FUNG BUSINESS INTELLIGENCE

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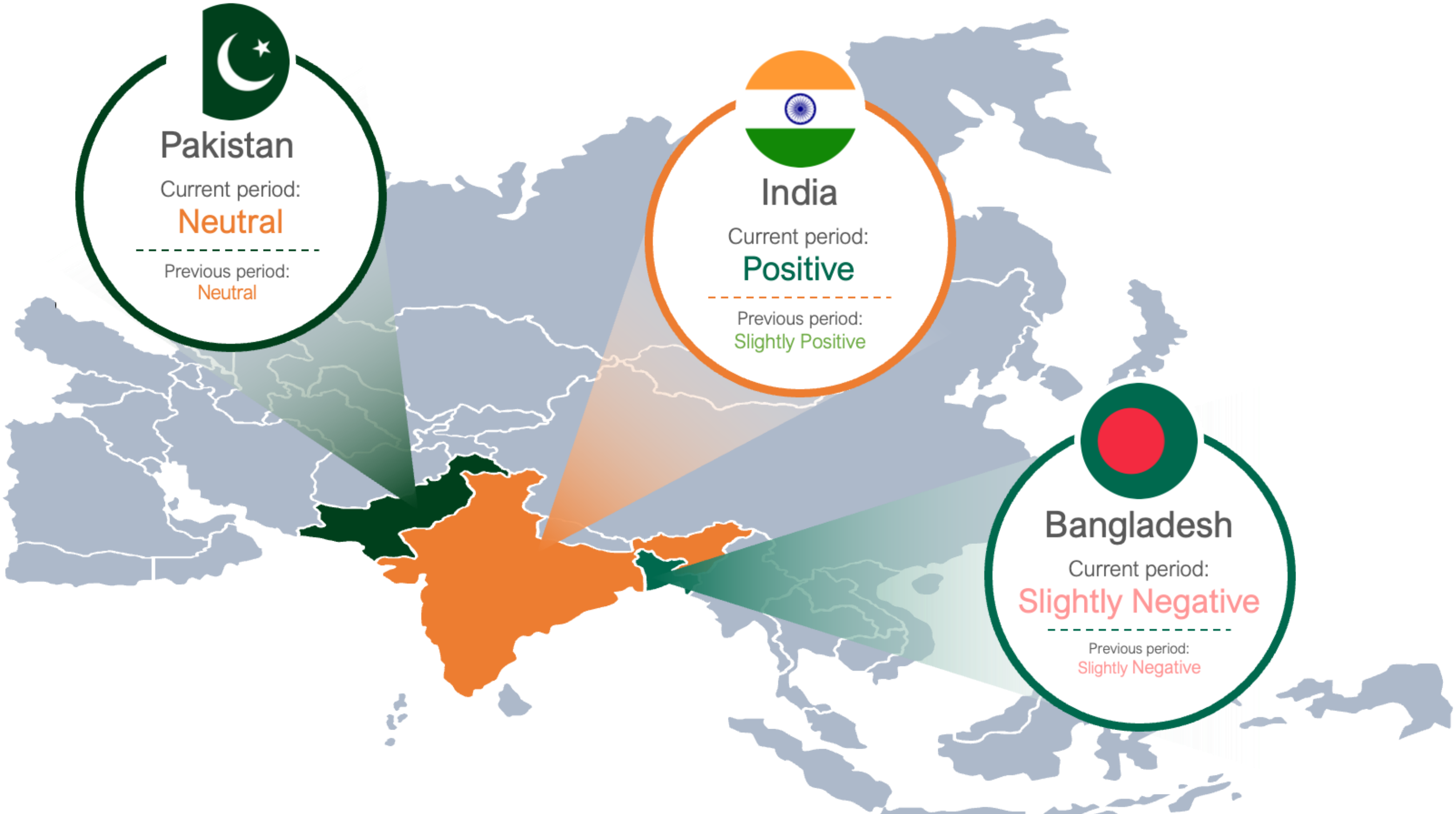
Asia Sourcing Update

Bangladesh, India, and Pakistan

Southeast Asia | **South and West Asia**

Highlights: 12-month sourcing outlook



Bangladesh

Fast facts

Index of Industrial Production (large-scale manufacturing) (Jan 2024)
6.85% yoy ▲

CPI (Feb 2024)
+9.7% yoy

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

Merchandise exports (Mar 2024)
9.9% yoy ▼

- Knitwear: 16.5% yoy ▲
- Woven garments: 6.3% yoy ▼
- Home textiles: 7.9% yoy ▲
- Footwear: -15.1% 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

In January, the World Bank projected that Bangladesh's GDP would slow to 5.6% in the current financial year (July 2023 – June 2024). Then, in April, the World Bank revised down the country's GDP projection for the next financial year to 5.7%. Nevertheless, among South Asian countries, the World Bank forecasted that Bangladesh would be the second-highest country in terms of achieving GDP growth, following India.

However, it is expected that high inflation and interest rates, import restrictions, a weaker taka and the ongoing shortage of foreign currency will continue to weigh heavily on private sector investment in Bangladesh. To address the economic challenges facing the country, experts suggested that the government should prioritize four reforms, including reforms of tax regime, exchange rate management, banking sector, and public spending management.

Bangladesh

	Latest Developments	FBIC's take
Macroeconomic Trends	Bangladesh's exports in March reached US$5.1 billion, up by 9.9% yoy. However, it fell short of the target by 0.9%, according to the Export Promotion Bureau. During July 2023 to March 2024, the first nine months of the current financial year, the country's exports grew by 4.4% yoy to US$43.6 billion. However, the figure was 5.9% lower than the target of US$46.3 billion.	• The apparel sector's exports in March amounted to US$4.4 billion, up by 11.7% yoy. From July 2023 to March 2024, the apparel sector achieved a modest year-on-year growth of 4.8%, with exports totaling US$37.2 billion. • However, apart from the slim positive growth of the apparel sector, all major sectors experienced negative growth during the July-March period. This includes home textiles (down by 26.0% yoy), leather and leather goods (down by 13.7% yoy), and jute and jute goods (down by 5.6% yoy).
Labour & Compliance	According to a report titled *"Threaded Insecurity: The Spectrum of Informality in Garment Supply Chains,"* published by the Asian Floor Wage Alliance (AFWA) in March, an alarming 92% of workers within the readymade garment (RMG) sector in Bangladesh were employed without written contracts. This high rate is also observed in other South Asian countries, including Pakistan (90%) and India (65%).	• These informal working arrangements provide cost advantages for employers, enabling them to hire workers at lower wages and without providing essential benefits such as healthcare or paid leave. The absence of formal contracts deprives workers' benefits and exposes them to a higher risk of rights violations, gender-based violence, and harassment. • The report found that, in fast fashion industry, garment factories had increasingly relied on informal employment practices to meet the demands for speed and lower costs. Such informal employment practices included the hiring of contract labour and temporary workers, creating a vulnerable workforce susceptible to exploitation. • The report emphasizes the importance of collaboration with unions, industry representatives, and other stakeholders. This collaboration is crucial for negotiating the appropriate ratios of formal to informal workers, as well as for establishing productivity targets to address the issue of excessive workload intensification.

Bangladesh

	Latest Developments	FBIC’s take
Infrastructure	In March, the World Bank has committed to provide funding of 1.1 billion taka to a technical assistance program aimed at supporting Bangladesh’s infrastructure plan. In parallel, the Roads and Highways Department (RHD) is working on a strategic blueprint to enhance connectivity between economic zones and land ports by establishing an interconnected network of road corridors. The RHD identifies 23 land ports that need development, and highlights their seamless integration with arterial highways, the rail network, and inland river ports through the improvement of collector streets encompassing regional and district roads.	• According to the World Bank's Logistics Performance Index 2023, Bangladesh's logistics performance lags behind countries such as India, China, and the Philippines. Currently, the country faces the highest transport costs in the region, and it takes an average of 138 hours to cross the Bangladesh-India border. The high transport costs adversely impact the export performance of the country and give rise to significant inventory costs for industrial sectors. • To address these challenges, the World Bank suggests several measures that could potentially boost Bangladesh's exports by 19%. These include reducing dwell time at Chattogram Port, enhancing highway speed, and improving logistics infrastructure and services. • The technical assistance program aims to establish major road links connecting key infrastructure points across Bangladesh, including land ports, railways, marine terminals, international borders, and inter-border regions. Additionally, the development of a freight train network is envisioned to enhance trade logistics, reduce transportation costs, and position Bangladesh as a sub-regional transport and transshipment hub. • Meanwhile, the RHD's proposal acknowledges the need to significantly reduce logistics costs to enhance competitiveness, particularly in light of the country's graduation from the least developed country (LDC) status in 2026. The transition will result in the loss of certain trade privileges and increased competition. • The RHD’s proposal seeks to create a comprehensive surface transit network that connects Bangladesh’s vital transportation routes with international corridors such as the BBIN countries (Bangladesh, Bhutan, India, and Nepal) network, South Asia Subregional Economic Cooperation (SASEC), the Asian Highway network (AH), and the Trans-Asian Railway (TAR). These efforts aim to enhance domestic transportation and facilitate cross-border trade between Bangladesh and its neighboring countries.

India

Fast facts

GDP (Oct-Dec 2023)
+8.4% yoy ▲

Manufacturing PMI (Mar 2024)
59.1 ▲

CPI (Mar 2024)
+4.9% yoy

Merchandise exports (Jan 2024)
3.1% yoy ▼

Knitwear
-2.8% yoy ▲

Woven garments
-4.1% yoy ▲

Footwear
-10.1% yoy ▲

Furniture
7.0% yoy ▲

Exchange rate (USD: INR, as of 28 Mar 2024)
83.3739 (0.12% 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: Positive

The National Statistical Office has raised India's GDP growth forecast for fiscal year 2023-24 (April 2023-March 2024) to 7.6% yoy, up from the previous estimate of 7.3% yoy. India's economy has shown resilience and performed strongly, with growth above 8% yoy for three consecutive quarters, despite sluggish global growth trends. Various agencies have also revised the growth estimates for India, projecting it to be close to 8% yoy for fiscal year 2023-24.

The seasonally adjusted HSBC India Manufacturing Purchasing Managers' Index™ reached a 16-year high of 59.1 in March, up from 56.9 in February. This indicates a significant improvement in operating conditions, driven by stronger growth in new orders, output, input stocks and job creation. In addition, retail inflation in India declined to a 10-month low of 4.9% in March and core inflation measures have been steadily declining.

Although challenges such as rising crude oil prices and global supply chain bottlenecks impact trade, India maintains a positive outlook. Sustained levels of business and consumer confidence, coupled with strong domestic demand, particularly in the investment sector, are expected to be the primary drivers of growth in India.

India

	Latest Developments	FBIC's take
Macroeconomic Trends	In February, India's exports surged 11.9% yoy to US$41.4 billion, marking a 20-month high and demonstrating strong momentum despite the ongoing Red Sea crisis. However, imports grew at an even faster rate, rising by 12.2% yoy to US$60.1 billion during the same month. As a result, the trade deficit in February widened to US$18.7 billion, compared to US$16.6 billion in February 2023.	• Regarding major export categories, the exports of drugs and pharmaceuticals grew by 22.2% yoy, engineering goods by 15.9% yoy, organic and inorganic chemicals by 33.0%, and readymade garments by 4.9% yoy in February. On the other hand, exports of gems and jewellery shrank by 11.3% yoy in the same month.
Labour & Compliance	According to a recent report by the International Labour Organization (ILO) and the Institute for Human Development (IHD), the real average monthly earnings of regular wage workers* in India experienced an annual decline of 1% from 2012 to 2022. The trend indicates low-quality employment and suggests a possible adverse impact of the COVID-19 pandemic on wage. *(*Regular wage workers are individuals who engage in longer-term work arrangements, receiving salaries on a weekly or monthly basis. This category encompasses government employees, Accredited Social Health Activist (ASHA) workers, domestic helpers, guards, and those working in the private sector. Regular wage work is generally considered more stable employment compared to casual work arrangements.)*	• Among regular wage workers, nearly 39% earned real monthly wages between 5,001 rupees and 10,000 rupees in 2022, followed by nearly 23% earning 2,001 rupees to 5,000 rupees. Only 14.9% earned more than 20,000 rupees per month in 2022. • In urban areas, the real average monthly wage of a regular wage worker has decreased from 12,100 rupees in 2012 to 10,925 rupees in 2022. In contrast, the real monthly wage of casual workers has increased to 4,712 rupees in 2022 from 3,701 rupees in 2012. • The report also highlights that, at the national level, 40.8% of regular wage workers and 51.9% of casual workers in the agriculture sector did not receive the average daily minimum wage mandated by the government for unskilled workers. Additionally, 39.3% of regular wage workers and 69.5% of casual workers in the construction sector did not receive the average daily minimum wage.

India

	Latest Developments	FBIC's take
Infrastructure	In fiscal year 2023-24, Indian Railways witnessed a 5% increase in its freight traffic, carrying 1.6 billion tonnes of goods. The growth was mainly driven by a late surge in the fourth quarter. However, the ministry's target of achieving 2 billion tonnes of goods for the fiscal year 2023-24 was not met.	• The failure to achieve the target can be attributed to the disruptions caused by the capacity expansion works, which often lead to traffic blocks and subsequently reduce the movement of both passenger and freight trains. • Nevertheless, during fiscal year 2023-24, Indian Railways achieved a loading of 787.6 million tonnes in coal (up by 8% yoy) and 181.0 million tonnes in iron ore (up by 13% yoy). It is anticipated that the growth in coal consumption in India will continue, which is positive for railway freight earnings in the future. • Currently, rail transport accounts for 27% of all goods transported in India. The government aims to increase this proportion to 45% and double the railway freight volumes to 3 billion tonnes by 2030.
	According to the latest report released by the Ministry of Statistics and Programme Implementation (MoSPI), in February 2024, a total of 443 out of 1,902 infrastructure projects in India experienced cost overruns, while 764 projects faced delays. Initially, the planned cost for these 1,902 projects was set at 27.1 trillion rupees. However, the latest estimate for the completion cost indicates that it is expected to reach 32.0 trillion rupees. This represents an overall cost overrun of more than 4.9 trillion rupees, equivalent to approximately 18.2% of the original planned cost.	• According to the report, as of February 2024, the actual expenditure on these projects has reached 16.8 trillion rupees, representing over 50% of the estimated completion cost. • Another significant observation in the report is the inconsistent reporting of revised cost estimates and commissioning schedules by project executing agencies. This raises concerns that the figures for time and cost overruns may be underreported. • Among the 764 delayed projects, 188 projects have delays of 1-12 months, 185 are delayed by 13-24 months, 275 projects by 25-60 months, and 116 projects by more than 60 months. On average, the time overrun in these delayed projects exceeds three years. • The report identified several reasons for the time overruns, including delays in land acquisition, obtaining necessary clearance permits for forests and the environment, inadequate infrastructure support and linkages, challenges in project financing, delays in finalizing engineering details, changes in scope, issues in tendering, ordering and equipment supply, as well as law and order problems. The report also notes that the state-wise lockdowns during the COVID-19 pandemic in 2020 and 2021 have contributed to the project delays.

Pakistan

Fast facts

Quantum index of large-scale manufacturing (Feb 2024)
+0.1% yoy ▼

CPI (Mar 2024)
+20.7% yoy

Exchange rate (USD: PKR, as of 29 Mar 2024)
277.7248 (1.5% Appreciation year-to-date)

Merchandise exports (Feb 2024)
16.2% yoy ▼

- Garments
  -1.0% yoy ▼
- Bed linen
  +5.7% yoy ▼
- Towels
  -7.6% yoy ▼
- Leather products
  -16.7% 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 stabilized since the start of fiscal year 2024 (July 2023 to June 2024, hereafter FY2024). GDP grew 2.5% yoy in the first quarter and 1.0% yoy in the second quarter of FY2024. Exports increased by 10.2% yoy in the July-February period of FY2024. Inflation measured by the consumer price indicator dropped to 20.7% yoy in March, the lowest since June 2022. The Large Scale Manufacturing Industries output rose 0.1% in March, its third increase in a row, even though it still contracted by 0.5% yoy in the first eight months of FY2024 (July 2023-February 2024).

In the coming months, several negative factors, including persistently high fiscal deficits, elevated debts, relatively high inflationary pressures, will continue to affect the country's economy. Prolonged global monetary tightening, surging world commodity prices, and worsened regional conflicts further impede the full recovery of the country's economy. In light of these concerns, the International Monetary Fund sets its projection for Pakistan's economic growth in FY2024 at 2% in its latest *World Economic Outlook* released in April and the World Bank expects the country's growth will reach only 1.8% in FY2024.

Pakistan

	Latest Developments	FBIC's take
Macroeconomic Trends	Pakistan's exports increased by 10.2% yoy in July 2023-February 2024, the first eight months of FY2024, to US$20.5 billion, according to the State Bank of Pakistan. In February alone, exports increased by 16.2% yoy to US$2.6 billion. In the first eight months of FY2024, the exports of textile and clothing, the largest export sector of Pakistan, decreased by 6.2% yoy to US$10.9 billion. However, in February, textile and clothing exports increased by 1.7% yoy to US$1.3 billion, marking the second consecutive month of growth and reversing the previous downward trend. The US is the top export destination of Pakistani products during this eight-month period, with an export value of US$3.6 billion and a share of 17.7%. This is followed by China (US$1.9 billion, 9.2%) and the UK (US$1.3 billion, 6.6%).	• Pakistan's exports showed a sign of recovery after having registered positive year-on-year growth since September 2023. Specifically, the rebound of textile and clothing exports since January 2024 ended the sector's downward trend for 14 consecutive months. • As for the key export markets of Pakistan, exports to the US fell 10.1% yoy in the first eight months of FY2024 from US$4.0 billion in the corresponding period in FY2023. The fall is mainly attributed to a dip in exports of textiles and clothing, according to data compiled by the State Bank of Pakistan. On the other hand, Pakistan's exports to China increased by 42% yoy in the same period. There is a high demand for Pakistani textiles, leather products, seafood, and agricultural products in China. It is estimated that during FY2024, Pakistan's exports to China will reach US$3 billion.

Pakistan

	Latest Developments	FBIC's take
Macroeconomic Trends	According to the data from the State Bank of Pakistan (SBP), net foreign direct investment (FDI) inflows into Pakistan decreased by 17.1% yoy in July 2023-February 2024, the first eight months of FY2024, to US$820.6 million. In February alone, net FDI increased by 15.7% yoy to US$131.2 million. During this period, the power sector (thermal, hydro, and coal generation) attracted the highest FDI of US$249.0 million (30.3% of the total value of net FDI inflows), followed by oil & gas explorations (US$151.2 million, 18.4%), the financial business sector (US$125.3 million, 15.3%), and petroleum refining (US$59.0 million, 7.2%). Hong Kong SAR, China was the largest foreign investor in Pakistan during this period, with an investment of US$234.6 million, accounting for 28.6% of the total value of net FDI inflows. The UK was the second largest foreign investor during this period (US$163.7 million, 19.9%), followed by the Chinese Mainland (US$80.4 million, 9.8%), the US (US$79.6 million, 9.7%), and the Netherlands (US$58.7 million, 7.2%).	• 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. The sharp year-on-year decrease of net FDI inflows in the first eight months of FY2024 is largely 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. Net FDI inflow resumed its growth trajectory in January and February of 2024. • In February, a five-party minority coalition government was finally formed after one of Pakistan's most contested elections. The return of political and economic stability is expected to give the authorities an opportunity to address the flaws in the investment landscape and allow foreign investors to start new projects in Pakistan.

Pakistan

	Latest Developments	FBIC's take
Infrastructure	In March 2024, the government of Punjab province approved a 100-billion-rupee IT City project in Lahore, the capital of Punjab, and allocated 10 billion rupees as seed money for the project. The project, officially named Nawaz Sharif IT City, is designed to cover an area of 853 Acres (about 3.5 square kilometres) and will be structured into four key segments: IT & Tech District, Education City, Film City, and Commercial and Residential area. The project include special economic zones, with a tax holiday for 10 years. It is estimated that 400 billion rupees worth of investment in the form of Public-Private-Partnerships and Joint Ventures will be attracted, and one million jobs will be created.	• The project is believed to have the potential to redefine the country's IT landscape and become a growth engine of Punjab. The IT & Tech District of the IT city, which will be developed on 200 acres of land, is claimed to be the country's first dedicated IT and tech mega district with state-of-the-art facilities for development and exports of IT-related products and services. The District has already attracted interest from leading IT companies such as Microsoft, Oracle, and renowned international educational institutions, according to the Punjab Chief Minister Maryam Nawaz Sharif. • However, IT, education and infrastructure experts have expressed concerns about the materialization of the projects, as they have seen a similar project at the same site fail to be activated during the previous tenure of Mian Shehbaz Sharif as Chief Minister of Punjab. They point out that the success of this massive project hinges on the active involvement of foreign companies, corporations, individuals, educational institutions, and film production houses, as well as the province's unswerving efforts to tackle cross-departmental and structural issues, along with other bureaucratic obstacles.

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