

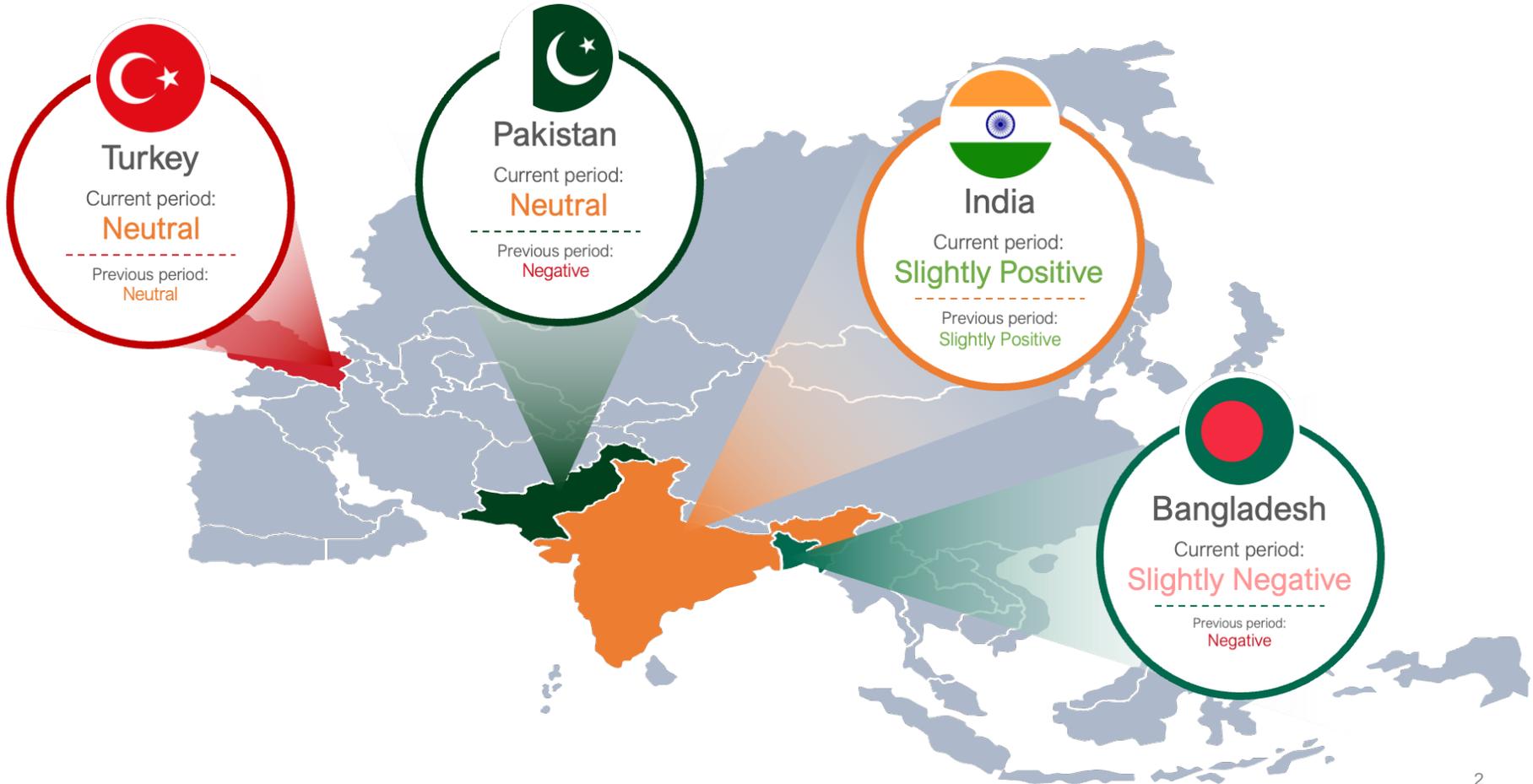
Asia Sourcing Update

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 (Oct 2023)
-4.6% yoy ▼



CPI (Dec 2023)
+9.4% yoy



Exchange rate (USD: BDT, as of 31 Jan 2024)
110 (no change, year-to-date)



Merchandise exports (Jan 2024)
11.5% yoy ▲



Knitwear
17.3% yoy ▲



Woven garments
7.2% yoy ▲



Home textiles
-7.4% yoy ▲



Footwear
27.1% 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

Bangladesh has revised its economic growth projection for the current fiscal year (July 2023-June 2024) to 6.5% from the initial 7.5% due to ongoing challenges in the economy. The inflation projections have also been revised to 7.5% from 6% due to high consumer prices. Inflation has remained above 9% since March 2023, despite credit tightening by the central bank in the first half of the current fiscal year.

The Russia-Ukraine conflict has already had repercussions on the global economy, including Bangladesh, which is striving to recover from the losses. The Red Sea crisis has further disrupted global supply chains, posing additional challenges. As Bangladesh heavily relies on imports, particularly for essential goods such as food, petroleum, industrial and garment raw materials, as well as chemicals and pharmaceutical ingredients, the Red Sea crisis will directly and indirectly disrupt the trade sector of Bangladesh and its neighboring countries.

If the Red Sea unrest persists, it may lead to instability in Bangladesh's manufacturing sector, particularly affecting the readymade garments (RMG) and other export-oriented industries, potentially resulting in job losses for industrial workers.

Bangladesh

Latest Developments

FBIC's take

Macroeconomic Trends

In January, Bangladesh's exports reached US\$5.72 billion, up by 11.5% yoy. Of which, apparel exports were US\$5.0 billion, up by 12.5% yoy. The positive growth came after three consecutive months of negative growth since October 2023.

During July 2023 to January 2024, the first seven months of the current fiscal year, exports of the country grew by 2.5% yoy, amounted to US\$33.3 billion. Apparel exports reached US\$28.4 billion during the same period with a year-on-year growth of 3.5%.

In the period from July to September 2023, Bangladesh received US\$913 million in gross foreign direct investment (FDI), down from US\$1.43 billion during the corresponding period of 2022. The net FDI was US\$670 million, down from US\$1.1 billion in the same period of 2022.

Between January and September of 2023, gross FDI dropped by 24.0% yoy to US\$2.8 billion. The net FDI was US\$2.1 billion, down by 23.8% from the same period in 2022.

- Bangladeshi exporters are anticipating a rebound in clothing orders during the second quarter of 2024, especially as global brands have successfully cleared their winter inventories. Additionally, with the easing of inflation, international consumers are expected to spend more on clothing items.
- Despite this positive outlook, the industry is expected to face several challenges. The recent increase in minimum wage, starting from December 2023, along with a surge in lending rates and elevated gas and electricity prices, has significantly driven up production costs.
- Moreover, the Red Sea crisis has led to increased freight rates and longer lead times.

- The decrease in FDI was attributed mainly to the unstable exchange rate and political uncertainty, which have affected the confidence of external investors.
- The US dollar has appreciated by approximately 30% against the taka over the past two years. It traded at around 109 taka in late February 2024, compared to 86 taka in February 2022.
- The weakening Bangladeshi taka has led to an increase in operating costs for businesses in Bangladesh and has affected investors' profitability and return on investment.
- Contributing to the weakening currency is Bangladesh's unprecedented financial account deficit. This problem cannot be resolved soon due to the relatively slow growth of remittances and export earnings, the country's two major sources of foreign exchange.

Bangladesh

Latest Developments

FBIC's take

| | Latest Developments | FBIC's take |
|----------------------|--|---|
| Industry Development | <p>The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) conducted a survey titled, "<i>Garment Industries' Crucible: Our Views</i>". The survey, released in January, reveals that despite an 56% increase in workers' minimum wage, 79.1% of respondents stated that their buyers have not raised the prices of their products.</p> | <ul style="list-style-type: none">• The BGMEA survey interviewed 66 RMG manufacturers.• According to the survey, 4.5% of buyers increased product price by 1%, 6% of buyers by 2%, 3% of buyers by 3%, and 4.5% buyers by 4%. Only 3% of buyers raised product prices by up to 5%.• The survey also highlighted a year-on-year decline of 3.9% in the average free on board (FoB) price last year, amid the severely high inflation. Additionally, 47.1% of respondents said that buyers had reduced FoB price by more than 5% yoy. |
| Other Topics | <p>The Metropolitan Chamber of Commerce and Industry (MCCI), in collaboration with the private research organization Policy Exchange Bangladesh (PEB), is preparing to launch a Purchasing Managers' Index (PMI) for Bangladesh. The initiative is supported by the UK Government's Foreign, Commonwealth and Development Office (FCDO).</p> | <ul style="list-style-type: none">• The first PMI index of the country is expected to be published in May. Data will be collected monthly from 500 institutions across the country, and the PMI index will be released at the start of each month.• The PMI index will be compiled using data from four sectors: agriculture, manufacturing, construction and services. It will help policymakers and the private sector to assess the dynamics and trends of the economy in a prompt manner. |

India

Fast facts



GDP (Jul-Sep 2023)
+7.6% yoy ▼



Manufacturing PMI (Jan 2024)
56.5 ▲



CPI (Jan 2024)
+5.1% yoy



Merchandise exports (Dec 2023)
1.0% yoy ▲



Knitwear
-17.3% yoy ▼



Woven garments
-8.5% yoy ▲



Footwear
-19.1% yoy ▲



Furniture
-6.8% yoy ▼



Exchange rate (USD: INR, as of 31 Jan 2024)
83.0805 (0.23% depreciation year-to-date)

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

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

12-Month Sourcing Outlook: Slight Positive

In mid-January, Shaktikanta Das, the Governor of the Reserve Bank of India (RBI), projected a growth rate of 7% for the Indian economy in the next financial year (April 2024 - March 2025). Das credited the government's structural reforms for enhancing the medium and long-term growth prospects of the Indian economy. He also expressed optimism that inflation would further ease. The RBI's monetary policy actions and liquidity rebalancing were cited as factors contributing to the substantial easing of headline inflation from the highs observed in the summer of 2022.

However, the ongoing Red Sea crisis poses a significant risk to the economic outlook of South Asian countries. Fitch Group highlighted that these economies would be most affected by disruptions in maritime trade, which would lead to increased shipping distances, time and costs. India's economic forecast is particularly susceptible to the shipping disruptions in the Red Sea, which may impact its GDP growth this year.

India

Latest Developments

FBIC's take

Macroeconomic Trends

India's exports in January grew by 3.1% yoy to US\$36.9 billion. Meanwhile, imports grew by 3.0% yoy to US\$54.4 billion. India's trade deficit in the same month narrowed to US\$17.5 billion, the lowest since April 2023.

During the period from April 2023 to January 2024, exports of the country dropped by 4.9% yoy to US\$353.9 billion and imports decreased by 6.7% yoy to US\$561.1 billion. The trade deficit reduced to US\$207.2 billion from US\$229.30 billion during the same period of the previous financial year.

- In January, exports showed positive growth in 18 out of 30 sectors. For instance, engineering product exports increased by 4.2% yoy to US\$8.7 billion, and petroleum product exports rose by 6.5% yoy to \$8.2 billion. Also, electronics exports reached US\$2.3 billion, up by 9.3% yoy and drug and pharma exports were US\$2.1 billion, up by 6.8% yoy.

FTAs, Trade Preferences and Investment Agreements

After 16 years of negotiations, the European Free Trade Association (EFTA) states and India have finally reached consensus on a free trade agreement (FTA). Switzerland, representing the EFTA states, which consists of Switzerland, Liechtenstein, Iceland and Norway, engaged in negotiations with India in Mumbai on 19 and 20 January.

- Swiss Economic Minister Guy Parmelin shared on the X platform, formerly known as Twitter, that the two sides have agreed upon the framework of the EFTA-India trade agreement. Although the specific details of the FTA have not been made public, the Swiss Minister emphasized the importance of promptly signing the FTA.
- The Swiss Minister also expressed optimism that the FTA would create jobs for India's young population, and secure employment in Switzerland.

India

Latest Developments

FBIC's take

Industry Development

According to Deloitte's latest survey released in mid-January, around 45% of chief experience officers (CXOs) in India's incorporations expect a growth rate of 6-6.5% for the country in the upcoming financial year. It is noteworthy that this would mark the third consecutive year of the country's fastest growth among major economies.

The survey gathered responses from senior leadership at around 230 firms, including both large companies (with a turnover of 2.5 billion to 30 billion Indian rupees) and very large companies (with a turnover of over 30 billion Indian rupees).

- The fast growth of the Indian economy is expected to be driven by a shift in consumer preferences and an increase in consumer and retail spending, particularly in Tier-2 and Tier-3 cities.
- The expected increase in internet penetration and digital consumption, along with the government's focus on skill development and shift towards manufacturing and services, will also be driving growth in India. Government initiatives, trade collaborations, reduced logistics costs, and policies promoting industrial production and sustainable technologies will further contribute to this momentum.
- Collaboration between the public and private sectors is seen as crucial for innovation, especially in infrastructure development, digitization, and skill enhancement, with 67% of business leaders acknowledging its potential to bolster the economy. Improved access to financial instruments, particularly in the financial services and technology, media, and telecommunications industry, is also expected to support industry growth, according to 61% of respondents.
- Environmental, social, and governance (ESG) initiatives remain a priority for businesses, with renewable energy being emphasized by 100% of respondents. Leaders expect the government to prioritize investment in ESG strategies, technological innovations, infrastructure development, and skill enhancement.

Pakistan

Fast facts



Quantum index of large-scale manufacturing
(Dec 2023)
3.4% yoy ▲



CPI (Jan 2024)
+28.3% yoy



Exchange rate (USD: PKR, as of 31 Jan 2024)
279.3290 (0.9% Appreciation year-to-date)



Merchandise exports (Jan 2024)
21.2% yoy ▲



Garments
-0.8% yoy ▲



Bed linen
7.8% yoy ▲



Towels
1.5% yoy ▼



Leather products
5.5% 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: Neutral

Pakistan's macroeconomic conditions have gradually improved since the start of fiscal year 2024 (July 2023 to June 2024, hereafter FY2024), resulting in a GDP growth of 2.1% yoy in the first quarter of FY2024 (July-September 2023), with expectations for continued growth in the second quarter. Exports increased by 9.3% yoy in the first seven months of FY2024 (July 2023-January 2024). On the other hand, the Large-Scale Manufacturing Industries output contracted by 0.4% in the first seven months of FY2024 and inflation measured by the consumer price indicator still stood at 28.3% in January 2024, higher than the inflation target of 21.5% set by the government for FY2024.

In the coming months, high-interest rates, tight capital and import controls, and high inflationary pressures will continue to impede the full recovery of the country's economy. The strife in forming a coalition government after the national election held on 8 February means that the country's political stability and security will remain tenuous for a while. As a result, the International Monetary Fund downgraded Pakistan's growth estimate for FY2024 to 2% in January, from 2.5% it projected in October last year.

Pakistan

Latest Developments

FBIC's take

Macroeconomic Trends

Pakistan's exports increased by 9.3% yoy in the first seven months of FY2024 (July 2023-January 2024) to US\$18.0 billion, according to the State Bank of Pakistan. In January alone, exports increased by 21.2% yoy to US\$2.7 billion.

In the first seven months of FY2024, the exports of textile and clothing, the largest export sector of Pakistan, decreased by 7.2% yoy to US\$9.6 billion. However, in January, textile and clothing exports increased by 5.5% yoy to US\$1.4 billion, reversing the downward trend in the earlier months.

The US is the top export destination of Pakistani products during this seven-month period, with an export value of US\$3.2 billion. This is followed by China (US\$1.7 billion) and the UK (US\$1.2 billion).

Net foreign direct investment (FDI) inflows into Pakistan decreased by 21.4% yoy in the first seven months of FY2024 (July 2023-January 2024) to US\$689.5 million.

During this period, the power sector (thermal, hydro, and coal generation) attracted the highest FDI of US\$191.0 million (27.7% of the total value of net FDI inflows), followed by oil & gas explorations (US\$134.6 million, 19.5%), the financial business sector (US\$108.2 million, 15.7%), and petroleum refining (US\$51.7 million, 7.5%).

Hong Kong SAR, China was the largest foreign investor in Pakistan during this period, with an investment of US\$206.9 million, accounting for 30.0% of the total value of net FDI inflows. The UK was the second largest foreign investor during this period (US\$141.5 million, 20.5%), followed by the US (US\$70.5 million, 10.2%), the Netherlands (US\$53.7 million, 7.8%), and Singapore (US\$49.0 million, 7.1%).

- Pakistan's exports showed a sign of recovery after having registered positive year-on-year growth since October 2023. Specifically, the rebound of textile and clothing exports in January 2024 ended the sector's downward trend of 14 consecutive months.
- However, it remains unclear whether the growth will persist in the upcoming months, as high energy costs continue to pose a big challenge to the country's largest export sector. The government has been promising for months to offer regionally competitive energy prices to textile exporters and help resolve their cash flow problems by releasing pending sales tax refunds, but no actual actions have been taken as of January this year.

- It is noteworthy that, in the first six months of FY2024 (July-December 2023), the net FDI inflows that the country received surged by 34.8% yoy to US\$862.6 million, according to the data from the State Bank of Pakistan.
- The sharp year-on-year decrease of net FDI inflows in the first seven months of FY2024 is therefore a result of the large FDI outflow of US\$357.9 million in the month of January 2024 alone, of which US\$311.3 million were from the country's power sector.

Pakistan

Latest Developments

FBIC's take

Policies and Regulations

On 21 December 2023, Dr Shamshad Akhtar, the caretaker Minister for Finance, Revenue, and Economic Affairs, formally launched Pakistan's Export-Import Bank (EXIM).

It is hoped that the EXIM of Pakistan will enhance Pakistani exporters' competitiveness globally through provisions like lending, credit insurance, and guarantee services. These services are expected to create a level playing field for Pakistani exporters vis-à-vis their competitors, who have already relied on their national export credit agencies and EXIMs. It is also hoped that, through its specialized products, the EXIM can facilitate access to a wider global market, enabling Pakistani exporters to diversify their product portfolios and explore new markets.

- Across the globe, EXIMs play a crucial role in promoting international trade and economic growth by providing a range of products and services to exporters, importers, and investors, often filling gaps where private-sector financing is unavailable or insufficient. In 2023, EXIMs disbursed a staggering US\$2.5 trillion in trade finance globally, substantially fostering exports across over 60 countries and boosting export investments.
- The launch of the EXIM of Pakistan is considered a significant stride for Pakistan to expand its exports, attract investments and propel economic growth in the country.

Infrastructure

On 27 January 2024, China Southern Airlines resumed the Urumqi-Kashgar-Islamabad route, offering round-trip flights every Saturday. The resumption of service came nearly 15 years after the route had been suspended since July 2009, due to security concerns following violent ethnic riots that erupted in Urumqi.

The decision to resume the Urumqi-Kashgar-Islamabad route is part of China Southern's strategy to expand its international operations and enhance connectivity between China and Pakistan.

- The revival of the Urumqi-Kashgar-Islamabad route has increased the number of routes operated by China Southern Airlines between Xinjiang and Pakistani cities to three, following connections established between Urumqi and Islamabad, and between Urumqi and Lahore.
- The reopening of the route will provide efficient and convenient air transportation support for the development of tourism, foreign trade, commerce, and related industries in Islamabad, Pakistan and Xinjiang, China, and will contribute to the overall development of the China-Pakistan Economic Corridor.

Turkey

Fast facts



GDP (Jul–Sep 2023)
+5.9% yoy ▲



Manufacturing PMI (Jan 2024)
49.2 ▲



CPI (Jan 2024)
+64.86% yoy



Merchandise exports (Dec 2023)
0.4% yoy ▼



Knitwear
-8.2% yoy ▼



Woven garments
-13.9% yoy ▼



Furniture
-0.9% yoy ▼



Exchange rate (USD: TRY, as of 31 Jan 2024)
30.3053 (3.0% 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: Neutral

Turkey's economy exceeded expectations by growing 4.5% in 2023, with strong domestic demand offsetting the impact of a slowdown in trading partners and earthquakes. The country's GDP reached US\$1.12 trillion, with a GDP per capita of US\$13,110. Fourth quarter GDP growth rate was 4.0% and almost matched the government's medium-term program forecast for 2023's fourth quarter of 4.4%. Revised data showed 2023 third quarter growth at 6.1% (up from 5.9%).

The Turkish economy maintained its growth streak for 14 consecutive quarters, even during the COVID-19 period. The growth achieved in 2023 demonstrated Turkey's strong resilience against headwinds; however, the pace of growth is expected to slow in the current year due to tighter monetary policy implemented to combat inflation.

Turkey

Latest Developments

FBIC's take

Macroeconomic Trends

In January 2024, Turkey's exports increased by 3.5% yoy to US\$20.0 billion, and imports dropped by 22.0% yoy to US\$26.2 billion. The trade deficit for January shrank by 56.4% yoy to US\$6.2 billion.

For full year 2023, Turkey's exports increased by 0.6% yoy to US\$255.8 billion, and imports dropped by 0.5% yoy to US\$361.8 billion. The trade deficit for the full year period declined by 3.2% yoy to US\$106.0 billion.

In 2023, Turkey received foreign direct investments (FDI) totaling US\$10.6 billion. The largest investors in Turkey during the year were the Netherlands, Germany, the United Arab Emirates (UAE), Qatar, Russia, France, the UK, Ireland, the US, and Switzerland. The manufacturing sector attracted the highest share of the FDI at 30.7%, followed by wholesale and retail trade at 17.6%, and finance and insurance activities at 10.7%.

In February, the Purchasing Managers' Index (PMI) for manufacturing in Turkey rose to 50.2, indicating a rebound in manufacturing activity after eight consecutive months of contraction. The February PMI increased from 49.2 in January, crossing the 50-point threshold that signifies growth in activity.

- Turkish exports started off strong in 2024 with the highest recorded January export figure in the history of the country.
- In January, the largest export partners for Turkey were Germany (with an export earnings of US\$1.8 billion), the US (US\$1.2 billion), Iraq (US\$1.2 billion), the UK (US\$1.0 billion), and Italy (US\$1.0 billion). These five countries represent 30% of Turkey's total exports for the month.
- In terms of exports by category, Turkey's exports of knitwear and woven garments reported a year-on-year decline of 9.3% to US\$1.4 billion in January.
- 2023 full year export figures were impressive as it has been three consecutive years of growth despite years of macro headwinds – COVID-19, global interest rate rise, and the devastating twin earthquakes that shook the southeastern region of Turkey in February 2023. The earthquake created approximately US\$6 billion in export losses.
- The inflow of FDI into Turkey indicates growing confidence in the country's economic prospects. Turkey has been implementing aggressive interest rate hikes and other measures to stabilize the Turkish lira, reduce trade deficits, and tame inflation. These actions have been well-received by foreign investors, including prominent names like Pimco and Vanguard, who have shown confidence by investing in Turkish assets.
- The manufacturing sector's appeal to FDI is consistent with Turkey's long-term trend, as the country has been successful in attracting investments in manufacturing over the past decade.
- Despite global challenges, Turkey's ability to surpass \$10 billion in FDI reflects the country's increased favourable investment climate.
- The rebound in Turkey's manufacturing activity in February is an encouraging sign for industrial production and economic recovery of the country. It also indicates a positive start to 2024. Treasury and Finance Minister Mehmet Şimşek expressed optimism, emphasizing the importance of the manufacturing sector and its potential for further strengthening, particularly with the recovery in the EU, Turkey's main trading partner.
- The survey had both positive and challenging aspects. While the expansion of purchasing activity suggests firms' confidence in the future, new orders continued to soften. Besides, supply delays caused by disruptions in trade through the Suez Canal have led to reduction in stocks of components. Employment levels also moderated due to voluntary resignations and difficulties in finding new staff.

Turkey

Latest Developments

FBIC's take

Policies and Regulations

On 25 January, The Central Bank of Turkey (CBRT) increased the policy rate by 250 basis points to 45%. This increase was as expected. There has been 8 consecutive months of rate increases through January totaling 3,650 basis points. According to a survey by the Anadolu Agency, all 14 participating economists expect the rate to remain at 45% for now.

- In an effort to battle inflation and signal a commitment to a more traditional monetary policy, the CBRT raised interest rates substantially since June 2023.
- The annual inflation in this January increased to 64.9% from 64.8% in December 2023 mainly due to an increase in minimum wages as well as new-year price updates. The CBRT predicts that annual inflation will be 36% by year end.

Sustainability

The World Bank has approved a loan of 600 million euros (approximately US\$650 million) to support Turkish exporters in reducing carbon emissions from their production processes.

The loan will be used within the "Türkiye Green Export Project" to provide cost-effective and long-term financing to exporters investing in green and climate-resilient solutions, such as machinery development, equipment, heating and cooling systems, and waste reduction or recycling.

- The World Bank's approval of a significant loan to support Turkish exporters in reducing carbon emissions reflects the growing global emphasis on green and sustainable practices.
- The loan aims to address the challenges posed by the EU's imposition of tariffs on carbon-intensive products, which will come into effect in 2026. By assisting exporters in reducing their carbon footprint, it is hoped that Turkey exporters will stay competitive in international markets and will be able to tap into the increasing demand for green products and services worldwide.
- The loan also aligns with the Turkish government's commitment to the green transformation process and contributes to the global transition to a low-carbon future.

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