, net FDI inflows increased by 102.4% yoy in January 2023 alone, to US\$222.6 million.

During the period from July 2022 to January 2023, the power sector (thermal, hydro, and coal generation) attracted the highest FDI of US\$315.2 million (46.1% of the total value of net FDI inflows), followed by the financial business sector (US\$224.7 million, 32.9%), oil & gas explorations (US\$98.4 million, 14.4%), and transport equipment (US\$73.8 million, 10.8%), as data from the State Bank of Pakistan show.

China was the largest foreign investor in Pakistan during this period: its investment was US\$200.2 million, accounting for 29.3% of the total value of net FDI inflows. Japan was the second largest foreign investor during this period (US\$133.9 million, 19.6%), followed by Switzerland (US\$106.5 million, 15.6%), United Arab Emirates (US\$83.2 million, 12.2%), and Hong Kong SAR, China (US\$46.4 million, 6.8%).

- In July 2022 – January 2023, the first seven months of FY2023, FDI inflows decreased by 27.1% yoy and FDI outflows increased by 26.3% yoy. The resulted plunge in net FDI inflows reflected foreign investors' worries about the uncertain political environment caused by the continued wrestling between the current and previous prime ministers, the ongoing strains in balance-of-payments, and the weak economic prospect of the country.
- Even China, the largest investor in Pakistan, reduced its investment by 42.7% yoy during this period. At the same time, China has provided US\$1.2 billion of loans since the start of 2023 and promised an additional US\$800 million in loans to help Pakistan tackle its debt crisis and stabilize the country's currency value.
- Net FDI inflows in January show some sign of improvement, with several key investors like China and Japan substantially increasing their investment compared with the same month last year. However, overall investment inflows to Pakistan in 2023 will remain limited given the macroeconomic fragility and political uncertainty in the country.

Pakistan

Latest Developments

FBIC's take

FTAs, Trade Preferences and Investment Agreements

On 23 February 2023, the US and Pakistan concluded the ninth US-Pakistan Trade and Investment Framework Agreement (TIFA) Council meeting in Washington. The meeting was chaired by US Trade Representative Katherine Tai and Pakistan's Minister of Commerce Syed Naveed Qamar.

This meeting focuses on boosting agricultural and digital trade between the two countries. The Pakistan side hopes that the IT market in the US could be further opened to Pakistani products and professionals, and seeks to expand its agricultural exports to the US market as well.

The next US-Pakistan TIFA Council meeting is scheduled to be held in Islamabad in 2024.

- The TIFA between Pakistan and the US was signed in 2003 and aimed at providing a platform for the two countries to discuss bilateral trade issues. The goal of the framework is to expand bilateral trade and investments in both goods and services.
- The US-Pakistan TIFA Council have agreed to meet at least once a year, but until this latest meeting, the two parties had not met after the previous meeting held in 2016, due to political tensions between the two countries.
- Despite political constraints, the US has long been the largest market for Pakistani exports. In fiscal year 2022 (from July 2021 to June 2022), Pakistan's goods and services exports to the US increased by 35% yoy to US\$9 billion, accounting for 23.2% of Pakistan's total exports in goods and services during the fiscal year.

Turkey

Fast facts



GDP (Oct–Dec 2022)
+3.5% yoy ▼



Manufacturing PMI (Feb 2023)
50.1 ▲



CPI (Feb 2023)
+55.18% yoy



Merchandise exports (Jan 2023)
+10.3% yoy ▲



Knitwear
+2.4% yoy ▲



Woven garments
+16.9% yoy ▲



Furniture
+7.4% yoy ▲



Exchange rate (USD: TRY, as of 28 Feb 2023)
18.8632 (0.9% depreciation year-to-date)

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

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

12-Month Sourcing Outlook: Slightly Negative

Turkey finished 2022 with an overall economic expansion of 5.6% yoy, beating market expectations of approximately 5.2%. The fourth quarter GDP grew by 3.5% yoy, and the third quarter grew by 4.1% yoy. The second half of 2022 saw an economic slowdown compared to the first half where quarter one and two were above 7% yoy growth. The slowdown in the second half of 2022 was partly due to reduced domestic and foreign demand caused by the continued Russia and Ukraine conflict, and the high interest rate environment globally.

2023 will be a challenging year for Turkey's economy following the two deadly earthquakes in the southeast region of the country that claimed more than 45,000 lives and destroyed 230,000 buildings. The region accounted for about 10% of total GDP and about 9% of total exports in 2022. The damage caused by the disaster will cost Turkey approximately US\$105 billion, 80% of which is directly related to the destruction of buildings, businesses, factories, etc., and the remaining 20% is related to the disruption to production, export and other activities. Turkey's 2023 GDP is expected to slow to 2.8%, based on the median estimate in a Reuters poll.

Turkey

Latest Developments

FBIC's take

Macroeconomic Trends

In 2022, Turkey's exports increased by 12.9% yoy to a record US\$254.2 billion, and imports shot by 34.0% yoy to US\$363.7 billion. The trade deficit for the entire year jumped by 137.0% yoy to US\$109.5 billion.

In January 2023, exports increased by 10.3% yoy to an all-time high of US\$19.3 billion, and imports rose by 20.7% yoy to US\$33.6 billion. The trade deficit for January surged by 38.4% yoy to US\$14.2 billion.

- The increase in energy imports, which surged by 90.5% yoy to US\$96.5 billion in 2022, was a cause of the widened trade deficit in the year. Energy imports accounted for about 26.5% of total imports.
- During 2022, the largest export partners for Turkey were Germany (US\$21.1 billion), the US (US\$16.9 billion), Iraq (US\$13.7 billion), the UK (US\$13.0 billion), and Italy (US\$12.4 billion). These top five countries accounted for 30.4% of total exports of Turkey in 2022.
- In terms of exports by category, Turkey's exports of knitwear and woven garments had a growth of 6.4% yoy to US\$19.5 billion in 2022.
- 11 southeastern provinces in Turkey were affected by the earthquakes. And they have a combined export of US\$20.5 billion, which accounts for 9% of total exports of Turkey in 2022. More specifically related to the textile and apparel export sector was as follows: the Gaziantep province exported about US\$1.7 billion worth of textiles in 2022; Kahramanmaraş, exported US\$868.9 million worth of textiles; and Adiyaman, exported US\$34.2 million of ready-made clothing and apparel.
- Total exports in January of 2023 were record setting; however, it is forecasted that February's export figures will be affected by the earthquakes.

The Manufacturing Purchasing Managers' Index (PMI) of Turkey rose to 50.9 in March, up from 50.1 in both January and February.

According to S&P global, which publishes the manufacturing PMI of Turkey, in March, manufacturing production increased for the first time in 16 months; new orders returned to growth for the first time in a year and a half; and new export orders rose for the first time in a year.

- This signals a modest improvement in manufacturing activities in March, although February's massive earthquakes continued to impact the manufacturing sector.
- According to S&P global, the start of earthquake reconstruction efforts led to higher output in some cases and supported the overall return to growth. On the other hand, both input costs and output prices rose sharply in March amid higher raw material costs, currency weakness and increased wages.

Turkey

Latest Developments

FBIC's take

Macroeconomic Trends

Turkish annual inflation fell for a fifth consecutive month to 50.5% in March, the lowest since January 2022, from 55.2% in February. The consumer price index increased 2.3% in March over the previous month.

Amid the high inflation, the Turkish Central Bank (CBRT) reduced its one-week repo rate by 50-basis points from 9% to 8.5% in February.

Turkey's FDI inflow in 2022 was US\$13.0 billion, with a 8.5% yoy decrease.

- Turkey's annual inflation hit a 24-year high of 85.5% in October 2022, but has been declining since then.
- Prior to the earthquakes, inflation was originally expected to drop to around 40% in the second half of 2023.
- The CBRT explained that the 50-basis point rate cut in February was necessary to support overall growth and recovery efforts after the deadly natural disaster in early February.

- Although there was a drop in the FDI inflow in 2022 as compared to the previous year, Turkey was still quite resilient against the backdrop of a highly inflationary and uncertain global environment.
- The top sources of investments in 2022 came from Spain (US\$1.6 billion), followed by The Netherlands (US\$863 million), and Switzerland (US\$737 million).
- In terms of industry, the finance and insurance sector was the top recipient of the FDI and accounted for 28% of the total FDI in 2022. Wholesale/retail trade came in second at 25%, and the manufacturing industry came in next at 24%.
- In the first three quarters of 2022, Turkey's early stage and later stage technology ventures/startups received US\$1.5 billion in investments, totaling 208 deals.

Turkey

Latest Developments

FBIC's take

Industry Development

In early 2023, Alibaba announced that they plan to invest US\$1 billion in Turkey. Alibaba's Director and President J. Michael Evans shared plans to invest in a logistic hub near Istanbul Airport, as well as a data center in Ankara.

- Alibaba sees Turkey as a strategic location for their Middle East and European markets. Turkey's strong production based and short product delivery lead times to these two markets was a consideration for this investment.
- Alibaba also holds 86.5% share of Turkey's Trendyol, a homegrown e-commerce platform and Turkey's first decacorn – a privately held company with valuations exceeding US\$10 billion.

Turkey is finalizing investment negotiations with various technology companies and is expected to receive US\$40 billion worth of investments to build the country's second nuclear power plant in Sinop province, which is part of Turkey's Black Sea region.

- TÜNAŞ, the founder and project manager of the project, will commence excavation at the site sometime this year.
- The power plant is planned to have a total installed power of 4,560 megawatts across its four pressurized water reactor nuclear power units. Annual electricity production capacity is aimed to achieve 34 billion kilowatt-hours.
- This mega project, along with the first nuclear power plant currently under construction in Mersin province, is envisioned to give Turkey more energy independence from imports.

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