

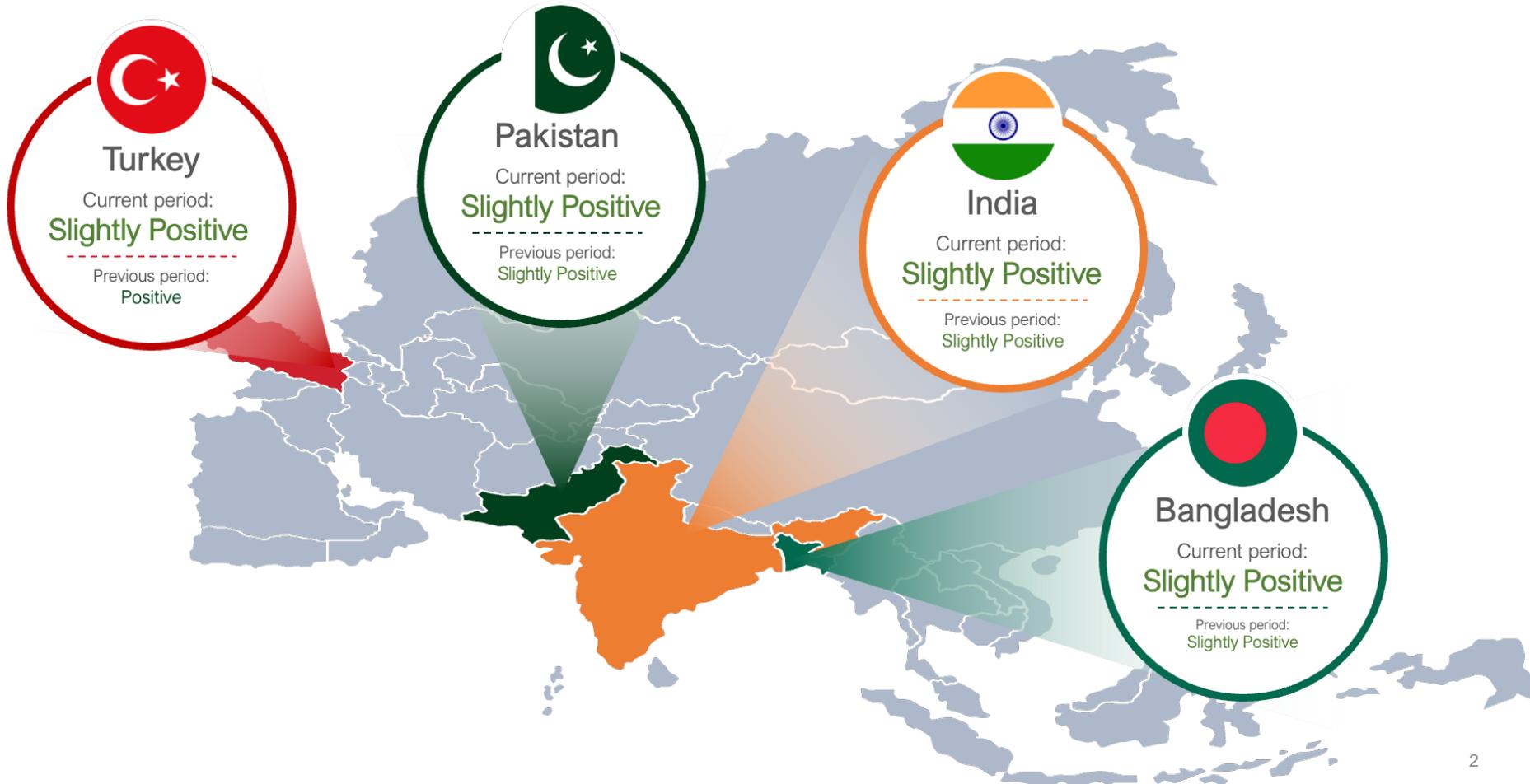
Asia Sourcing Update

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 (Jan 2022)
+22.1% yoy ▲



CPI (Mar 2022)
+6.2% yoy



Exchange rate (USD: BDT, as of 30 Apr 2022)
86.5 (0.8% depreciation year-to-date)



Merchandise exports (Apr 2022)
+51.2% yoy ▲



Knitwear
+58.2% yoy ▲



Woven garments
+54.1% yoy ▲



Home textiles
+57.1% yoy ▼



Footwear
+49.4% 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 Positive

Bangladesh's exports shot up by 33.4% year-on-year (yoy) during the first nine months of the current fiscal year (July 2021 – June 2022). The apparel exports, the major contributor to the total exports of the country, also rebounded by 33.8% yoy during the same period. The future of Bangladeshi export sector looks optimistic as this pandemic wave continues to recede.

However, the rise in global crude oil prices and transportation costs, triggered by the ongoing Russia-Ukraine war, may affect the export orders and dampen the economic recovery of Bangladesh. Moreover, the country is facing severe spikes in inflation and depreciation of local currency. In view of these challenges, in mid-April, the International Monetary Fund reduced the 2021-22 GDP forecasts for Bangladesh to 6.4%, 0.2 percentage points lower than the earlier projection made last October.

Bangladesh

Latest Developments

FBIC's take

Macroeconomic Trends

Bangladesh's exports rebounded by 33.4% yoy to US\$38.6 billion during July 2021 to March 2022, the first nine months of the current fiscal year. During the same period, the apparel sector registered a year-on-year growth of 33.8% to US\$31.4 billion.

The country's export earnings jumped to US\$4.8 billion this March from US\$3.1 billion in March last year. The actual export earnings of March exceeded the target of US\$3.54 billion set by the government.

According to the Index of Economic Freedom released by The Heritage Foundation in mid-February 2022, Bangladesh slipped 17 positions to become the 137th freest economy. The country was in the 120th position in 2021, 122nd in 2020, 121st in 2019, and 128th in both 2018 and 2017. The slip in 2022 indicates that the country failed to retain the momentum to become a freer economy.

Among the 39 countries in Asia-Pacific region, Bangladesh ranked 29th in 2022, and its overall score of 52.7 was below the regional average of 58.5 and the world average of 60.

- Despite the Russia-Ukraine war, exports from Bangladesh to Russia, Ukraine, Belarus and Poland grew by 29% yoy to US\$223 million in March, according to the Export Promotion Bureau.
- The export earnings of the apparel sector of Bangladesh in the first two weeks of March surged by more than 52% yoy amid the Russia-Ukraine war, according to Bangladesh Garment Manufacturers and Exporters Association. The robust growth of apparel exports was mainly due to the strong global demand. Besides, Bangladeshi apparel exporters received more orders from the US and European markets because of the anti-China sentiments in the US and Europe.
- However, apparel exporters expected the expensive freight costs, triggered by the ongoing Russia-Ukraine war, would affect the new export orders.

- The Heritage Foundation measures the Index of Economic Freedom for 177 countries based on four aspects: the rule of law, government size, regulatory efficiency and open markets.
- Bangladesh got good scores for tax burden and government spending. However, the country's scores for the rule of law and labour freedom lagged behind those of other countries. Bangladesh's score for labour freedom plunged from the peak of 68.8 in 2021 to a record low of 36.6 in 2022.

Bangladesh

Latest Developments

FBIC's take

Industry developments

The Small and Medium Enterprise (SME) Foundation has proposed to the Bangladeshi government for changing the definitions of micro, cottage, small, medium, and large enterprises in the manufacturing sectors. The proposal was sent to the Ministry of Industries for redefining the enterprise categories in the upcoming *National Industrial Policy*, which will replace the earlier *Industrial Policy 2016*.

- Due to the complexities of the current definitions under the *Industrial Policy 2016*, a number of large enterprises are categorized as medium firms, enjoying policy support and incentives exclusive for medium enterprises. Some SMEs, on the other hand, fail to get access to any policy support, due to various reasons such as lack of proper documentation.
- According to the proposal by the SME Foundation, enterprises will be redefined based on the value of their fixed assets (except land and buildings) as below:
 - more than 300 million taka: large enterprise
 - 100 million – 300 million taka: medium firm
 - 5 million – 100 million taka: small firm
 - less than 5 million taka with 25 employees: micro firm
 - a family enterprise with a maximum fixed asset of 1 million taka: cottage firm

During two inter-ministerial meetings held in Bangladesh in mid-April, participants from Bangladesh and the US discussed withdrawing the requirements of double fumigation of cotton imported from the US.

- Currently, all imported cotton from the US is required to go through a compulsory fumigation process at Chittagong port, though all US cotton has already gone through pre-shipment fumigation in the US.
- The double fumigation requirement of US cotton increased the operating cost and handling time of local manufacturers. It is expected that the withdrawal of compulsory double fumigation of US cotton will encourage the use of US cotton in Bangladesh.
- Currently, domestically grown cotton in Bangladesh comprises less than 2% of the country's total cotton consumption, according to a report released by the Foreign Agricultural Service of the US Department of Agriculture (USDA) this April. Due to its high demand for yarn and fabric, Bangladesh has to import cotton from overseas. The USDA forecasts that Bangladesh may import one million bales of cotton from the US during August 2022 to July 2023.

Bangladesh

Latest Developments

FBIC's take

Trade affairs

Australia made a commitment to Bangladesh at a meeting of the first Joint Working Group (JWG) on trade and investment held in Canberra in February. Exports from Bangladesh will officially continue to get duty and quota-free access to the Australian market, even after Bangladesh's graduation from the least developed country (LDC) status in 2026.

- During the JWG meeting, Australia and Bangladesh discussed on various trade issues, trade facilitation, and promotion of investment, energy and defence collaboration.
- The two countries agreed to enhance industry connections between Australian exporters of raw materials like cotton and wool, and Bangladeshi importers and manufacturers.
- Australia also expressed its willingness to explore investment opportunities in infrastructure, energy, mining, information, communications and technology sectors in Bangladesh.
- The next JWG meeting will be held in Bangladesh early next year.

The Canadian Minister for International Development and the Bangladeshi Foreign Minister had a virtual meeting in mid-February, marking the 50th anniversary of the establishment of diplomatic ties between the two countries.

- Canada expressed its willingness to consider an extension of duty-free quota-free (DFQF) facilities to Bangladesh until 2030 and signing either a free trade agreement (FTA) or preferential trade agreement (PTA) with Bangladesh.
- In the meeting, Bangladesh's Foreign Minister urged for more investment from Canada. He reiterated that there are huge opportunities for Canadian investors in 100 special economic zones and 28 high tech parks in Bangladesh, with the abundant supply of energetic workforce and lucrative investment package.

In the meeting, the two ministers discussed several issues including the Rohingya crisis, Bangladesh's graduation from LDC status, and promotion of bilateral trade and investment.

India

Fast facts



GDP (Jan-Mar 2022)
+4.1% yoy ▼



Manufacturing PMI (Apr 2022)
54.7 ▼



CPI (Apr 2022)
+7.8% yoy



Merchandise exports (Feb 2022)
+23.8% yoy ▼



Knitwear
+16.6% yoy ▲



Woven garments
+22.0% yoy ▲



Footwear
+25.0% yoy ▼



Furniture
+15.9% yoy ▼



Exchange rate (USD: INR, as of 29 Apr 2022)
76.4 (1.4% 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: Slightly Positive

India's manufacturing activity improved with increases in production and new orders. The Manufacturing Purchasing Managers Index (PMI) of the country increased to 54.7 in April, up from 54.0 in March. The real GDP growth of the 2021-2022 fiscal year (April 2021 - March 2022) is estimated at 8.7% as compared to a contraction of 6.6% in the 2020-2021 fiscal year.

However, the economy is facing numerous challenges in the first half of 2022, including inflation, volatile financial markets, geopolitical tensions and potential worsening of the pandemic situation. In addition, the Russia-Ukraine conflict poses risks to the stability of the crude oil market.

Even so, India is currently in the negotiation process of various trade agreements with several partners. The Indian government is keen to boost the domestic economic growth by securing a raft of 'fair and balanced' trade deals.

India

Latest Developments

FBIC's take

Macroeconomic Trends	Latest Developments	FBIC's take
FTAs, Trade Preferences and Investment Agreements	<p>In mid-February, India and the United Arab Emirates (UAE) signed an FTA, named the Comprehensive Economic Partnership Agreement (CEPA), effective 1 May. The two sides have formally launched the FTA negotiations since September 2020.</p> <p>The pact covers various areas including goods and services, rules of origin, customs procedures, government procurement, intellectual property rights, and e-commerce.</p>	<ul style="list-style-type: none">• The Commerce and Industry Minister was confident that exports will keep the growth momentum in the current fiscal year, as global demand for Indian goods has improved dramatically following an economic recovery in developed countries.• However, given the disruptions of global supply chains and the soaring oil prices amid the Russia-Ukraine conflict, the Indian exporters are now facing challenges such as difficulty to ship out products on time, and further hikes in international shipping costs.• Even so, India prepares to complete the negotiations of various free trade agreements (FTAs) this year and next year. Indian exporters may take advantage of the abundant opportunities brought by the FTAs in the long-term. <ul style="list-style-type: none">• The agreement will enhance market access and reduce tariffs for the two countries. The CEPA is expected to boost the bilateral trade from the current US\$60 billion to US\$100 billion in the coming five years.• The CEPA will particularly help the Indian exporters from various labour-intensive sectors, including textiles and garments, leather and footwear, agriculture. The UAE will allow 90% of the Indian exports at zero duty, immediately after the CEPA comes into force. And the duty-free access will further increase to 99% in 5 to 10 years.• Similarly, India will allow 80% of goods from the UAE into the country at zero tax, immediately after the CEPA comes into force. The duty-free access will further go up to 90% in 10 years.

India

Latest Developments

FBIC's take

FTAs, Trade Preferences and Investment Agreements

Indian Commerce and Industry Minister Piyush Goyal and his Australian counterpart Dan Tehan signed the India-Australia Economic Cooperation and Trade Agreement (ECTA), an interim deal between the two countries, simultaneously in New Delhi and Canberra on 2 April.

Under the ECTA, Australia offers duty free access for 96.4% of Indian goods immediately after the pact comes into effect and for all Indian goods in five years. On the other hand, 85% of Australian goods (from 70% to start with) will get duty free access to the Indian market in 10 years.

India and the UK launched formal FTA negotiations on 13 January 2022 and the third round of the FTA negotiations was held on 25 April.

After a meeting between Indian Prime Minister Narendra Modi and the UK Prime Minister Boris Johnson in New Delhi on 22 April, Johnson said the two countries "were expected to complete the FTA by the end of this year."

A new UK India Industry Taskforce was launched in early May, aiming at improving industry collaboration between the two countries and paving the way for the FTA negotiations.

- In 2021, bilateral trade in goods and services between the two countries stood at US\$27.5 billion. According to Goyal, the ECTA will boost the bilateral trade to US\$40-50 billion in the next five years. The ECTA is expected to benefit many Indian manufacturers, who can source cheaper raw materials and intermediate goods from Australia.
- Besides, the ECTA is paving the way for a full trade pact, the India-Australia Comprehensive Economic Cooperation Agreement (CECA), which is expected to be signed by the end of 2022. The CECA will cover government procurement, digital trade, rules of origin, etc.

- The FTA will ultimately cover more than 90% of tariff lines. With the FTA, the two countries aim to double bilateral trade of goods and services to around US\$100 billion by 2030.
- UK businesses have strong confidence in India's economy. They are willing to increase trade with and investment in India and build partnerships with Indian companies, such as sharing and co-creating new technology and intellectual property. The FTA is an important driver to realise the huge potential of the India-UK bilateral trade relationship.
- Similarly, under the FTA, Indian exporters are expecting to gain more access to the UK market, particularly in the pharma and healthcare, textiles and clothing, food and drink, and information and communications technology sectors.

India

Latest Developments

FBIC's take

FTAs, Trade Preferences and Investment Agreements

India and Canada resumed FTA negotiations on 22 April after a gap of almost five years, and the two countries targeted at achieving an interim trade deal first.

The two countries launched negotiations towards a Comprehensive Economic Partnership Agreement (CEPA), as the FTA is formally known, in 2010. The previous round of negotiations was held in August 2017.

During a meeting between President of the European Commission Ursula von der Leyen and Indian Prime Minister Narendra Modi in April, the two leaders reviewed progress in the India-EU strategic partnership and the FTA negotiations. Both sides decided to further deepen cooperation in trade, climate, digital technology, etc.

On 25 April, the EU and India announced the decision to establish a trade and technology council to step up cooperation.

- Both sides agreed to consider an interim agreement or Early Progress Trade Agreement (EPTA) that could be concluded early as a transitional step towards the CEPA. The EPTA should include high-level commitments in goods and services, rules of origin, sanitary and phytosanitary measures, technical barriers to trade, dispute settlement, etc.
- India and Canada have committed to enhance their partnership and cooperation in certain areas, such as agro-products, chemicals, footwear, textiles, automobiles, energy, electronics, minerals and metals, urban development, information technology, and tourism.
- The EPTA is expected to be concluded in six to nine months. Negotiations for the full trade pact will follow.
- This June, India and the EU will restart the FTA negotiations after a gap of nine years. According to the Indian Minister of Commerce and Industry Piyush Goyal, India will be able to conclude the FTA with the EU by next year.
- The negotiations of the India-EU FTA, officially called the Broad-based Trade and Investment Agreement (BTIA), were launched in 2007 but have been stalled since May 2013. Both parties were reluctant to accept all requests raised by its counterpart. For instance, the EU demanded India to scrap or slash heavy import duties on certain products such as automobiles, alcoholic beverages and dairy products; and the EU wanted India to open up its legal and accountancy services; meanwhile, India was seeking greater access for its skilled professionals to the EU market.
- Now a days, however, both India and the EU consented that a joint strategic engagement is necessary for tackling the rapid changes in the geopolitical environment; and the newly established trade and technology council will serve as a political steer to ensure a closer coordination between the two parties.
- In the 2021-2022 fiscal year, the EU was India's second largest export destination, contributing 15.4% (or US\$65 billion) of India's overall exports.

Pakistan

Fast facts



Quantum index of large-scale manufacturing
(Mar 2022)
+26.6% yoy ▲



CPI (Apr 2022)
+13.4% yoy



Exchange rate (USD: PKR, as of 30 Apr 2022)
185.4799 (4.9% depreciation year-to-date)



Merchandise exports (Apr 2022)
+30.6% yoy ▲



Garments
+43.7% yoy ▲



Bed linen
+16.3% yoy ▲



Towels
+28.0% yoy ▲



Leather products
+25.9% 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: Slightly Positive

Pakistan's economic performance continues to be strong. Overall output of Large Scale Manufacturing increased by 10.4% yoy during July 2021 to March 2022 (the first nine months of the current fiscal year starting from July 2021) and surged by 26.6% yoy in April 2022 alone. In July 2021 to April 2022, the first ten months of the current fiscal year (hereafter as FY2022), exports expanded by 25.6% yoy. Signed by China and Pakistan this February, the Framework Agreement on Industrial Cooperation under the China-Pakistan Economic Corridor (CPEC) will ensure a relatively stable foreign investment flow into multiple sectors of Pakistan for a relatively long period of time.

Economic stability in Pakistan is also gradually restored after a political turbulence, which started in March, was finally settled with the swearing-in of Shehbaz Sharif as the new prime minister on 11 April 2022.

The ongoing Russia-Ukraine conflict has seriously disrupted Europe's economic recovery from the COVID-19 pandemic; the conflict has left private consumption and investments well below pre-war forecasts. As the EU is Pakistan's largest export market, the woeful situation in Europe is poised to dampen the export performance of Pakistan in the coming months.

Pakistan

Latest Developments

FBIC's take

Macroeconomic Trends

Pakistan's exports increased by 25.6% yoy from July 2021 to April 2022, the first ten months of FY2022, to US\$26.2 billion. In April 2022 alone, exports were up 30.6% yoy to US\$2.9 billion.

During the ten-month period from July 2021 to April 2022, textile exports increased by 26.0% yoy to US\$16.0 billion, accounting for 60.9% of Pakistan's total export value in the period.

Net FDI inflows into Pakistan were US\$1,285.1 million from July 2021 to March 2022, a 2.0% yoy decrease from US\$1,311.1 million in the same period of the previous fiscal year. In March 2022, net FDI inflows recorded a negative figure of US\$30.4 million, as compared with a positive US\$173.4 million in the same month of the previous year.

During the nine-month period from July 2021 to March 2022, the power sector (thermal, hydro, and coal generation) attracted the highest FDI of US\$489.1 million (38.1% of the total value of net FDI inflows), followed by the financial business sector (US\$322.8 million, 25.1%), oil & gas explorations (US\$179.7 million, 14.0%), and trade (US\$52.3 million, 4.1%), as data from the State Bank of Pakistan showed.

China was the largest foreign investor in Pakistan during this period: Its investment was US\$333.5 million, accounting for 26.0% of the total value of net FDI inflows. The US was the second largest foreign investor during this period (US\$183.1 million, 14.2%), followed by Hong Kong SAR of China (US\$133.0 million, 10.3%), Switzerland (US\$107.4 million, 8.4%), United Arab Emirates (US\$100.8 million, 7.8%), and Singapore (US\$90.5 million, 7.0%).

- The export growth in the first ten months of FY2022 was driven mainly by increasing external demand and the depreciation of the Pakistani rupee against the US dollar. The outbreak of the Russia-Ukraine conflict this February has not held back the growth momentum of Pakistan's exports in March and April. However, the ongoing conflict will have increasingly severe economic consequence for Europe – energy and food price spikes are cutting deeply into household consumption, and economic uncertainty is restraining investments. As Europe is Pakistan's largest export destination (accounting for about 35% of Pakistan's total exports), the weak economy and consumption in Europe will inevitably dampen Pakistan's export prospects.
- Pakistan actually maintained a healthy FDI growth during the first eight months of FY2022, with a 15.6% yoy increase in net FDI inflows from July 2021 to February 2022. The growth momentum was halted by political turmoil which started in March when the country's three major opposition parties submitted a joint motion of no-confidence in the Imran Khan's government on 8 March. Foreign investors pulled out US\$229.4 million of direct investment in March mainly out of the concern over Pakistan's economic stability, leading to the negative FDI figure in the month and thus the year-on-year decline in net FDI inflows during the July 2021 to March 2022 period.
- However, it is believed that growth in net FDI inflows will resume following the return of political stability in April after the new government has settled down; and vowed to ensure the continuity of economic policies.
- Despite that China was one of two major countries (the other was Norway) that withdrew a large amount of FDI from Pakistan in March (US\$122.6 million), it continued to be the top foreign investor in Pakistan during the first nine months of FY2022. Also noteworthy is that China signed the Framework Agreement on Industrial Cooperation with Pakistan in February this year. It is believed that more investments from China will be channelled to multiple industries of Pakistan in the coming years.

Pakistan

Latest Developments

FBIC's take

FTAs, Trade Preferences and Investment Agreements

On 4 February 2022, Pakistan and China signed a Framework Agreement on Industrial Cooperation under the CPEC, during Prime Minister Imran Khan's visit to Beijing.

Under the Framework Agreement, the two parties reaffirm prioritized development and operations of the nine CPEC Special Economic Zones (SEZs) in Pakistan, and agree to facilitate relocation of industries and investments from China and other parts of the world to the SEZs.

The agreement also emphasizes the development of a business-to-business matchmaking mechanism that will enhance the people-to-people and institution-to-institution linkages between the two countries.

On his Beijing trip, Prime Minister Imran Khan also held a series of meetings with executives from China's leading state-owned and private companies. Corporate leaders in the meetings discussed with the Pakistani Prime Minister regarding the ongoing and future projects related to recycling of metals and paper, energy, textile, fibre-optics networks, housing, agriculture, dairy and water management. The companies expressed the desire to establish a US\$3.5 billion reprocessing park in Gwadar within two to three years and a US\$350 million textile cluster across 100 acres of land on Lahore-Kasur Road, Khalid Mansoor, the Prime Minister's aide on CPEC, told the media.

- The signing of this Framework Agreement is considered a milestone of the second phase of the CPEC, which is an all-round economic cooperation plan between China and Pakistan. Unlike the first phase of the CPEC, which focused on infrastructure and energy projects, the second phase is much broader in scope and focuses on industrial relocation, agricultural modernization, science and technology cooperation, job creation and socio-economic well-being of people.
- The two countries signed a memorandum of understanding (MoU) on industrial cooperation in 2018 when the first phase of the CPEC advanced smoothly and many mega-infrastructure and power projects neared completion. In 2020, the two countries reached a consensus that the MoU should be elevated into a Framework Agreement.

Pakistan

Latest Developments

FBIC's take

FTAs, Trade Preferences and Investment Agreements

On 8 March, Pakistan and the US announced that they have relaunched the process of the Trade and Investment Framework Agreement (TIFA) during a two-day intersessional meeting at Islamabad between Muhammad Suleh Ahmad Faruqi, Federal Secretary Commerce, and Christopher Wilson, Assistant United States Trade Representative (AUSTR) for South and Central Asia.

Issues discussed at the meeting included cooperation in the agriculture, textile and healthcare sectors, the protection of intellectual property, the promotion of digital trade, e-commerce and labour rights, as well as the economic empowerment of women.

During the meeting, the Pakistani representatives also suggested to revive the talks on the Bilateral Investment Treaty (BIT) between the two countries but got few echoes from the US delegation.

- The TIFA between Pakistan and the US was signed in 2003 and aimed at providing a platform to discuss bilateral trade issues. The goal of the framework is to expand bilateral trade and investments in both goods and services.
- The last TIFA intersessional meeting was held in Islamabad in May 2019.
- By relaunching meetings under TIFA, the US hopes to reinforce trade and economic relationships with Pakistan.
- Pakistan and the US began negotiating the BIT in 2004 and “closed the text” in 2012, but the agreement has not been signed due to reservations from Pakistani stakeholders.

Turkey

Fast facts



GDP (Oct–Dec 2021)
+9.1% yoy ▲



Manufacturing PMI (Apr 2022)
49.2 ▼



CPI (Apr 2022)
+69.97% yoy



Merchandise exports (Mar 2022)
+19.8% yoy ▼



Knitwear
+19.7% yoy ▼



Woven garments
+30.3% yoy ▲



Furniture
+16.9% yoy ▼



Exchange rate (USD: TRY, as of 29 Apr 2022)
14.7798 (12.2% 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 Positive

With a fourth quarter GDP growth of 9.1% yoy, Turkey finished 2021 with a double-digit economic expansion of 11% yoy after rebounding from COVID-19. Turkey grew the fastest among G20 countries in 2021. Net export was a significant contributor to Turkey's 2021 GDP growth, taking up 4.9 percentage points of the 11%. Turkey will persist with its 'new economic model' (as introduced by President Erdogan last December) which has a strong focus on low interest rates, investments, production, and exports. In addition, with ongoing global supply chain disruptions, Turkey, with its geographically strategic location, continues to attract brands that want to near-shore their manufacturing base closer to Europe.

Turkey's economic momentum in 2022 will be clouded by several points of uncertainty. For example, inflation in April was the highest recorded in 20 years reaching nearly 70% yoy. Moreover, inflation and erosion of real income in key international markets such as the US, the UK, and the EU (historically Turkey's largest trading partners) may affect Turkey's exports. Turkey also has a reliance on energy imports especially from Russia. The current instability in both gas/oil supply and prices may continue to disrupt Turkey's manufacturing sector. Finally, a prolonging of the Russia-Ukraine conflict will negatively affect Turkey's foreign trade and tourism, as both Russia and Ukraine are important trade partners and sources of tourists for Turkey.

Turkey

Latest Developments

FBIC's take

Macroeconomic Trends

Turkish exports in January rose by 17.2% yoy to US\$17.6 billion. Imports increased by 54.2% yoy to US\$27.9 billion. The trade deficit was US\$10.3 billion, a 234.9% yoy increase.

For February, exports rose by 25.4% yoy to US\$20 billion. Imports increased by 45.6% yoy to US\$28.1 billion. The trade deficit was US\$8.1 billion, a 142% yoy increase.

For March, exports rose by 19.8% yoy to US\$ 22.7 billion. Imports increased by 30.7% yoy to US\$ 30.9 billion. The trade deficit was US\$ 8.2 billion, a 75.1% yoy increase.

In April, exports rose by 24.6% yoy to US\$23.4 billion. Imports increased by 35% yoy to US\$29.5 billion. The trade deficit was US\$ 6.1 billion, a 98% yoy increase.

As the Russia-Ukraine conflict continues, the first weeks of March saw customers in Russia and Ukraine canceling US\$200 million in orders, negatively affecting the Turkish textile and leather goods industry.

- January to April 2022 saw strong export growth, with April's figure being the highest ever recorded. However, the trade deficit continues to widen due to even bigger increases in monthly imports. An approximate US\$32.7 billion in trade deficit was recorded January to April.
- Turkey's significant increase in imports in the first four months of 2022 is predominantly due to increases in energy/oil imports to counter a colder than average winter, and to the swelling global oil prices as a consequence of the Russia-Ukraine conflict which started in February and has pushed oil prices to a high last seen in 2014. Turkey's energy-related imports alone accounted for approximately US\$9 billion in February, US\$8.4 billion in March, and US\$7.7 billion in April. April's energy imports saw a 134% increase yoy.
- Turkish officials estimate more than US\$1 billion is at direct risk of order cancellation or postponement for the textile industry alone if the conflict continues.
- Trade with neighboring countries Belarus, Moldova and Romania has softened as well, with some buyers from these countries suspending orders. Some Russian customers have asked to make payments with rubles at an exchange rate prior to the beginning of the conflict. Further disruption to trade with Ukraine and Russia is expected.
- In 2021, Turkey's garments, textile and leather exports to Russia was valued at US\$718 million, and to Ukraine US\$308 million.

Turkey

Latest Developments

FBIC's take

Macroeconomic Trends

In April, Turkey's annual inflation increased to a 20-year high of 69.97%. According to Treasury and Finance Minister Nureddin Nebati, inflation is expected to stay high throughout 2022 but policies are in place to fight it.

In April, consumer prices in transportations increased the most at an annual rate of 105.9%, and food and non-alcoholic drinks increased by 89.1%. In the same month, the producer price index (PPI) increased 7.7% month-on-month and had an annual increase of 121.8%.

According to Burak Dağlıoğlu, the head of Presidency Investment Office (PIO), foreign direct investment (FDI) in Turkey increased 81% yoy in 2021 to US\$14.2 billion from US\$8 billion in 2020.

- There are several factors behind the spiralling inflation figure, including the sharp depreciation of the Turkish lira against the US dollar after the interest rate was reduced from 19% to 14% in September 2021, the disruptions in global supply chain during the pandemic, and surging global commodity and energy prices stemming from the Russia-Ukraine conflict.
- In terms of Turkey's production industry, increases in imported raw materials/energy costs and transportation costs have further challenged manufacturers. In response, the price pressure is passed on by increasing the selling price to customers.
- The prolonged Russia-Ukraine conflict will continue to affect Turkey's annual inflation. Turkey relies on Russia for 45% of its natural gas demand, 17% of oil and 40% of gasoline. Sanctions on Russia from the west are increasing the prices of these natural resources, impacting Turkey directly. According to Turkish officials, the country will continue to buy from Russia, as it is challenging to replace Russian supply in a short time.
- Several government policies have been implemented to bring the prices down and combat inflation. They've included the currency protection scheme to stabilize the lira, reduction on the value-added tax (VAT) rate on food products from 8% to 1%, and a reduction on electricity VAT from 18% to 8%.
- The central bank expects inflation to peak around June at approximately 70%, before slowly declining to 43% towards the end of 2022.
- 2021 FDI in Turkey exceeded pre-pandemic FDI levels, largely thanks to many global companies moving a portion of their production to Turkey in an effort to mitigate supply chain disruptions and save on shipping costs to destination countries. Turkey's location is geographically strategic for manufacturers selling to the European market because of its close proximity, thus helping to decrease lead-time and cost to ship as compared to having manufacturing in Asia for example.
- The majority of 2021's FDI came from Europe (60%), followed by Asia (24%) and the Americas (16%). The largest investors by country in descending order are the UK, the US, the Netherlands, Switzerland, the United Arab Emirates (UAE), Germany, Luxembourg, South Korea, Japan and Ireland.
- The sectors that received the most investments were manufacturing, transportation-storage, and wholesale/retail trade.

Turkey

Latest Developments

FBIC's take

Industry Developments

During the annual result announcement of Hugo Boss on 10 March, the fashion giant highlighted the importance of their strategy to near-shore their sourcing and manufacturing operations. Their aims included expanding factory operations (by buying more machinery/tools) and employing 1,000 additional workers in Turkey by 2025. Total investment in Turkey will be 10 million euros (approx. US\$10.9 million).

Amazon, the technology and e-commerce giant from the US, is investing US\$100 million to open its first logistics center in Turkey. The center, which is located on the Asian side of Istanbul and aimed to be launched this autumn, plans to create over 1,000 jobs in its first year.

The Union of Chambers and Commodity Exchanges of Turkey (TOBB) and the American Chamber of Commerce (AmCham) Turkey have launched an "e-Commerce Mentoring Programme" aimed at supporting SME companies who wish to e-trade/e-export to the US in the priority sectors of furniture, textile, ready-made clothing, and machinery.

- Supply shortages, higher shipping cost and unpredictable shipping delays have pushed companies to implement near-shoring – the moving of production closer to the consumption market. Europe generates 67% of sales for Hugo Boss, and close to half of Hugo Boss's production takes place in Europe and regions within close proximity; this means the company can enjoy reduced shipping lead-times and shipping cost.
- Turkey currently takes up 24% of Hugo Boss's total share of manufacturing. Moving more production to Turkey will reduce the company's dependency on their Southeast Asian suppliers and factories.

- Amazon is gearing up to capture the growing demand for e-commerce in Turkey. The facility will help to empower more small- and medium-sized enterprises (SME) to sell into the local market, as well as support their export operations of selling into other countries. This will further strengthen Amazon's e-commerce capabilities in Turkey and in foreign markets, as well as strengthen Turkey's position as a regional hub serving the EU and the Middle East markets.
- Amazon's Vice President of EU operations, Stefano Perego, said, "The investment reaffirmed the company's trust in Turkey."
- Amazon originally launched services in Turkey in 2018 and has created 500 jobs to date. The recruitment process has already begun for the new facility.

- According to Burak Kılıç, General Manager of postage service UPS Turkey, "Global e-export volume is expected to reach US\$2.4 trillion by 2025." Businesses in Turkey are also impacted by this digital transformation trend and SMEs are pivoting to capture new sales opportunities.
- SMEs operating in the said priority sectors can apply for the mentorship programme. If approved, they can work with mentors to review their current cross-border e-commerce processes, and get access to strategic planning, consultancy, and business development support to further grow their e-export business to the US market. This will also help bolster Turkey's share in global trade.

Turkey

Latest Developments

FBIC's take

Infrastructure

The Turkish manufactured ITI (Islamabad-Tehran-Istanbul) freight train commenced operations on 21 December 2021, after nearly a ten-year hiatus.

- The train connects three countries – Turkey, Iran and Pakistan – directly with an approximate 6,500-kilometer rail line. It has a maximum capacity of twenty 12-meter (40-foot) containers. The end-to-end 14-day travel time also provides speed advantages over sea transport and cost advantages against air.
- This transnational railway aims to promote communication, engagement and trade between the three countries. The ITI freight train service, together with China's Belt and Road Initiative, also enhances connectivity between China and Turkey. The rail connections will help Turkish businesses to gain access to China's consumer market of 1.4 billion people.

Contact

Helen Chin

Vice President
Tel: (852) 2300 2471
Email: helenchin@fung1937.com

Winnie Lo

Senior Research Manager
Tel: (852) 2300 2488
Email: winnielowl@fung1937.com

Sophie Zhang

Senior Research Manager
Tel: (852) 2310 7916
Email: sophiezhong@fung1937.com

Marco Chen

General Manager
Tel: (852) 2806 7938
Email: marcochen@fung1937.com



Fung Business Intelligence

11/F LiFung Tower
868 Cheung Sha Wan Road
Kowloon, Hong Kong
T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: <http://www.fbicgroup.com>

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