FUNG BUSINESS INTELLIGENCE

December 2020

Asia Sourcing Update

Bangladesh, India, Pakistan and Turkey

Southeast Asia | **South and West Asia**

Highlights: Evaluating sourcing destinations

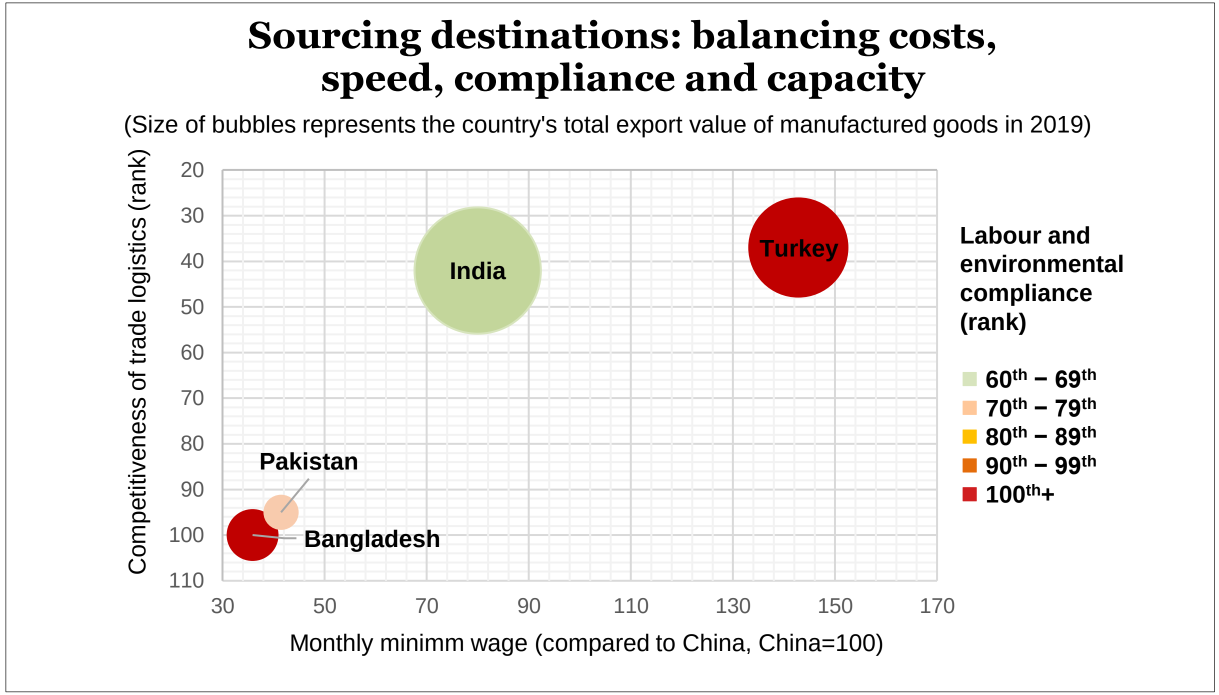
12-month Sourcing Outlook

Slightly positive:

Bangladesh, Pakistan, Turkey

Neutral:

India



Source:
Exports of manufactured goods (2019): WTO database;
Minimum wage (as of mid-Dec 2020): Bangladesh (for entry-level garment industry workers), India (Delhi−unskilled workers), Pakistan (for unskilled workers), Turkey (wage rate is before taxes and deductions), China (Dongguan), converted to US dollar terms based on exchange rates on 15 December from Bloomberg;
Competitiveness of trade logistics (rank): measured by the aggregated Logistics Performance Index released by the World Bank;
Labour and environmental compliance (rank): measured by the average ranking of two index components 'environmental-related treaties in force' and 'workers' rights' in the World Economic Forum's 2019 Global Competitiveness Index

Bangladesh

Fast facts

Quantum index of medium and large-scale manufacturing (Jul 2020)
+8.9% yoy ▲

CPI (Nov 2020)
+5.5% yoy ▼

Exchange rate (USD: BDT, as of 15 Dec 2020)
84.8023 (0.1% appreciation year-to-date)

Merchandise exports (Nov 2020)
+0.8% yoy ▲

- Knitwear
  +5.0% yoy ▲
- Woven garments
  -10.5% yoy ▲
- Home textiles
  +61.8% yoy ▼
- Footwear
  -4.1% yoy ▼

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

12-Month Sourcing Outlook: Slightly positive

In the July-November period, exports in Bangladesh reached US$15.9 billion, up by 0.93% compared to the same period in the previous year. The slight increase in exports shows a positive sign of recovery of the Bangladeshi economy.

However, the COVID-19 recurrence in Europe and the US may pose downward pressure on Bangladesh's export growth in coming months. The industry may need additional support from the government to withstand any adverse impacts of the pandemic.

Bangladesh

	Latest Developments	FBIC's take
Macro-economic Trends	In November, merchandise exports in Bangladesh edged up by 0.76% yoy to US$3.1 billion. In the July–November period, exports reached US$15.9 billion, up by 0.93% compared to the same period in the previous year.	• Exporters in Bangladesh were contented with the slight increase in exports, amid the recurrence of COVID-19 pandemic in major export destinations, such as Europe and the US. • According to the Policy Research Institute of Bangladesh (PRI), Bangladesh is on the way to a full recovery. The PRI expected that the country's exports would recover fully by early next year, if the COVID-19 recurrence does not affect the business severely.
Labour Issue	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. Moreover, the report showed monthly wages in two-thirds of countries for which official data were available fell or grew slowly in the first half of 2020 amid the COVID-19 pandemic, which is likely to put downward pressure on wages in the near future.	• 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. • The last revision of minimum wage in Bangladesh happened in December 2018. Bangladesh has made no schedule for the next adjustment of minimum wage in the near future.
Trade Policies	A trade and investment dialogue between Bangladesh and the UK will be held in January next year. The UK has proposed to deepen the existing trade relationship with Bangladesh by identifying and addressing trade barriers faced by British exporters.	• In 2019, the UK was the third largest investor in Bangladesh and also the third largest export destination for the country's apparel shipment. In the 2019-20 fiscal year (July 2019–June 2020), Bangladesh's exports to the UK reached US$3.5 billion and imports from the UK recorded US$411 million. • The UK has invested in establishing 100 special economic zones in important locations across Bangladesh. The dialogue may further improve the business environment facing the two nations in the post-Brexit era.

India

Fast facts

GDP (Jul–Sep 2020)
-7.5% yoy ▲

Manufacturing PMI (Nov 2020)
56.3 ▼

CPI (Nov 2020)
+6.9% yoy ▼

Merchandise exports (Oct 2020)
-5.1% yoy ▼

Knitwear
+9.8% yoy ▼

Woven garments
+2.6% yoy ▼

Footwear
-21.5% yoy ▼

Furniture
+23.7% yoy ▼

Exchange rate (USD: INR, as of 15 Dec 2020)
73.64 (3.1% 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, Bloomberg

12-Month Sourcing Outlook: Neutral

India's economy recorded a faster-than-expected recovery in the July–September quarter, thanks to the easing of COVID-19-related restrictions and government's comprehensive stimulus measures. As indicated by the manufacturing PMI, the country's manufacturing sector has expanded for four straight months since August, with new export orders posting continuous increases since September.

However, a possible resurgence of COVID-19 cases in the winter months ahead and subsequent re-imposition of social distancing measures could undermine India's recovery trajectory. Daily new confirmed cases in India reached around 30,000 since early December, down from the peak of 90,000 daily case counts in mid-September. A complete withdrawal of all lockdown measures remains unforeseeable for the time being.

India

Macroeconomic Trends	Latest Developments	FBIC's take
	India's GDP contracted by 7.5% yoy in the July–September quarter, a sharp rebound from the record decline of 23.9% yoy in the previous quarter. The recovery in economic activity was most evident in the manufacturing sector, with gross value added (GVA) expanding by 0.6% yoy in the July–September quarter compared to a plunge of 39.3% yoy in the previous quarter, while the service sector saw only modest rebound due to continued localised lockdowns.	• The latest GDP figure indicates that India's economy has recovered faster than expected, supported by pent-up demand amid easing COVID-19-related restrictions and the government's comprehensive stimulus measures. • We anticipate India's economic recovery to continue for the third and fourth quarters of the fiscal year, especially driven by strong demand during the five-day Diwali festival in November. However, a possible resurgence of COVID-19 cases in winter months ahead and the associated re-tightening of restrictions are major downside risks to the outlook. The economic prospects for 2022 could be more optimistic, following an expected vaccine rollout by mid-2021 and the ensuing easing of COVID-19-related restrictions.
	Foreign direct investment (FDI) equity inflows into India grew by 15.0% yoy to US$30.0 billion in the first half of the current fiscal year (April 2020–March 2021), according to data from the Department for Promotion of Industry and Internal Trade (DPIIT). Leading sources of FDI capital in the period were Singapore (27.7%), the US (23.7%) and Cayman Islands (7.0%). Industries receiving the largest FDI equity included computer software and hardware (38.5%), the service sector (7.5%) and trading (3.2%).	• Despite global economic recession and unprecedented uncertainties amid the prolonged pandemic, India has continued to attract foreign investment, thanks to its huge market potential, stable political outlook, government's continued reforms to liberalise FDI restrictions and improved ease of doing business. • The Indian government has taken many initiatives in recent years to relax FDI rules in various sectors, including defence manufacturing, telecom, single-brand retail, contract manufacturing, coal mining and digital media. Moreover, a new, unified single window clearance system for FDI proposals is expected to be launched by 31 March next year, making approvals more transparent and expeditious. • Some large investment projects approved or announced this year include the approval of Facebook's US$5.7 billion deal for a 9.99% stake in India's top telecom network Jio Platforms in June; Google's plan to invest US$10 billion in India over the next five to seven years through equity investments, partnerships and other arrangements to accelerate digitisation in the country; and Foxconn's plan to invest up to US$1 billion to expand a factory in southern India.

India

	Latest Developments	FBIC's take
Policies & Regulations	The Indian government approved on 11 November the extension of the Production-Linked Incentive (PLI) scheme to ten more sectors, including 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, with a total outlay of 1.46 trillion Indian rupees (US$19.8 billion) over the next five years. 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.	• The recent announcement was an extension of the existing PLI scheme approved earlier this year, which covers three sectors — mobile manufacturing and specified electronics components, drug intermediates and active pharmaceutical ingredients, and medical devices. • 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 by each sector. • As part of the Modi administration's "Atmanirbhar Bharat Abhiyan" (Self-reliant India Campaign) to boost the Indian economy amid the pandemic, the PLI scheme is expected to attract more manufacturing-related investment in India, particularly in sectors that rely heavily on imports.

Pakistan

Fast facts

Quantum index of large-scale manufacturing (Oct 2020)
+6.7% yoy ▼

CPI (Nov 2020)
+8.3% yoy ▼

Exchange rate (USD: PKR, as of 15 Dec 2020)
160.4473 (3.5% depreciation year-to-date)

Merchandise exports (Oct 2020)
+4.2% yoy ▼

- Garments
  +10.8% yoy ▼
- Bed linen
  +14.3% yoy ▲
- Towels
  +10.0% yoy ▼
- Leather products
  -9.5% yoy ▼

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

12-Month Sourcing Outlook: Slightly positive

Pakistan's monthly exports have continued to increase year-on-year since September, driven by pent-up demand to replenish inventories by most retailers and strong demand for Fall/Holiday products from the US and Europe markets.

However, the resurgence of COVID-19 infections at home and abroad and a possible raw material shortage facing the textile and garment sector could reverse the export growth trajectory in the months ahead.

Since mid-November, daily confirmed case counts in Pakistan have increased to 2,000–3,000, compared to less than 1,000 during the August–October period. All public and private companies in major cities are required to implement a 50% work-from-home policy, effective from 20 November, to control the spike of COVID-19 cases.

Pakistan

	Latest Developments	FBIC's take
Macroeconomic Trends	Foreign direct investment (FDI) in Pakistan reached ten-month high of US$317.4 million in October, up by 150.9% yoy, according to data from the State Bank of Pakistan. The sharp increase in FDI was mainly driven by large investment in coal-fired power projects from China, which accounted for 72.1% of the country's total FDI in the month. In the July–October period, FDI in Pakistan increased by 9.1% yoy to US$733.1 million. China, Malta and the Netherlands were the top three foreign investors in Pakistan during this period, while the power sector, financial business and oil and gas exploration were the top three sectors that received the largest FDI.	• As China has rapidly recovered from the COVID-19 pandemic, its investment in the China–Pakistan Economic Corridor (CPEC) mega project has gradually revitalised. Other potential investing countries, however, are still fighting against the recurrence of COVID-19, which will take some time for them to resume overseas investment. • Meanwhile, despite subdued global investment activities amid the pandemic, Pakistan received the fourth highest investment commitments in infrastructure with private participation in the first half of 2020, according to a World Bank report. It was mainly due to a US$1.9 billion mega coal power project developed under the umbrella of CPEC, as part of the efforts by the Pakistani government to improve energy security and reduce power generation cost.
	Pakistan's exports of textiles and garments increased by 3.8% yoy to US$4.76 billion in the July–October period, the first four months of the current fiscal year. Particularly, knitwear, the largest category within the commodity group, witnessed a sharp increase of 12.3% yoy in exports in the four-month period, while exports of woven garments and bed linen grew by 4.7% yoy and 10.0% yoy, respectively. .	• The Pakistani government has taken various measures to support the textile and garment sector, which accounted for over 60% of the country's exports, during the COVID-19 crisis. These measures included the withdrawal of duties on imported textile inputs and the adjustment of power tariffs for the sector. • Meanwhile, the sector's reliance on exporting low-cost and basic products, such as readymade garments, bed sheets and hosiery, instead of high-end and fashionable items, has served as a short-term advantage for the sector to weather such an unprecedented crisis. • The US's sanctions on import of cotton and apparel from some business entities allegedly related to 'forced labour' in China's Xinjiang region are prompting some US brands and retailers to source cotton-based products from Pakistan.

Pakistan

	Latest Developments	FBIC's take
Policies & Regulations	The Economic Coordination Committee (ECC) approved in early December the withdrawal of the 5% regulatory duty on the import of cotton yarn till 30 June 2021. Pakistan's cotton production falls short of domestic demand this year due to the decline in cultivation areas, extreme weather conditions and severe attacks of insects. According to the Pakistan Bureau of Statistics, the country imported US$290 million worth of raw cotton during July–October this year, more than six times of those imported in the same period last year. Meanwhile, prices of domestic cotton yarn have increased substantially in the past three months.	• While the home textile and garment industries have continued to receive large export orders, some exporters are reportedly unable to accept them due to unavailability of domestic cotton yarn at competitive prices. • The withdrawal of the 5% regulatory duty on imported cotton yarn serves as a timely response to the urgent demand by the industry. The policy change is expected to improve the price competitiveness of Pakistan's home textile and apparel products in the global market.

Turkey

Fast facts

GDP (Jul–Sep 2020)
+6.7% yoy ▲

Manufacturing PMI (Nov 2020)
51.4 ▼

CPI (Nov 2020)
+14.0% yoy ▲

Merchandise exports (Oct 2020)
+5.6% yoy ▲

Knitwear
+15.6% yoy ▼

Woven garments
+15.6% yoy ▲

Furniture
+13.9% yoy ▼

Exchange rate (USD: TRY, as of 15 Dec 2020)
7.8346 (24.0% depreciation year-to-date)

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

12-Month Sourcing Outlook: Slightly positive

The Turkish economy rebounded at a stronger-than-expected growth rate of 6.7% yoy in the July–September quarter, from a deep contraction of 9.9% yoy in the previous quarter. Capacity utilisation of the manufacturing industry has continued to increase since May, posting a rate of 75.8% in November, but still below the 77.2% recorded in last November, according to data from the central bank.

Turkey is grappling with the second wave of COVID-19 infections, with daily confirmed case counts rising five folds from the previous peak in April. Partial restrictions introduced to curb the spread of the virus have heightened uncertainty in the short-term economic outlook of the country. The resurgence of infections in its major export markets also clouds the country's export prospects.

However, benefiting from a weak lira and geographic proximity to Europe, Turkey remains one of the competitive sourcing hubs for textiles, garments, furniture and other consumer products.

Turkey

	Latest Developments	FBIC's take
Macroeconomic Trends	The Istanbul Chamber of Industry Turkey manufacturing purchasing managers' index (PMI) fell from 53.9 in October to 51.4 in November. Although remaining in the expansionary zone, the latest PMI reading was the lowest since Turkey's manufacturing sector started its recovery in June, signaling an easing of the recovery pace of the sector.	• The growth rates of both output and new orders, including new export orders, were eased during the month, as the resurgence of the COVID-19 pandemic in the country disrupted customer demand and production. • On the positive front, firms' employment levels continued to increase at a solid pace in the month, while the inflation of both input costs and output prices eased slightly compared to October. • The number of COVID-19 confirmed cases in Turkey jumped to around 30,000 per day since late November, more than a five-fold rise compared to the previous peak in April. Apart from the weeknight curfews and full lockdown on weekends currently in place across the country, the government will implement a four-day nationwide lockdown starting from New Year's Eve. • We anticipate that Turkey's manufacturing sector and exports will be impacted temporarily due to COVID-19-related restrictions at home and abroad and associated drop in demand.
	Turkey's consumer-price inflation climbed to 14.0% yoy in November from 11.9% yoy in October, the highest inflation since August 2019. Sharp price increases in miscellaneous goods and services (+29.4% yoy), food and non-alcoholic beverages (+21.1% yoy) and transportation (+18.7% yoy) were the major reasons driving November's inflation. The Turkish central bank revised upward in late October its year-end inflation target for 2020 to 12.1% yoy from the previous target of 8.9% yoy, citing higher food prices, weakness of the Turkish lira and output gap.	• The high and sticky inflation rate in Turkey reflects the recent increase in international food and oil prices, the continued weakness of the Turkish lira against the US dollar and credit growth driven by monetary easing amid the pandemic. Although regaining 6.7% of its value in November, the Turkish lira still depreciated against the US dollar by 24.0% during the first eleven months of this year. • To tame inflation and support the lira, the Turkish central bank raised its policy rate substantially by 475 basis points on 19 November. The move was welcomed by investors and analysts, as it signaled that the monetary authority was returning to a more conventional monetary approach under a new central bank governor.

Turkey

	Latest Developments	FBIC's take
Labour Issue	The country's Minimum Wage Determination Commission started its first meeting on next year's minimum wage in early December. The commission consists of representatives from the Ministry of Labour and Social Security and other government agencies, and worker and employer unions. Four meetings have been scheduled before the final decision is made. Four major factors will be taken into account when determining the minimum wage, including the cost of living, economic conditions during the pandemic, inflation and the country's economic prosperity.	• In January 2020, Turkey' minimum wage was increased to 2,943 liras (before taxes and reductions) per month, a 15% rise from the previous level — three percentage points higher than the 11.84% year-end inflation rate in 2019. In January 2019, the country raised sharply its minimum wage by 26% due to soaring inflation. • Despite government's ban on layoffs and wage support for enterprises since the outbreak in the country, overall employment remains markedly below pre-pandemic level. • We anticipate that next year's minimum wage increase will be moderate, due to impacts from the prolonged pandemic and uncertainties in global economic outlook.

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