

COUNTRY SOURCING REPORT

Issue18

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Exploring New
Sourcing Frontiers:
Egypt and **Jordan**

Five Forces Shaping the
Future Global Sourcing
Landscape

EXECUTIVE SUMMARY

Five Forces Shaping the Future Global Sourcing Landscape

The COVID-19 pandemic has delivered the biggest, broadest supply chain disruptions in memory. With no end to the pandemic in sight, and the business outlook remaining highly uncertain, the fashion industry, which relies heavily on discretionary spending, is still under tremendous strain. Even before the pandemic, the industry had been grappling with exceptional challenges, brought about by the prolonged China–US trade war, rising trade protectionism elsewhere, and Brexit, on top of the ongoing digital revolution in retail. In this report, we examine five forces that we believe will shape the global sourcing landscape over the medium to long term. These are: the pandemic; geopolitics; free trade agreements (FTAs) and trade preferences; sourcing costs; and domestic development policies within production countries. All five have a bearing on how sourcing companies, retailers and brands may need to adapt.

The COVID-19 Pandemic

By impacting both supply and demand, the pandemic has disrupted the business of fashion companies on multiple fronts. Brands and retailers have had further to diversify and re-balance their sourcing portfolios to build resilient, agile supply chains that can withstand unexpected and severe disruptions in the future.

Rather than redrawing global sourcing maps, the COVID-19 crisis will accelerate and deepen some pre-existing trends, including diversification of sourcing bases, near-shoring or regionalisation of supply chains, dual-sourcing/multi-sourcing¹ for key raw materials, components or intermediate inputs, and digitalisation of supply chains to make them more transparent, traceable, and agile.

With regard to near-shoring, production and sourcing are expected to move closer to end users, with Eastern Europe/North Africa and Latin America becoming more important manufacturing clusters for European and US markets, respectively. Meanwhile, production bases with a vertically integrated domestic supply chain which makes them less reliant on imported inputs and thus less vulnerable to external shocks, will gain more traction in the future.

This does not necessarily mean a mass exodus of production from China in the foreseeable future. Rather, we envision a near-term sourcing model that is “China + Vietnam + many low-cost production countries in Asia”. Typically, these countries were successful in containing the initial spread of COVID-19 and have consolidated more integrated domestic or regional supply chains. The alternative — of building a more resilient supply chain by exploring new supplier partnerships elsewhere — will inevitably incur extra structural costs, which would further stress fashion companies at a time of reduced consumer spending amid an uncertain outlook.

Geopolitics

With the deterioration in China–US relations, high tariffs on China–US trade has been the “new normal” since 2018. Even with the Phase One Trade Deal of January this year, broader uncertainties and tensions (such as the escalating technology war) between the two countries are likely to prevail for a long time, irrespective of the 2020 US Presidential election outcome. That is because, in our view, the overriding issue between China and the US is not trade but geopolitical rivalry.

In the medium to long term, the continued presence of high tariffs and a prolonged China–US trade conflict will encourage some multinationals to divert some of their production or even the entire manufacturing processes from China to other countries to avoid tariffs and minimise geopolitical risks. This is true even for Chinese firms that are exporting to the US market.

At present, more than 90% of apparel imports and more than 50% of footwear imports from China are still subject to additional US tariffs, although the additional tariff rate on most of those products has been cut from 15% to 7.5% after the Phase One Trade Deal — with the remainder still subject to 25% additional tariffs. Some Asian countries,

¹ Dual-sourcing or multi-sourcing: using more than one supplier for a given input

including Vietnam and Cambodia, and Central American countries, could even benefit from the China–US trade war, seeing their exports of fashion products to the US increase.

FTAs and Trade Preferences

Amid rising labour costs and trade protectionism, a strategy of leveraging FTAs and unilateral preferential trade arrangements (PTAs), which grant certain member countries or beneficiary countries preferential market access, can potentially help multinational companies avoid higher tariffs.

Relevant developments of note this year include the US–Mexico–Canada Trade Agreement (USMCA), replacing the North American Free Trade Agreement (NAFTA) on 1 July, the EU–Vietnam Free Trade Agreement (EVFTA), which entered into force on 1 August, as well as the EU's partial withdrawal of duty-free and quota-free preferences granted to selected garments and footwear, and to all travel goods made in Cambodia under the Everything But Arms (EBA) trade scheme, which took effect on 12 August.

Other existing FTAs and PTAs that could potentially benefit US fashion companies include the Dominican Republic–Central America Free Trade Agreement (CAFTA–DR), the African Growth and Opportunity Act (AGOA), the Qualifying Industrial Zone (QIZ) initiative (applicable exclusively to Egypt and Jordan) and duty-free preferences granted under the US Generalised System of Preferences (GSP) for travel goods exported from GSP-eligible countries, including Cambodia, Myanmar and the Philippines. Apart from the above-mentioned EVFTA between the EU and Vietnam, EU fashion companies can also leverage the EU–Turkey Customs Union, the EU's GSP+ scheme, which covers Pakistan and the Philippines, and the EBA scheme, which includes Bangladesh, Myanmar and dozens of African countries.

The downside of this strategy is that companies aiming to access duty-saving opportunities via FTAs and PTAs face multiple and sometimes overlapping systems of tariffs, standards and regulatory regimes. Moreover, PTAs are subject to disruption as granting countries may unilaterally terminate benefits due to the income level growth of beneficiary countries or because of concerns over human rights or other broad issues.

Sourcing Costs

While labour costs are becoming less important in determining manufacturing locations because of technology advances such as robotics, the fashion industry, particularly the textile and garment industry, remains largely labour-intensive. Fashion businesses still search constantly for low-wage production bases in a bid to remain competitive.

Over the period 2006–17, the Asia Pacific enjoyed the highest real wage growth among all regions, led by China, India, Thailand and Vietnam, according to the *Global Wage Report 2018/19* by the International Labour Organization (ILO). Especially for fashion-related industries, low-cost, low value-added production will continue to shift from current low-cost manufacturing bases to emerging lower-cost locations. With a young, fast-growing labour force and benefiting from preferential trade arrangements, Sub-Saharan African countries will emerge as new sourcing frontiers for low-cost, labour-intensive manufacturing.

For the long term, existing sourcing bases will need to upgrade, by progressing to higher-end goods and higher value-added activities, or lose out completely if they remain focused on low value-added production.

Domestic Development Policies

Sourcing costs aside, access to skilled talent, along with competitive supplier ecosystems, infrastructure preparedness, logistics efficiency and business environment are among factors that, increasingly, influence the sourcing or production relocation decisions of fashion companies. In turn, these factors are largely affected by a country's long-term domestic development policies.

For instance, the Indian government slashed corporate tax rates in September last year, bringing India's corporate tax rates on par with those in countries across the globe. In addition, India has also started setting up National

Investment and Manufacturing Zones (NIMZs) across the country. These zones are envisaged as large areas of developed land with the requisite ecosystem for promoting world-class manufacturing activity. Thanks to continued efforts to improve its business environment and infrastructure, India has moved up 79 places in the World Bank's Ease of Doing Business rankings over the past five years, from 142nd in 2015 to 63rd in 2020. The country also ranked as the 9th largest recipient of FDI inflows in 2019, according to the *World Investment Report* released by the United Nations Conference on Trade and Development (UNCTAD).

Conclusions

The COVID-19 pandemic is likely to accelerate and deepen significant pre-existing sourcing trends in the long term. The post-pandemic sourcing model will be more resilient and agile to withstand unexpected and severe disruptions in the future.

In general, Asia will remain a manufacturing powerhouse for fashion products over the long term, with China's export share of those categories declining gradually. Meanwhile, the China–US trade war will accelerate sourcing diversification away from China, mainly to other Asian countries, including Vietnam, Bangladesh, Cambodia and Myanmar, due to their comparative advantage in labour and overhead costs and because of their integrated regional supply chains. During the diversification process, it is noteworthy that China will continue to play an increasingly important role as a textile supplier for apparel-exporting countries in Asia.

Additionally, given the e-commerce driven rise of fast fashion and product customization, near-shoring or regionalisation of supply chains will continue to grow in importance to meet consumer demand for shorter lead times. China is among the world's fastest growing consumer markets for fashion products, which gives another reason for sourcing in China to serve the domestic market.

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This report is brought to you by Fung Business Intelligence and Li & Fung's business unit contributors located in the following production countries. It gives an "our people on the ground" perspective of what is happening in those countries. This report covers country and sourcing updates, major multilateral/bilateral free trade agreements, input price trends, macroeconomic indicators and foreign exchange rates.

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COUNTRY OVERVIEW

	Population (million), 2019	Median age, 2020	Literacy rate (%), 2019 or most recent year	Real GDP growth (%), 2019	Inflation (%), 2019	Share in world clothing exports (%), 2018	Monthly base wages for manufacturing workers (US\$), 2019*
China	1,397.7	38.4	96.8	6.1	2.9	31.9	493.0
Bangladesh	163.0	27.6	74.7	8.2	5.5	6.7	104.0
India	1,366.4	28.4	74.4	4.2	4.8	3.4	278.0
Pakistan	216.6	22.8	59.1	1.9	6.7	1.2	129.0
Turkey	83.4	31.5	96.2	0.9	15.2	3.2	371.5
Cambodia	16.5	25.6	80.5	7.0	2.0	1.6	196.0
Indonesia	270.6	29.7	95.7	5.0	2.8	1.8	348.0
Philippines	108.1	25.7	98.2	6.0	2.5	0.2	236.0
Thailand	69.6	40.1	93.8	2.4	0.7	0.8	446.0
Vietnam	96.5	32.5	95.0	7.0	2.8	5.7	236.0
Mexico	127.6	29.2	95.4	-0.3	3.6	0.9	174.9
El Salvador	6.5	27.6	89.0	2.4	0.1	0.5	299.3
Guatemala	16.6	22.9	81.3	3.8	3.7	0.3	331.8
Honduras	9.7	24.3	87.2	2.7	4.4	0.8	334.8
Nicaragua	6.5	26.5	82.6	-3.9	5.4	0.3	183.9
Haiti	11.3	24.0	61.7	-1.2	17.3	0.2	239.5
Egypt	100.4	24.6	71.2	5.6	13.9	0.3	127.4
Jordan	10.1	23.8	98.2	2.0	0.7	0.4	310.3

Source:

Population (2019): World Bank database, accessed on 20 October 2020

Median Age (2020): *United Nations World Population Prospects 2019*

Literacy rate (2019 or most recent year): World Bank database, accessed on 20 October 2020

Real GDP growth and inflation (2019): *IMF World Economic Outlook*, October 2020

Share in world clothing exports (2018): WTO database, accessed on 21 October 2020

Monthly wages (2019): *JETRO Survey of Japanese-Affiliated Companies in Asia and Oceania*, November 2019

* Wages of Central American and Middle Eastern countries are monthly minimum wages as of mid-Oct 2020. Turkey's wage is the gross minimum wage nationwide effective in 2020 before taxes and social security deductions. All wage rates are converted to US dollar terms based on Bloomberg's spot exchange rates on 16 October 2020.

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Country & sourcing updates

Macroeconomic trends

- According to the Bangladesh Bureau of Statistics, real **GDP** growth is estimated to be 5.24% in the 2019-20 fiscal year (July 2019 – June 2020). Bangladesh reported the first COVID-19 case in the early March. In response to widespread concern, the economy was shut down from mid-March to the end of May.
- The country's **export earnings** in the July–September period of the current financial year 2020-21 grew by 2.58% to US\$9.89 billion from US\$9.64 billion in the same period of last fiscal year due to good performance in the European market despite the COVID-19 pandemic. Export earnings in September increased by 3.53% to US\$3.01 billion from US\$2.91 billion in the same month of last fiscal year, according to Export Promotion Bureau data.
 - Total exports started to rebound in July and grew by 0.59% yoy to US\$3.91 billion, as **international retailers and brands started returning to Bangladesh** with new orders. Exports in August increased by 4.32% yoy to US\$2.96 billion thanks to the reopening of retail stores in the EU and US markets.
- The **exchange rate of taka** remained broadly stable in the first nine months of 2020, aided by the intervention by the Bangladesh Bank and shrinking growth of imports and a significant inflow of remittances from overseas Bangladeshi workers.

Policies & regulations

- To tackle the economic impacts caused by the COVID-19 pandemic, the Bangladeshi government has announced **stimulus packages** worth over 1 trillion takas so far. Below is a summary of measures targeted **toward export-oriented industries**.
 - The first stimulus package, announced on 25 March, allocated 50 billion takas for the payment of salaries and allowances of workers and employees in export-oriented industries for three

months starting from April. However, the fund was found to be inadequate and the government released another 55 billion takas for the payment of salaries for June and July.

- The second stimulus package, announced on 5 April, totaled 677.5 billion takas. The funding is aimed at helping both local and export-oriented sectors which are affected by the pandemic through working capital loan facilities.
- The third package, announced on 7 April, concerns the allocation of an additional 127.5 billion takas to the Bangladesh Bank's Export Development Fund (EDF), which will be increased from US\$3.5 billion to US\$5 billion to facilitate import of raw materials under back-to-back letters of credit.
- Under the fourth package, the Bangladesh Bank launched on 12 April a 50 billion takas pre-shipment credit refinance scheme with reduced interest rate for the exporter-oriented industries.
- The government has identified **13 sectors as high priority sectors** in the export policy 2018-21, which are believed to be next growth drivers if adequate facilities and policy support are provided. Value-added readymade garment and garment accessories, software and IT enabled services, pharmaceutical products, leather and footwear, jute products and agro & agro-processed products, etc. are some of the high priority sectors which are given policy support to exploit their potentials.

Industry & sourcing developments

- The **COVID-19 pandemic has dealt a heavy blow to Bangladesh's garment industry**. Global demand for goods shrank and production in the country was suspended due to lockdowns.
 - Production in 348 member factories of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and 71 member

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Country & sourcing updates

factories of the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) had been suspended since the last week of March. Of the 348 BGMEA members stated above, 268 were **closed temporarily** due to the lack of orders, while 80 were **closed permanently**.

- According to BGMEA data, a total of 1,150 member factories reported that global buyers had **cancelled orders** with a total value of US\$3.18 billion amid the COVID-19 pandemic.
 - The shortfall in order in the market has also led to **a decline in prices**. On average, order prices have shown a 14% drop in the second half of 2020 compared to the same period last year, according to a BGMEA survey. Men's undergarments have seen the biggest price drop of 43% compared to last year, followed by babies' garments at 35%. Only knitted bottoms have seen a price increase of 6%.
 - **Japanese trade body eyes more investment in Bangladesh.** The Japan–Bangladesh Chamber of Commerce and Industry (JBCCI) urged for a better, favourable investment environment in the country for Japanese companies. There are now 310 Japanese companies operating in Bangladesh with investment totaled at around US\$3 billion. According to the country representative of the Japan External Trade Organization (JETRO), among those Japanese companies seeking to relocate from China, ASEAN countries are their priority for relocation.
- FTAs, trade preferences & facilitation**
- **China** has granted **zero-duty treatment** for 97% of the tariff lines originated from Bangladesh effective 1 July. With this policy, a total of 8,256 tariff lines imported from Bangladesh are exempted from tariffs, including the 3,095 tariff lines that are already enjoying duty-free access to China under the Asia-Pacific Trade Agreement (APTA) and an additional 5,161 tariff lines.
- Bangladesh continued to **request the US to reinstate its Generalized System of Preferences (GSP)** status at the fifth US–Bangladesh Trade and Investment Cooperation Forum Agreement Council (TICFA) meeting in Dhaka on 5 March. The US Trade Representative (USTR), however, gave no such assurance at the meeting.
 - The GSP status, a preferential tariff system which provides tariff reduction on various products, was suspended for Bangladesh following the nation's deadliest industrial accident, the collapse of Rana Plaza in 2013.
 - Currently, the US government does not provide GSP status to apparel items from any country but the duties imposed differ from nation to nation. Bangladeshi exporters face a 15.62% duty on the export of apparel items to the US.
 - Bangladesh has joined hands with peer **least-developed countries (LDCs)** to appeal to the World Trade Organisation (WTO) for **retaining existing trade preferences** granted by developed economies after their graduation from LDC status.
 - Bangladesh met the graduation criteria for the first time in 2018 and is envisaged to graduate in 2024. Once the country graduates, all tariff benefits will be lifted. Only the EU will allow the tariff benefits for Bangladesh for another three years as a grace period.
 - All **government services, licences and approvals** required for doing business in the country are expected to be made available with the **One-Stop Service (OSS)** by the end of 2021. The plan envisages to integrate 154 services from 35 agencies into the OSS platform with the support from the International Finance Corporation (IFC).
- Infrastructure & environmental sustainability**
- The Bangladeshi government is focusing on **developing good infrastructure** in the country to improve business connectivity through land, water and air. The Padma Bridge, metro rail, highways and

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Country & sourcing updates

expressways and other mega-projects including deep seaports and power stations are part of the government's fast-track initiatives. Projects that are underway include:

- Matarbari Port, Bangladesh's first ever deep seaport, will be made functional by 2025. The Matarbari Port Development Project has been undertaken to ensure sustainable development to build sound maritime logistics that will support growing export and import trade of Bangladesh and to make the country a regional maritime hub.
- The Payra Port Infrastructure Development Project and its first terminal are in the works, targeted to be completed by 2022.
- A new expressway between Dhaka and Chattogram is being designed to boost trade and ease congestion.
- Additionally, Inland Container Terminals (ICT) are being constructed as an additional cargo delivery method through inland waterways.

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Macroeconomic data

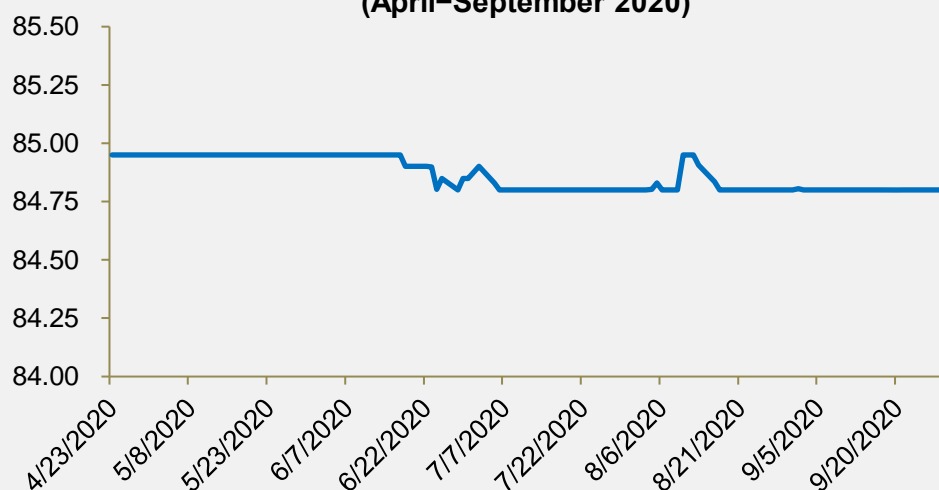
	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Quantum index of medium and large-scale manufacturing (Base: 2005-06=100, yoy growth %)	-25.6	-27.0	5.1	-	-	-
Consumer price index (yoy growth %)	6.0	5.4	6.0	5.5	5.7	6.0
Exports (yoy growth %)	-82.9	-61.6	-2.5	0.6	4.3	3.5
Exports (US\$ mn)	520.0	1,465.3	2,715.0	3,910.9	2,967.2	3,018.8
<i>Of which:</i>						
- Knitwear (US\$ mn)	180.1	608.4	1,165.0	1,750.3	1,364.5	1,348.9
- Woven garments (US\$ mn)	194.5	622.2	1,075.3	1,494.7	1,103.5	1,064.5
- Home textile (US\$ mn)	22.7	50.1	87.9	94.0	74.0	84.3
- Footwear* (US\$ mn)	10.3	33.9	63.6	108.2	71.0	71.2
- Leather products (US\$ mn)	3.6	11.7	11.5	22.1	12.0	19.0
Imports (yoy growth %)	-51.0	-49.2	-2.3	-25.1	-	-
Imports (US\$ mn)	2,489.8	2,532.2	3,941.0	3,395.9	-	-

* Includes leather footwear

Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Export Promotion Bureau of Bangladesh

EXCHANGE RATES

USD:BDT buy rate
(April–September 2020)



Source: Bangladesh Bank

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Country & sourcing updates

Macroeconomic trends

- **Economic growth remained stagnant** in the first half of 2020 due to disruptions brought about by the COVID-19 pandemic, according to a semi-annual report released by the National Bank of Cambodia (NBC).
 - In the first half of 2020, manufacturing production shrunk by 11% yoy, while export-oriented manufacturing dropped by 12.5% yoy. Garment production dipped by 10% yoy in the period, while production of footwear and travel goods went up by 2% yoy and 8% yoy, respectively.
 - NBC predicted the country's GDP to contract by 1.9% this year. The World Bank predicted in October that Cambodia's economy will contract by 2% this year and rebound to the growth path at a rate of 4.3% in 2021 and 5.2% in 2022.
- **Exports** increased by 3% in the first half of 2020, thanks to sharp export increases in electronics (+45% yoy), bicycles (+18% yoy) and rice (+29% yoy). **Exports of garments, footwear and travel goods** dropped by 5.4% yoy to US\$3.78 billion in the first half of 2020, due to sluggish external demand amid the pandemic.
- **The US** imported US\$4.04 billion worth of goods from Cambodia in the first eight months of 2020, a sharp increase of 21.3% compared to the same period last year, according to data released by the US International Trade Commission.
 - In the eight-month period, **apparel** remained the US's largest import category from Cambodia, with an import value of US\$1.84 billion and a steady growth rate of 5.2% yoy, followed by **travel goods**, which increased by 10.5% yoy to US\$655.60 million. **Furniture**, which replaced footwear as the third largest import category, jumped by 55.1% yoy to US\$376.08 million in the period. The US also imported US\$346.68

million worth of **footwear** from Cambodia during the period, up by 13.0% yoy.

Policies & regulations

- A **five-year development plan (2020–2025) for the country's garment, footwear and travel goods sector** is in the works to improve its competitiveness. The strategy envisages the transformation of the sector into a higher value-added, supportive, diversified and more competitive sector.
 - As the first ever strategy designed exclusively for the sector, the five-year plan is expected to focus on strengthening human resources and increasing productivity, while at the same time improving working conditions and worker welfare. Industrial investment in higher value-added products and export market diversification will also be promoted.
- The country's **new investment law**, to replace the previous version effective in 2003, is scheduled to be launched by the end of this year. The new law is designed to solve problems facing existing and potential investors, create a better investment environment and provide incentives for new industries for the long term.
 - The launch of the new investment law will be a **timely response to the ongoing trend of production relocation** amid the China–US trade war and the COVID-19 pandemic.
 - The new investment law is expected to be more attractive to investors, particularly at a time when Cambodia and China have signed a free trade agreement (FTA) and negotiations on the South Korea–Cambodia FTA are underway. Investors are already looking at export opportunities to the Chinese market to benefit through the China–Cambodia FTA.

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Country & sourcing updates

Industry & sourcing developments

- Cambodia's **garment industry** has borne the brunt of the shocks caused by the **COVID-19 pandemic**. The industry, which sources over 60% of raw materials from China, suffered from a shortage of Chinese raw materials in February. While supplies from China started to flood in in March, the prolonged outbreak in Western countries has led to an unprecedentedly large-scale export order cancellation.
 - As of June, around 450 garment, footwear and travel goods factories in Cambodia had suspended their operations due to the pandemic, while 83 factories were permanently closed, according to the Ministry of Labour and Vocational Training.
 - To keep the industry afloat, the government has decided to provide **wage subsidies for affected factories** that have applied for temporary suspension. Workers who have been furloughed or laid off amid the COVID-19 crisis receive a temporary wage payment of US\$70 a month, of which US\$30 is contributed by factory owners, while the remaining US\$40 is subsidised by the government. Besides, the government has allocated US\$600 million as **special low-interest loans** to help businesses secure working capital or investment funds.
- Despite the suspension of duty-free preferences for selected garment and footwear products and all travel goods to the EU market, **investment in Cambodia's garment, footwear and travel goods industry has continued to pour in**, showing the strong potential of the industry as a low-cost sourcing alternative.
 - Among the 92 projects (excluding those located in special economic zones) approved by the Council for the Development of Cambodia (CDC) in the first five months of 2020, nine were in bag manufacturing and another 25 in the garment industry.
 - In July, CDC issued a final certificate of registration for **Mann Long Shoes Co Ltd.**'s US\$10.3 million footwear factory in Kampong Cham province, while another US\$10.3 million investment by **Forever Fug Garment Co., Ltd.** was approved in August for building a garment factory in Kampong Speu province.
 - The Hong Kong-based and Taipei-listed textile maker **TST Group Holding Ltd.** is planning to expand into apparel production from textile manufacturing in Cambodia with a planned investment of US\$20 million, with an aim to build up vertically integrated production of textiles and apparel in the country.

Labour & workplace compliance

- **Minimum wage for the garment and footwear sector** will increase by a minor US\$2 to US\$192 per month starting from 1 January 2021, reflecting severe difficulties facing employers amid the COVID-19 crisis.

FTAs, trade preferences & facilitation

- Starting 12 August, partial withdrawal of the duty-free and quota-free preferences granted to Cambodia under the **EU's Everything But Arms (EBA) trade scheme** took effect. Selected garment and footwear products, all travel goods and sugar from Cambodia are now subject to standard most-favoured-nation (MFN) tariff rates when entering the EU market.
 - The move **impacts roughly 20% or 1 billion euros of the country's annual exports** to the EU, while the other 80% will continue to enjoy duty-free and quota-free preferences.
 - It will affect some garment and footwear exporters, while impacts on the travel goods industry will be limited as only a small portion of travel goods are shipped to the EU market.
 - If the Cambodian government shows significant progress on human rights, particularly on civil

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Country & sourcing updates

and political rights, the EU Commission may review its decision and reinstate tariff preferences.

- To mitigate the impacts caused by the suspension of EBA preferences, the Cambodian government has provided **income tax exemptions for affected garment, footwear and travel goods enterprises**. Depending on their level of income loss, the affected enterprises will get a 50% income tax exemption for six months or 100% exemption for a year.
- The Garment Manufacturers Association in Cambodia (GMAC) has **filed a complaint with the European Court of Justice**, seeking to annul the EU's decision.
- The Cambodian government has strived to diversify exports and integrate the country into the regional and global economy through **free trade agreements (FTAs)**.
 - The Ministry of Commerce has established **eight working groups to take charge of trade negotiations** with each potential partner, including China, South Korea, the Eurasian Economic Union (EAEU), the UK, the US, Japan, Mongolia and India. So far, the UK, the US, Japan, Mongolia and India have not started to launch FTA talks with Cambodia.
 - **China** is the first country to negotiate an **FTA with Cambodia**. The two sides concluded their negotiations on the FTA in July and the deal was signed in October. Preferential access to China's huge market enables Cambodia to diversify its exports and reduce over-reliance on a few trading partners, such as the EU, the US and Canada.
 - The third round of negotiations on the **South Korea–Cambodia FTA** was held in early October. The two sides have pledged to finalise their negotiations by the end of this year.
- Cambodia has ratified the protocol on the amendment of the ASEAN Trade in Goods Agreement (ATIGA) to implement the **ASEAN-wide Self-Certification (AWSC)** scheme. Effective from September this year, the scheme is aimed at streamlining customs procedures by allowing approved operators to self-certify the origins of their goods and facilitating trade flows among ASEAN members.

Infrastructure & environmental sustainability

- Funded by the EU's SWITCH–Asia programme, the GMAC rolled out the **green-tech clean-energy Switch Garment project** in September. The project aims at increasing competitiveness and employing sustainable energy practices to curb the garment industry's environmental impact.

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Macroeconomic data

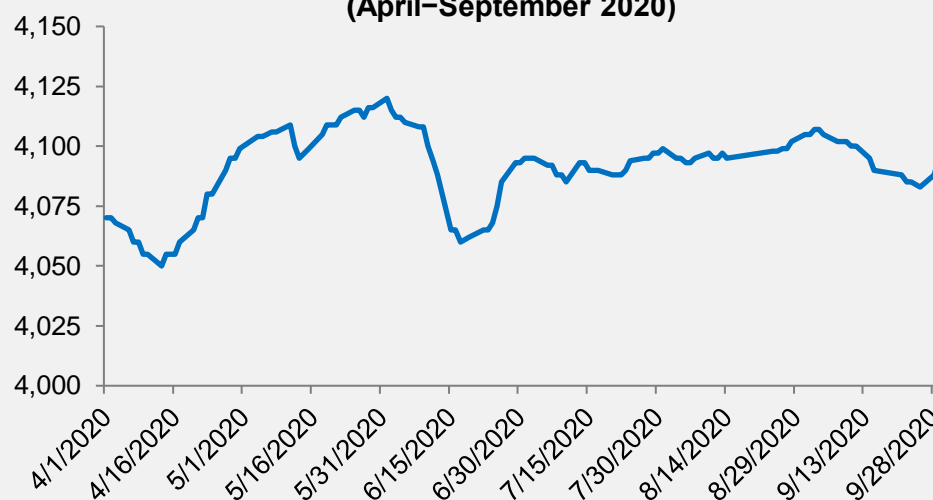
	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Consumer price index (yoy growth %)	2.7	2.8	1.9	2.4	3.2	3.1
Exports (yoy growth %)	24.8	-14.1	0.4	26.9	41.0	50.5
Exports (Cambodian riel billion)	4,934.1	4,002.5	3,578.5	6,151.0	7,472.9	8,933.7
<i>Of which:</i>						
- Garments (Cambodian riel billion)	3,153.0	2,545.0	1,793.5	2,214.3	2,937.9	3,387.6
- Footwear (Cambodian riel billion)	444.6	332.4	290.2	352.9	439.0	443.6
- Electrical parts (Cambodian riel billion)	91.6	92.9	95.1	100.0	367.3	576.8
- Bicycles (Cambodian riel billion)	193.5	128.1	146.9	175.2	199.8	220.8
Imports (yoy growth %)	22.3	1.8	-13.1	-25.5	-22.3	-27.6
Imports (Cambodian riel billion)	6,395.5	6,598.8	6,044.4	5,762.0	5,506.6	5,646.2

Note: July 2020 figures are the most up-to-date as of the data of publishing.

Source: National Bank of Cambodia

EXCHANGE RATES

USD:KHR official exchange rate
(April–September 2020)



Source: National Bank of Cambodia

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Macroeconomic trends

- Amid global economic uncertainties caused by the COVID-19 pandemic, China's foreign trade sector has delivered a better-than-expected performance so far this year. In the first nine months of 2020, **merchandise exports** reached US\$1,811.4 billion, down by 0.8% over the same period of the previous year. Merchandise exports totalled US\$239.8 billion in September, up by 9.9% over the same month of the previous year. China's exports rose for the fourth consecutive month in September, indicating a strong recovery from the COVID-19-induced declines in exports in the first few months of 2020.
 - Exports of textiles and garments rose by 15.7% yoy to US\$28.38 billion in September. Of which, **exports of garments** rose by 3.2% yoy to US\$15.23 billion, while **exports of textiles** surged by 34.7% yoy to US\$13.15 billion, driven by strong overseas demand for face masks and other personal protective equipment. In the first nine months of 2020, textile and garment exports totalled US\$215.78 billion, up by 9.4% over the same period last year. Of which, exports of garments reached US\$97.83 billion, down by 10.3% yoy; while exports of textiles amounted to US\$117.95 billion, up by 33.7% yoy.
 - **Exports of shoes** totalled US\$3.34 billion, down by 14.1% yoy, in September. In the first nine months of 2020, exports of shoes reached US\$25.02 billion, down by 25.3% yoy.
 - **Exports of toys** amounted to US\$4.11 billion, up by 7.4% yoy, in September. In the first nine months of 2020, exports of toys totalled US\$22.18 billion, down by 1.9% yoy.
- In the first seven months of 2020, China became the **top trading partner of the EU**, a position previously held by the US. EU's imports from China increased by 4.9% yoy in the January-July period, whereas its imports from the US dropped by 11.7% yoy.
- **China's trade and investment with countries along the Belt and Road (B&R)** have remained robust amid the COVID-19 pandemic.
 - China's trade with the B&R countries rose by 1.5% yoy to 6.75 trillion yuan in the first nine months of 2020.
 - In the first nine months of 2020, Chinese companies made outward direct investment (ODI) of US\$13.0 billion in B&R countries, up by 29.7% yoy, and signed contracts of new projects worth US\$83.7 billion.
- **Cross-border e-commerce** has provided strong impetus for China's foreign trade. In the first three quarters of the year, trade via cross-border e-commerce platforms increased by 52.8% yoy to 187.4 billion yuan.
- **Consumer prices:** CPI growth eased to 1.7% yoy in September from 2.4% yoy in the previous month. In the first nine months of 2020, China's CPI growth was 3.3% yoy.
- **Midstream prices:** Ex-factory prices of industrial products have gone up lately. The producer price index (PPI) rose by 0.3% mom in August and 0.1% mom in September. In the first nine months of 2020, China's PPI growth was minus 2.0% yoy.
- **Upstream prices:** Domestic prices of production inputs have increased lately. The purchaser price index of industrial products went up by 0.6% mom in August and 0.4% mom in September. In the first nine months of 2020, the growth in China's purchaser price index was minus 2.6% yoy.
- **Real GDP growth** picked up strongly from minus 6.8% yoy in 1Q20 to 3.2% yoy in 2Q20 and further to 4.9% yoy in 3Q20, making China the first major economy to return to growth in the wake of the COVID-19 pandemic. In the first three quarters of 2020, China's economy expanded by 0.7% yoy.
- **Total profits of industrial companies** with annual revenue over 20 million yuan fell by 4.4% yoy to 3.72

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trillion yuan in the first eight months of 2020. Among the industries, profits of the textile manufacturing industry edged up by 1.6% yoy to 58.51 billion yuan, while profits in the wearing apparel and ornament manufacturing industry slumped by 25.6% yoy to 35.08 billion yuan in the period.

- **Industrial production by the textile industry** decreased by 1.7% yoy in the first nine months of 2020, compared to the growth of 1.3% yoy in the year 2019.
 - China's **fabric production** contracted by 12.6% yoy to 3.4 billion metres in September. In the first nine months of 2020, fabric production reached 26.2 billion metres, down by 21.6% yoy.
- **Fixed asset investment** (excluding rural households) in the textile industry declined by 11.3% yoy in the first nine months of 2020.
- **Foreign direct investment (FDI)** into China increased by 5.2% yoy to reach 718.8 billion yuan (US\$103.3 billion, up by 2.5% yoy) in the first nine months of 2020.
 - China unveiled **revised 'negative lists'** in late June, which not only further relax foreign investment's access to the manufacturing and agriculture sectors, but also open up key areas in service industries. A more open and convenient market environment will enhance foreign enterprises' confidence in entering the Chinese market.
- China's **total retail sales of consumer goods** reached 27.33 trillion yuan in the first nine months of 2020, down by 7.2% over the same period last year. Of which, retail sales of garments, footwear, hats and knitwear amounted to 804.5 billion yuan, down by 12.4% yoy. In the period, online retail sales of physical goods grew 15.3% yoy to 6.65 trillion yuan, accounting for 24.3% of total retail sales of consumer goods.
- The **Chinese yuan** appreciated by 2.5% against the US dollar in the first nine months of 2020. After depreciating from 6.9632 on 31 December 2019 to 7.1671 on 27 May, the USD-CNY spot exchange rate appreciated to 6.7910 on 30 September 2020, according to Bloomberg.
- In September 2020, the RMB remained **the fifth most active currency for international payments** by value, with a share of 1.97% according to data from SWIFT, a global payment messaging system.
- From January to September 2020, the **minimum wage levels** in Fujian, Qinghai and Guangxi provinces were adjusted upward.
- The average **monthly income of migrant workers** in China increased by 2.1% yoy to 4,035 yuan in the first nine months of 2020.
- China's **job market** has improved lately after a marked worsening in the first few months of the year. The surveyed urban unemployment rate in 31 major cities in China rose from 5.2% in January to 5.9% in May, and then retreated to 5.7% in August and further to 5.5% in September.
- China's **state cotton reserves sales** of 2020 commenced on 1 July and ended on 30 September. About 503,000 tonnes of cotton were sold during the period.
- **Imports of cotton** surged 54.1% yoy to 140,000 tonnes in August. In the first eight months of 2020, imports of cotton amounted to 1.19 million tonnes, down by 16.8% yoy.
 - On 1 September, the Chinese government issued **additional cotton import quotas of 400,000 tonnes** for the year to meet the domestic demand for imported cotton.
- **Textile and apparel exports via Xinjiang's ports of entry** declined 9.8% yoy to 15.13 billion yuan in the first eight months of 2020. Exports of apparel amounted to 12.05 billion yuan, down by 12.4% yoy, while exports of textile totalled 3.08 billion yuan, up by 1.7% yoy.

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Policies & regulations

- The Chinese government rolled out a slew of **policies to facilitate work resumption and support businesses** during the COVID-19 outbreak in China. For example,
 - The State Council released a circular on 8 February to urge efforts to resume work and production as soon as possible while protecting workers from getting infected with the COVID-19. It also organized 29 working groups to investigate and facilitate the resumption of work and production in various places from mid-March.
 - On February 20, the State Council announced to reduce or exempt employer contributions to pension, unemployment and work injury insurance schemes for all enterprises for a period of three to five months. The move potentially allows enterprises to save up to 10%–15% in compensation and benefits payouts, or 500 billion yuan, over the period, thereby helping them survive the COVID-19 crisis.
- To help the resumption of production disrupted by the COVID-19 outbreak, the Chinese government **relaxed its environmental enforcement**. For example,
 - When conducting on-site environmental checks, the environmental inspectors would not punish enterprises who commit minor violations but are able to correct them in time. Moreover, enterprises involved in the production of materials used in the fight against the COVID-19 or have low emission levels of pollutants would be exempted from environmental checks.
 - The government has exempted environmental assessments on some small- and medium-sized enterprises in the service industry, including restaurants, entertainment venues and hotels. It has also simplified environmental assessment and approval processes for some large projects
- The Chinese government implemented various **measures to support foreign trade enterprises** amid the challenging foreign trade environment. For example,
 - The State Council issued a circular on 22 June, introducing measures to **help exporters sell products domestically** and support foreign trade businesses. Foreign trade enterprises are allowed to sell export products that meet China's standards in the domestic market. These enterprises are encouraged to expand sales channels such as e-commerce platforms. The government will provide various administrative support for foreign trade companies, such as simplifying product certification procedures and taxation procedures. Moreover, financial institutions are asked to provide support for the transformation, and strengthen supply chain financial services.
 - The State Council released *Opinions on Further Stabilizing Foreign Trade and Foreign Investment* on 12 August and proposed 15 policy measures, including promoting the use of **export credit insurance** to provide financing for enterprises, encouraging the development of innovative business models, and providing fiscal and financial support for foreign trade enterprises.
- The Chinese authorities have unveiled a series of **measures to promote consumption** in a bid to stimulate the economy. For example,
 - On 13 March, the Chinese government rolled out 19 measures to boost consumption and develop a strong domestic market. Steps would be taken to reduce import tariffs for daily household articles, promote cultural and leisure consumption, facilitate the consumption of green and 'smart' products, and encourage new types of consumption such as online shopping, etc.

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- On 29 April, the Chinese authorities announced measures to stabilize and expand car consumption, including favorable tax policies for purchases of new energy vehicles, and encouraging financial institutions to conduct businesses related to auto consumption finance.
- The National Development and Reform Commission (NDRC) said on 24 May that it would take multiple measures to promote the further rebound in consumption, including promoting consumption upgrade, expanding service consumption, prompting the growth of digital and online consumption, encouraging the use of green products, and speeding up construction of new infrastructure.
- Chinese leaders have proposed the '**dual circulation**' strategy for China's medium and long-term development. It is a new development model whereby 'domestic and international circulation can boost each other, with the domestic circulation as the mainstay'. The 'dual circulation' strategy is widely seen as the most important policy direction in the coming years, and will likely serve as the policy framework of the upcoming 14th Five-Year Plan (2021-25).
 - Priority efforts will be focused on stimulating domestic demand and domestic drivers of growth to improve economic resiliency and self-sufficiency as a first step. Efforts will also be taken on deepening reform on the supply side through creating a unified and open domestic market and better matching capabilities and resources to the needs of the domestic market.
- **China's manufacturing industry took a big hit from the COVID-19 outbreak during the first few months of 2020 before recovering strongly lately.**
 - With the COVID-19 spreading rapidly from Wuhan, Hubei to throughout China in January, a lockdown was imposed in Hubei and a partial lockdown was imposed in dozens of major cities across China. Also, local governments in at least 24 provinces requested businesses not to resume work before 10 February at the earliest. These measures, together with restrictions on inter-provincial transport and supply chain disruptions in various industries, led to nationwide factory shutdowns and production outages.
 - Most manufacturers had resumed work by end-February amid the successful containment of COVID-19 outbreak in China and efforts by the Chinese government to promote work resumption. However, manufacturers started to experience order cancellations, requests for shipment delays and even non-payment by foreign buyers since mid-March, after the COVID-19 outbreak became a global pandemic which led to a plunge in global demand. Meanwhile, some manufacturers or exporters lacked the confidence to take new orders, as they were worried about last-minute cancellation of orders or non-payment.
 - China's manufacturing industry has started to recover at a faster pace since mid- to late April, as production disruptions in alternative production countries hit hard by the COVID-19 outbreak have pushed foreign buyers to shift orders to China instead. In addition, a lot of manufacturers have repurposed their production lines to produce face masks and other personal protective equipment, leading to a surge in the production and exports of these items.
 - Since July, some manufacturers have even received requests for reinstatement of cancelled orders or shipments of previously cancelled

Industry & sourcing developments

- The US Customs and Border Protection (CBP) agency announced on 14 September five Withhold Release Orders, **banning cotton, apparel, hair products and computer parts from five Xinjiang companies** and all products from a vocational training centre in Xinjiang.

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goods by foreign buyers, which signals that external demand is recovering amid the gradual reopening of the developed economies.

Politics & geopolitics

- Despite the fact that the phase one economic and trade agreement came into effect on 14 February, the **China-US relations have worsened** due to tensions over the COVID-19 pandemic, China's passage of the national security law on Hong Kong, and the escalating tech war.
 - For a few months in early 2020, China and the US had been engaging in a war of words regarding the COVID-19 outbreak. The US claimed a 'lack of transparency' and even 'cover up' in China's handling of the COVID-19 outbreak, which China dismissed as unfair and untrue.
 - Responding to China's passage of the national security law imposed on Hong Kong, the US has announced a flurry of punitive measures against China, including revoking visas for graduate students and researchers with ties to the Chinese government; signing into law the *Hong Kong Autonomy Act*; and imposing economic sanctions on 11 current and former Chinese and Hong Kong officials. The US has also ended Hong Kong's special status with the US, including banning high-tech and defence-related exports to Hong Kong, and requiring imported goods produced in Hong Kong be marked to indicate that their origin is "China", which also means that the 'China Section 301 tariffs' will be applied to Hong Kong as well.
 - The China-US tech war has also heated up. On 6 August, citing the threats to US national security, foreign policy, and economy, US President Donald Trump signed executive orders to ban any transactions with TikTok's parent company ByteDance and Wechat's parent company Tencent. The Trump administration also pressed ByteDance to sell

the US operations of TikTok to US companies. On 19 September, Oracle and Walmart announced that they have agreed to buy a total of 20% stake in TikTok Global. The final transaction will need the approval by both the Chinese and US governments.

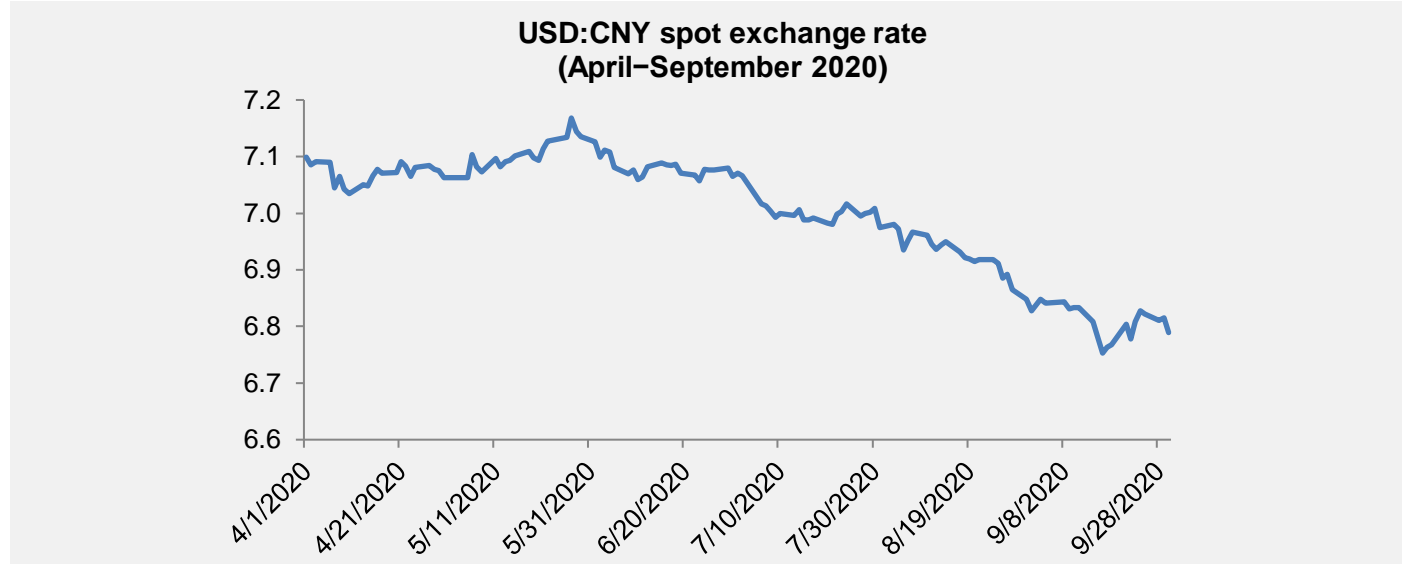
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Macroeconomic data

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Quarterly GDP (real yoy growth %)	3.2 (2Q20)			4.9 (3Q20)		
Manufacturing PMI (seasonally adjusted)	50.8	50.6	50.9	51.1	51.0	51.5
Purchaser price index of industrial products (yoy growth %)	-3.8	-5.0	-4.4	-3.3	-2.5	-2.3
Producer price index of industrial products (yoy growth %)	-3.1	-3.7	-3.0	-2.4	-2.0	-2.1
Consumer price index (yoy growth %)	3.3	2.4	2.5	2.7	2.4	1.7
Exports (yoy growth %)	3.4	-3.2	0.5	7.2	9.5	9.9
Exports (US\$ bn)	200.1	207.1	213.6	237.6	235.3	239.8
<i>Of which:</i>						
- Garments (US\$ bn)	6.7	8.9	12.9	15.3	16.2	15.2
- Footwear (US\$ bn)	1.9	2.1	2.9	3.6	3.4	3.3
- Toys (US\$ bn)	1.8	1.9	2.5	3.5	3.9	4.1
Imports (yoy growth %)	-14.2	-16.6	2.7	-1.4	-2.1	13.2
Imports (US\$ bn)	154.9	144.1	167.2	175.3	176.3	202.8

Source: National Bureau of Statistics, PRC; China Customs; China Federation of Logistics & Purchasing

EXCHANGE RATES



Source: Federal Reserve Bank of New York

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Country & sourcing updates

Macroeconomic trends

- India's **merchandise exports** increased by 6.0% yoy to US\$27.58 billion in September, the first year-on-year increase in the past seven months, driven by higher shipments of drugs and pharmaceuticals and readymade garments. In the first half of the current fiscal year (April 2020–March 2021), exports plunged by 21.3% yoy to US\$125.25 billion.
 - **Exports of readymade garments** increased by 10.2% yoy to US\$1.19 billion in September, while the figures plummeted by 39.3% yoy to US\$4.78 billion in the first half of the 2020–21 fiscal year.
 - In September, **exports of carpets, handicrafts excluding handmade carpets, jute manufactures including floor covering, and cotton yarn/fabrics/made-ups/handloom products** increased by 42.9%, 21.8%, 18.6% and 15.4%, respectively, compared with the same month last fiscal year, while **exports of man-made yarn, fabrics and made-ups** posted a decline of 9.1% yoy.
- India's **real GDP growth** contracted by a record 23.9% yoy in the April–June quarter, making it among the worst hit countries amid the COVID-19 pandemic. The worst-than-expected GDP figure in the quarter reflects the severe impacts of one of the world's strictest lockdowns, as most factories in India were shut down throughout April and May and subsequent lockdowns were imposed on various districts and localities.
 - In fact, India's economic growth has already lost steam pre-pandemic, with GDP growth slowing to a 11-year low of 4.2% yoy in the 2019–20 fiscal year.
 - As the second-worst affected country amid the COVID-19 pandemic, India's economic recovery prospects remain bleak.
- The IHS Markit India **Manufacturing Purchasing Managers' Index (PMI)** surged to 56.8 in September, the highest since January 2012, from 52.0 in August, amid eased COVID-19 restrictions.
 - Output rose for the second straight month, with the growth rate being the third quickest in the survey's history. Also, there were back-to-back rises in new orders, with the rate of expansion picking up to the fastest since early 2012; and new export orders returned to growth, the first since prior to the escalation of the outbreak. Meanwhile, manufacturers' input buying levels hit the strongest in over eight-and-a-half years.
- **Inflation**, as measured by the consumer price index, accelerated to an eight-month high of 7.34% yoy in September from 6.69% yoy in August, well beyond the central bank's 6% upper-band target. Price increases in food items have led to higher inflation.
- **Foreign direct investment (FDI)** inflows in India stood at US\$73.46 billion in the 2019–20 fiscal year, a 18.5% increase from the 2018–19 fiscal year. Of which, US\$49.98 billion was FDI equity inflows, with services, computer software and hardware, trading and telecommunications sectors receiving the largest amount of investment. During the said period, India received the highest FDI equity inflows from Singapore, followed by Mauritius, the Netherlands, the US and Japan.
- The **Indian rupee** has strengthened against the US dollar since July. It closed at 73.27 per US dollar on 12 October, appreciating by 3.2% since 1 July this year, according to spot exchange rates provided by Bloomberg. This is partly due to the recent weakness of the US dollar and the huge foreign portfolio inflows into India's equity market.

Policies & regulations

- The COVID-19 pandemic has prompted the Narendra Modi-led Administration to launch the "**Atmanirbhar Bharat Abhiyan**" (**Self-reliant India Campaign**). The government has so far identified 12 priority

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sectors with potential for **import substitution and boosting exports**, including food processing, organic farming, iron and steel, aluminium and copper, agrochemicals, electronics, industrial machinery, furniture, leather and footwear, auto parts, textiles, and marine products.

- The Indian government announced five tranches of **economic stimulus packages** in May under Prime Minister Narendra Modi's "Atmanirbhar Bharat Abhiyan" (Self-reliant India Campaign) to boost the economy. These measures, together with the previous fiscal package announced in late March and monetary measures taken by the central bank since the lockdown began in March, are worth 20 trillion Indian rupees (US\$274 billion) and equivalent to nearly 10% of India's GDP.
 - The first tranche is focused largely on infusing liquidity into **micro, small and medium enterprises (MSMEs)**, which lie at the heart of the industrial ecosystem and employment. In particular, collateral-free automatic loans worth 3 trillion rupees are now available for MSMEs with a turnover of up to 1 billion rupees. Besides, the definition of MSMEs has been revised, with higher investment caps and an additional criterion of turnover.
 - The second tranche of measures is focused on various vulnerable sectors and groups in the economy, including **migrant workers, farmers and street vendors**.
 - The third tranche is focused on supporting the **agriculture sector and allied activities** by improving infrastructure, building capacity, providing better logistics, and facilitating governance and administrative reforms.
 - In the fourth tranche of the economic stimulus package, the government announced the **easing of limits on FDI** in defence manufacturing, privatisation of six more airports, opening up more air space and allowing private sector in commercial coal mining. Also, self-reliance on defence production will be boosted.
 - The fifth tranche is focused on the **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)** for job creation, public health, technology-driven education sector, and ease of doing business, etc.
- In the wake of COVID-19 outbreak, the Indian government launched "**Garib Kalyan Rojgar Abhiyaan**", a massive employment and rural public works campaign, on 20 June to **boost employment and livelihood opportunities for migrant workers** returning to villages. With initial funding of 500 billion rupees (US\$6.8 billion), the campaign covers 25 categories of works/ activities in 116 districts across six states.
- India's Department of Revenue has launched a **new set of "rules of origin" regulations** — the Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020 — effective from 21 September 2020. The new norms will impose stricter customs checks on imports of low-quality products and prevent the dumping of goods by a third country routed through one of India's free trade agreement (FTA) partner countries.
 - Under the new rules, in order to claim preferential rate of duty under any FTA, Indian importers are now required to demonstrate that the imported products have undergone a prescribed value addition in the countries of origin, and maintain all supporting documents for at least five years from the date of filing the bill of entry. The new rules have imposed significant obligations on importers. Previously, a Certificate of Origin (CoO) was sufficient.
 - Indian customs officials have long suspected that Chinese exporters may divert their supplies to India through ASEAN countries by abusing the rules of origin under the India–ASEAN FTA.

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- The Indian government has recently **stepped up efforts to attract manufacturers seeking to move out of China**. In April, the government reportedly reached out to more than 1,000 companies in the US through overseas missions to offer incentives to those considering production diversification away from China. It is also reported that India has set aside a total land area of 461,589 hectares across the country for manufacturers moving out of China.
 - Electrical, pharmaceuticals, medical devices, electronics, heavy engineering, solar equipment, food processing, chemicals and textiles are said to be among the priority sectors for promoting manufacturing. India's investment promotion and facilitation agency has received enquiries mainly from Japan, the US, South Korea and China for investing in India post-COVID-19 pandemic.

Industry & sourcing developments

- The US's restrictions on certain cotton and apparel imports from specific producers in China's **Xinjiang Region due to alleged concerns on 'forced labour'** is likely to prove beneficial for Indian textile exporters. Several major apparel exporters from India have either already started receiving increased orders or are in active discussions with large international buyers, who are looking at increasing their sourcing from India. The shift, which was previously expected to take place gradually over the medium term, could be expedited in light of this recent development.
- The Uttar Pradesh state government earmarked in September more than 77 acres of land for the proposed **Apparel Export Cluster in Noida**, aiming to get private investment worth 9 billion rupees (US\$123 million) in infrastructure. The proposed textile cluster, consisting of nearly 55 manufacturing and export units, is expected to generate employment for more than 100,000 people. Besides, the state government is also planning to establish **integrated textile parks across the state**. So far, six developers have expressed interest in setting up

such parks at Agra, Meerut, Gautam Budh Nagar (Noida), Chandauli, Jhansi, Kanpur and Gorakhpur districts.

- The Indian Government announced the formation of the **National Technical Textiles Mission** in February with a four-year implementation period from the 2020–21 fiscal year to the 2023–24 fiscal year and a total outlay of 14.8 billion rupees (US\$203 million), to position India as a global leader for man-made fibres and technical textiles categories. India imports significant quantities of technical textiles worth US\$16 billion every year. The initiative will put Indian firms on a level playing field with international players in these sectors. The government is laying a lot of importance on developing India's strength in man-made fibres and technical textiles to gain from the current trend of shifting of business from China.

Labour & workplace compliance

- The Indian Parliament in September **passed three of the four labour codes** that comprise the government's flagship labour reforms, namely the **Industrial Relations Code, the Code on Social Security, and the Occupational Safety, Health and Working Conditions Code**. The three bills are now sent to President of India for his assent. Out of the four, the Code on Wages was passed by parliament last year.
 - These four key labour reform bills, which are consolidated from over 29 labour laws, are aimed to **simplify existing labour laws, accelerate labour reform, improve the ease of doing business and attract foreign investment** to the country.
 - Major legislative changes covered in the three newly approved bills include but not limited to: 1) Companies with up to 300 workers will be allowed to perform closures, lay-offs or retrenchments without prior approval of the government, instead of the current threshold of 100 workers; 2) The social security net is now

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extended to cover all classes of workers across the board, including migrant workers, unorganised workers, platform workers (hired by app-based firms) and gig workers (such as delivery personnel employed in the logistics sector, uber drivers, etc.); 3) Daily work hour limit is now fixed at a maximum of 8 hours per day; 4) Unions in all industries will now have to give 60 days' strike notice, which means flash strikes are now outlawed; 5) Workers on fixed-term employment will now receive the same benefits as regular workers.

- These changes in labour codes are expected to bring in **more flexibility for small and medium-sized factories** and encourage them to expand the scale of production and hire more formal workers. Meanwhile, the new provisions and benefits for migrant workers will lead to **higher manpower costs** for employers.
- Concerns have arisen among brands over **newly proposed changes to state labour laws that may infringe labour rights**.
 - To curb the impacts of the COVID-19 mandated lockdown, some states in India have adopted legislative proposals to significantly relax or suspend labour protections. For example, several states, including Odisha, Madhya Pradesh and Gujarat, have increased the working hours to 72 hours a week due to worker shortage amidst the ongoing pandemic. The State of Uttar Pradesh has promulgated an ordinance to exempt all factories and establishments engaged in manufacturing from complying with a majority of labour laws, except with regard to child labour, for a period of three years.
 - The changes have affected a number of industries, including textiles. However, these changes made by the states have been criticized as they might contribute further to informalisation of the workforce and compromise working conditions.

Politics & geopolitics

- The **China–India relations** have deteriorated rapidly due to military standoff along the China–India borders and India's subsequent economic sanctions against China, including boycotting Chinese products, banning the usage of Chinese apps in India, and cancelling and placing additional scrutiny on certain contracts with Chinese firms.
- India, Japan and Australia have begun discussions on launching a trilateral **Supply Chain Resilience Initiative (SCRI)** in the Indo-Pacific region to reduce dependency on China. The initiative, first proposed by Japan, is now taking shape.

FTAs, trade preferences & facilitation

- The **US and India** are reportedly close to reaching a **limited “quick trade deal”** that may include 50-100 goods and services, before moving to a broad-based FTA in the long term.
 - The US indicated earlier that the initial trade deal could also include restoration of India's eligibility for trade preferences under the Generalised System of Preferences (GSP) in exchange for certain market access commitments by India.
- The EU and India held the **15th EU–India Summit** in virtual format on 15 July. The leaders agreed to establish a regular high-level dialogue at ministerial level aiming at addressing long-standing barriers that have come in the way of reaching bilateral trade and investment agreements. However, no timeline was set at the summit on when to restart the long-stalled trade talks.
 - Major sticking points in the EU–India trade and investment negotiations have been over tariffs on automobiles, wines and spirits and the restrictions on free movement of professionals. Moreover, India previously suggested a limited trade pact with the EU before concluding a broad-based FTA, while the EU insisted on a full-fledged trade agreement with tariff reduction covering 90% of the goods traded.

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- Indian Prime Minister Narendra Modi announced his country's decision to **pull out of the Regional Comprehensive Economic Partnership (RCEP)** last November, citing negotiations on the RCEP failed to address India's "outstanding issues and concerns". The remaining 15 participating nations are committed to signing the deal in November this year, while whether India will stay on as a member of the framework remains uncertain.
 - In India, there is strong and widespread opposition against the country's joining the RCEP. New Delhi feared that its domestic industries, particularly in key employment sectors such as agriculture and textiles, would be hit hard if the country was flooded with cheap Chinese goods. In the 2018-19 fiscal year (April 2018–March 2019), India had trade deficits with 11 of the 15 other RCEP members, many of which were sizable, according to data from India's Department of Commerce. China accounted for about 50% of India's total trade deficits with RCEP countries.

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Macroeconomic data

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Quarterly GDP (real yoy growth %) ^	-23.9 (1Q20)			-		
Index of industrial production (yoy growth %)	-57.3	-33.4	-15.8	-10.8	-8.0	-
Manufacturing PMI (IHS Markit)	27.4	30.8	47.2	46.0	52.0	56.8
Wholesale price index (yoy growth %)	-1.6	-3.4	-1.8	-0.3	0.2	1.3
Consumer price index (yoy growth %)	*	*	6.2	6.7	6.7	7.3
Exports (yoy growth %)	-60.6	-35.7	-12.5	-9.9	-12.7	6.0
Exports (US\$ mn)	10,270.9	19,181.3	21,911.9	23,642.4	22,701.2	27,584.3
<i>Of which:</i>						
- Knitwear (US\$ mn)	57.7	248.2	401.0	572.5	609.8	651.2
- Woven garments (US\$ mn)	69.1	268.8	403.1	492.9	475.2	541.5
- Footwear (US\$ mn)	15.2	63.2	139.7	202.1	206.3	197.7
- Furniture (US\$ mn)	8.5	59.8	117.9	170.5	168.5	196.2
Imports (yoy growth %)	-59.7	-52.4	-48.7	-29.6	-26.0	-19.6
Imports (US\$ mn)	17,080.9	22,202.1	21,068.8	28,468.7	29,473.4	30,308.0

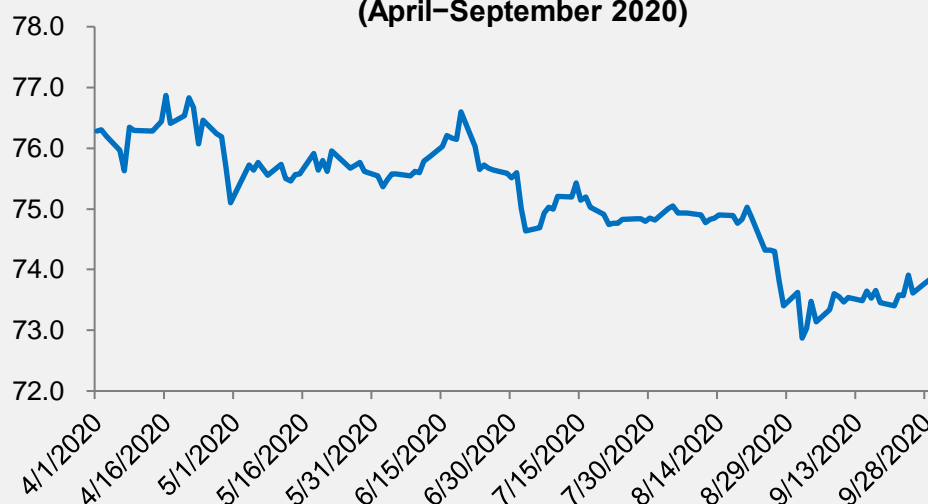
^ Financial year in India starts in April.

* Due to unavailability of data for several sub-groups during nationwide lockdown, the general consumer price index was not released for the months of April and May.

Source: Ministry of Statistics and Programme Implementation, Ministry of Commerce and Industry, IHS Markit PMI

EXCHANGE RATES

USD:INR spot rate
(April–September 2020)



Source: Bloomberg

INDONESIA

Country & sourcing updates

Macroeconomic trends

- Indonesia's **GDP** contracted by 5.3% yoy in the second quarter, the first time since 1999 that the economy saw a negative quarterly growth, as lockdown measures to curb the COVID-19 pandemic dealt a blow to the nation's economy. Compared to the first quarter, the economy shrank by 4.2%.
 - The World Bank, the International Monetary Fund and the Asian Development Bank forecast the Indonesian economy to contract by 0%, 0.3% and 1% respectively in the full year of 2020.
- Indonesia's **exports** reached US\$13.70 billion in July, dropped by 10.1% yoy but jumped by 14.1% mom, posting positive mom growth for the second consecutive month. However, exports in August decreased by 4.6% mom to US\$13.07 billion. Cumulatively, exports in the first eight months of 2020 reached US\$103.16 billion, down by 6.5% yoy.
 - Exports of garments and textile goods in the eight-month period contracted 20% yoy to US\$6.12 billion. Garments and textiles remain Indonesia's fifth largest export commodity, which accounted for 6% of the total exports in the first eight months of 2020.
- **Imports** plunged by 32.6% yoy to US\$10.46 billion in July, 2.8% lower than the June, as domestic demand for consumption and raw materials remain subdued amid the COVID-19 pandemic. In August, imports reached US\$10.74 billion, up by 2.7% mom but down by 24.2% yoy.
- IHS Markit's **Manufacturing Purchasing Managers' Index (PMI)** for Indonesia fell from 50.8 in August to 47.2 in September, which was the first decline in the index since April. In April, when the COVID-19 containment measures forced factories to shut, the index reading plunged to 27.5, posting a record low in the survey's nine-year history and the steepest drop recorded in Asia. The re-implementation of the **large-scale social**

restrictions (PSBB) policy in mid-September amid the recurring virus infections had an adverse impact on manufacturing activities.

- Indonesia's **inflation** decelerated to 1.32% yoy in August, falling below Bank Indonesia's 2020 inflation target of 2%–4% and the lowest inflation in two decades, as the COVID-19 crisis continued to hit the economy hard and weigh on consumer spending. In September, the inflation rate slightly rose to 1.42% yoy. Among all, price of food, beverages and cigarettes registered the highest growth at 1.78%yoy.
- The **Indonesian rupiah** plunged to 16,625 against the US dollar on 24 March, the currency's weakest level since the 1998 Asian Financial Crisis, as investors sold off Indonesian assets amid pessimism over the impact of the COVID-19 pandemic. By early October, the rupiah has depreciated by 5.7% since the beginning of the year, slowly reducing its loss from nearly 20% in March and April.

Policies & regulations

- Domestically, the Indonesian government announced several rounds of **stimulus packages** in the first half of 2020. For instance, some stimulus for employees are as follows:
 - The government exempted income tax for six months (from April to September 2020) for workers in the manufacturing sector with an annual income not exceeding 200 million rupiah (US\$13,793).
 - The government offered a monthly cash assistance of 600,000 rupiah (US\$41) for four months (from September to December 2020) to private employees who receive a monthly income below five million rupiah (US\$344).
 - However, stimulus spending faced delays due to administrative challenges. Only 34.1% of the packages had been spent by mid-September.

INDONESIA

Country & sourcing updates

- The Indonesian government submitted the **Omnibus Bill on Taxation** and the **Omnibus Bill on Job Creation** to the parliament on 28 January and 12 February, respectively, to officially start deliberations.
 - The Omnibus Bill on Taxation is expected to simplify tax regulations and boost investment in Indonesia. The business community in Indonesia generally welcome the bills as the reforms are expected to cut regulatory red tape.
 - However, the Omnibus Bill on Job Creation was met with strong resistance because it includes reforms that may undermine labour rights, such as the use of contract labour, the abolition of city minimum wage and the elimination of severance pay. The confederation of Indonesian Trade Unions, the National Welfare Movement and 32 other trade union federations agreed to run a national strike on 6-8 October.
 - Right after the Indonesian Parliament passed the bills on 5 October, some labour unions started demonstrations on the same day. Organizers claimed protests were held in over 60 locations across the country with an estimated one million people joining every day during 6-8 October.
 - To keep the real sector afloat amid the COVID-19 pandemic that disrupted business activity and global supply chains, the Indonesian government rolled out a series of measures to **ease trade restrictions**. Such measures include reducing the number of export restrictions, omitting the requirement to provide a health certificate and export licences (“VLegal Documents”) unless required by the importing countries.
- 19 outbreak, many companies lay off or furlough their staff. The textile industry workforce in 2019 reached 4.5 million, according to the Central Statistics Agency.
- Indonesia-based viscose producer Asia Pacific Rayon opened what it claimed to be Indonesia’s **largest integrated viscose rayon facility** in February, a move that will help the country’s garment industry reduce its dependency on imported textiles, particularly cotton. The US\$1.1 billion facility has an annual production capacity of 240,000 tonnes. It is located in the same production complex as the pulp manufacturer APRIL Group in Riau province, Sumatra, allowing raw materials from the latter to feed directly to the production of viscose rayon.
 - Amid the pandemic, **South Korea** revealed a number of **investment plans** to strengthen business ties with Indonesia. For instance, PT Sejin Fashion Indonesia, a garment factory under South Korean footwear manufacturer Parkland Co., Ltd., plans to relocate its production base from China to Indonesia. With an investment of 1.2 trillion rupiah (US\$80.8 million), the move will provide 4,000 new jobs for Indonesians.
 - According to the Investment Coordinating Board, 143 foreign companies from the US, Taiwan, South Korea, Hong Kong, Japan and the Chinese Mainland plan to **relocate** their investments **from the Chinese Mainland to Indonesia**. The potential investment value will be US\$830 million, and the plans may generate 300,000 new jobs.

FTAs, trade preferences & facilitation

- Indonesia and Australia ratified the **Indonesia–Australia Comprehensive Economic Partnership Agreement (IA–CEPA)** in February 2020 and the IA–CEPA entered into force on 5 July 2020. The IA–CEPA was signed between the two countries in March last year.
 - The trade deal eliminates tariffs on all

Industry & sourcing developments

- The **number of workers** in the textile and textile products industry **dropped** by 50% yoy so far in 2020, according to the Indonesian Fiber and Filament Producers Association. Due to the COVID-

INDONESIA

Country & sourcing updates

Indonesian exports to Australia, while 99% of Australian goods (by value) will enter Indonesia duty-free or under significantly improved preferential arrangements.

- Indonesia and South Korea signed a joint declaration on the completion of the **Indonesia–Korea Comprehensive Economic Partnership Agreement (IK–CEPA)** negotiations in November last year in Busan, South Korea. Negotiations on the IK–CEPA commenced in 2012 but came to a halt in 2014, before being reactivated in February 2019.
 - Under the agreement, South Korea will eliminate tariffs on 95.5% of Indonesian imports, while Indonesia will eliminate tariffs on 93% of South Korean imports.
 - Considering the South Korea–ASEAN FTA eliminated tariffs on a respective 90.2% and 80.1% of imports, the IK–CEPA marks a significant increase in tariff-free trade.
 - The IK–CEPA will also improve flows of services, people and investment and facilitate economic cooperation in various fields.

Infrastructure & environmental sustainability

- Indonesia plans to build one of its largest **industrial parks** on the north coast of Java island in a renewed drive to **attract manufacturers relocating out of China**. The proposed industrial park, located in Brebes, Central Java, is 270 km east of Jakarta and already has a road link to the capital and two nearby ports. About 4,000-hectare large, the proposed park is estimated to cost 3.8 trillion rupiah in the first phase of construction.

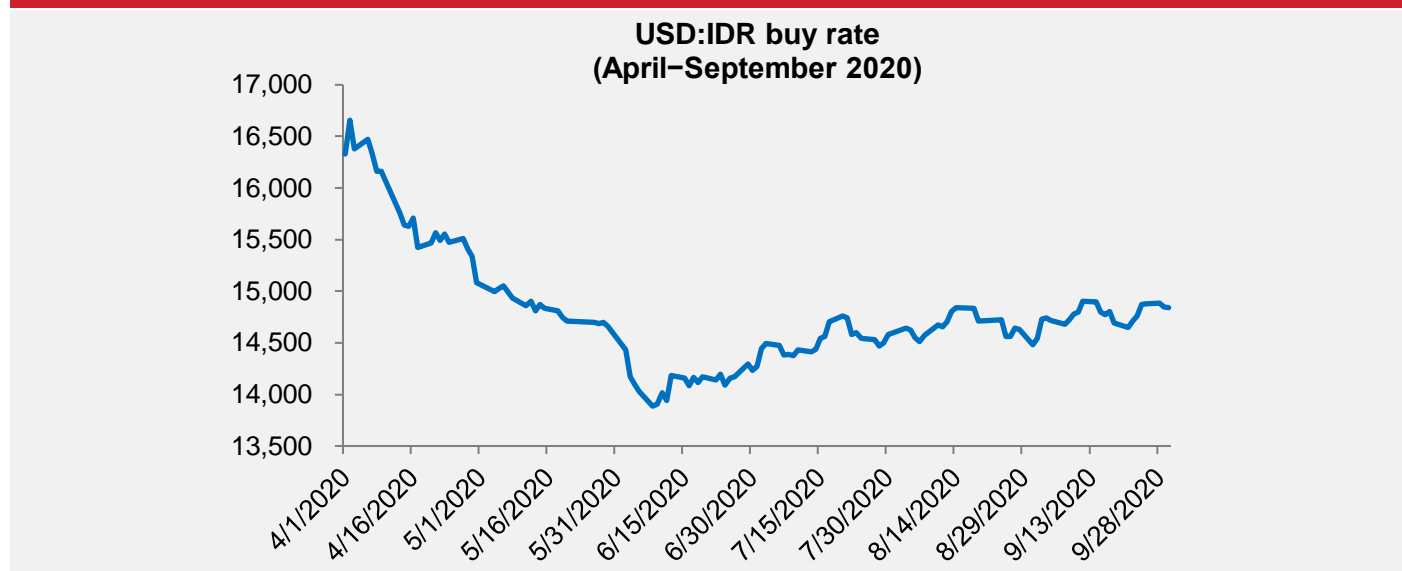
INDONESIA

Macroeconomic data

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Quarterly GDP (real yoy growth %)	-5.3 (2Q20)			-		
Manufacturing PMI (IHS Markit)	27.5	28.6	39.1	46.9	50.8	47.2
Real retail sales index (yoy growth %)	-16.9	-20.6	-17.1	-12.3	-9.2	-7.3
Consumer price index (yoy growth %)	2.7	2.2	2.0	1.5	1.3	1.4
Exports (yoy growth %)	-6.9	-29.1	2.1	-10.1	-8.2	-0.5
Exports (US\$ mn)	12,163.1	10,454.3	12,009.3	13,702.7	13,095.8	14,008.4
<i>Of which:</i>						
- Textile and textile products (US\$ mn)	619.4	590.8	823.0	970.4	914.6	-
- Footwear (US\$ mn)	382.5	313.4	386.2	372.7	308.8	-
- Furniture (US\$ mn)	123.9	105.6	135.6	159.6	152.6	-
- Sports requisites (US\$ mn)	35.2	28.6	42.3	47.0	44.6	-
Imports (yoy growth %)	-18.6	-42.2	-6.4	-32.6	-24.2	-18.9
Imports (US\$ mn)	12,535.2	8,438.6	10,760.3	10,464.3	10,741.8	11,570.9

Source: Statistics Indonesia, Bank Indonesia, IHS Markit PMI reports

EXCHANGE RATES



Source: Bank Indonesia

PAKISTAN

Country & sourcing updates

Macroeconomic trends

- **Exports** of Pakistan fell by 14.8% yoy to US\$1.58 billion in August. In the July–August period, the first two months of the 2020–21 fiscal year (July 2020–June 2021), exports amounted to US\$3.58 billion, down by 4.3% yoy. In rupee terms, exports increased by a marginal 1.0% yoy in the period.
 - During the July–August period, **exports of textiles and garments** edged down by 1.0% yoy to US\$2.28 billion. In rupee terms, they expanded by 4.5% yoy to 381.20 billion rupees. Within the textiles and garments group, exports of **knitwear, woven garments and bed linen** recorded positive growth of 4.4% yoy, 2.1% yoy, and 5.9% yoy, respectively, in US dollar terms in the two-month period.
- **Production of large-scale manufacturing industries** grew by 5.0% yoy in July, the first expansion in the past seven months. On a month-on-month basis, production of large-scale manufacturing industries posted the third consecutive growth of 9.5% in July, according to the Pakistan Bureau of Statistics (PBS). The latest production index has indicated that the country's manufacturing sector is on the path of recovery.
- **Inflation** accelerated to 9.0% yoy in September from 8.2% yoy in August, driven mainly by sharp price increases in food and non-alcoholic beverages.
- **Foreign direct investment (FDI)** in Pakistan amounted to US\$266.7 million in the July–August period, the first two months of the 2020–21 fiscal year, up sharply by 39.9% compared to the same period of the previous fiscal year, according to data released by the State Bank of Pakistan (SBP).
 - By source of investment, Norway became the largest foreign investor in Pakistan in the two-month period, followed by the Netherlands and Malta. By industry, financial services accounted for over one-third of total FDI inflows in the

period, followed by communications and electrical machinery.

- The **Pakistani rupee** closed at an all-time low of 168.5 against the US dollar on 26 August, a year-to-date depreciation of 8.1%, according to spot exchange rates provided by Bloomberg. Low supply of US dollars in the local market and high loan repayment by the government have kept the rupee under pressure against the greenback. Since then, the rupee has started to stabilise and closed at 163.81 against the US dollar on 12 October.

Policies & regulations

- To mitigate the impacts of the COVID-19 outbreak, the federal government announced a **relief package** worth 1.2 trillion Pakistani rupees (US\$7.5 billion) in late March. The package consists of a wide range of fiscal measures, including tax breaks, cash transfers, tax refunds, and subsidies on electricity bill and fuel prices.
 - For **small and medium-sized enterprises (SMEs)**, financial support of 100 billion rupees is provided in the form of relief on electricity bill payments and bank loans. The government has also announced a risk-sharing mechanism to support concessional bank loans to SMEs to prevent layoffs during the lockdown period.
 - In addition, the government has accelerated tax refunds and released cash subsidies to **export-oriented manufacturers** to improve their liquidity position.
 - To fuel **new investment** in modernising or expanding existing production facilities, the State Bank of Pakistan has announced a subsidised Temporary Economic Relief Facility, under which subsidised loans will be provided to eligible new investment projects.
- The Commerce Ministry announced in late June that the country's new **Strategic Trade Policy Framework 2020-25 (STPF)** was finalised. One of

PAKISTAN

Country & sourcing updates

the objectives of the proposed STPF is to **diversify exports from traditional sectors** — textiles, sports goods, surgical products, carpets and leather — to emerging sectors such as engineering, pharmaceuticals, auto parts, processed food and beverages, footwear, gem and jewellery, chemicals, meat and poultry, seafood, and marble and granite.

- Under the proposed STPF, the government has targeted to boost the country's exports to US\$26 billion in the current fiscal year from US\$21.4 billion in the previous fiscal year, and further to US\$46 billion in the 2024-25 fiscal year.
- The Economic Coordination Committee of the Cabinet formally approved in late September the **withdrawal of customs duties, regulatory duties and additional customs duties on more than 163 tariff lines of textile items**, including mainly fibres, yarn and fabrics of nylon, viscose, acrylic, rayon, silk, wool and vegetable-based fibres like hemp, etc.
 - Overall duties withdrawn range from 5% to 27%, depending on specific items. By reducing duties on the import of raw materials and intermediates, the move is expected to promote the manufacturing of manmade fibre textile products in the country, improve their competitiveness in the global market and encourage Pakistani manufacturers to expand their product range and increase value addition.

Industry & sourcing developments

- Demand for **home textile products** has surged from both the US and the EU markets since June, thanks to pent-up demand and low levels of inventories with most retailers. Most of the orders cancelled due to the pandemic have been reinstated and there is a strong demand for Fall/Holiday products for a short lead time. Meanwhile, the sudden surge in demand has led to an increase in local prices of raw materials by about 10%–20%.
- The apparel sector is hurt by a slowdown in demand, and there is still somewhat limited capacity

utilisation. However, demand is coming back slowly in the **denim** industry.

- The Withhold Release Orders issued by the US Department of Homeland Security on some business entities allegedly related to forced labour in the Xinjiang region in China has raised concerns about the future stability of the textile supply chain in China. This is prompting some retailers to seek **alternative sourcing bases for cotton-based products outside of China**, among which Pakistan has emerged as a viable option. Currently, Pakistan is receiving a lot of price inquiries from buyers for sourcing and developing products which have been sourced from China.

FTAs, trade preferences & facilitation

- The International Trade Committee of the EU Parliament has **extended the Generalised Scheme of Preferences Plus (GSP+) status to Pakistan till 2022**, enabling the country's exports to continue to enjoy duty-free access to the EU market for around two-thirds of EU tariff lines.
 - Pakistan has enjoyed its eligibility for GSP+ since January 2014. According to the third biennial report on GSP covering the period 2018–19 published by the European Commission on 10 February, Pakistan was the No.1 beneficiary among the nine countries eligible for GSP+ scheme in 2018, with textiles and garments representing over 70% of the 5.89 billion euros worth of EU's GSP+ preferential imports from Pakistan.
- The second phase of the **China–Pakistan Free Trade Agreement (CPFTA)** became effective last December, further liberalising merchandise trade between the two countries.
 - Under the second phase of CPFTA, both countries will liberalise 75% of tariff lines for each other over a period of ten years by China and 15 years by Pakistan. Moreover, China will immediately eliminate tariffs on 313 top priority

PAKISTAN

Country & sourcing updates

tariff lines of Pakistan's export interests, including agricultural products, textiles and garments, and leather goods — on top of the 724 products that have already enjoyed duty-free access to the China market under the original FTA.

Infrastructure & environmental sustainability

- The Chinese and Pakistani leaders have recently shown mutual commitment in **revitalizing the China–Pakistan Economic Corridor (CPEC) programme**, following a series of setbacks over the past two years and disruptions of the COVID-19 pandemic.
 - The CPEC programme, which was launched in 2013, has entered its **second phase with a focus on industrialisation, agriculture and socio-economic development**.
 - Several notable projects under the CPEC have been signed or approved recently, including two major hydropower generation projects worth a total US\$3.9 billion and a deal to upgrade the 1,872-kilometre-long railway track spanning from Peshawar to Karachi, a big milestone for the second phase of the CPEC. In July, the Government of Sindh allocated 1,530 acres of land to establish the Dhabeji Special Economic Zone (SEZ), one of the nine SEZs scheduled to be established under CPEC to promote industrialization in the country.

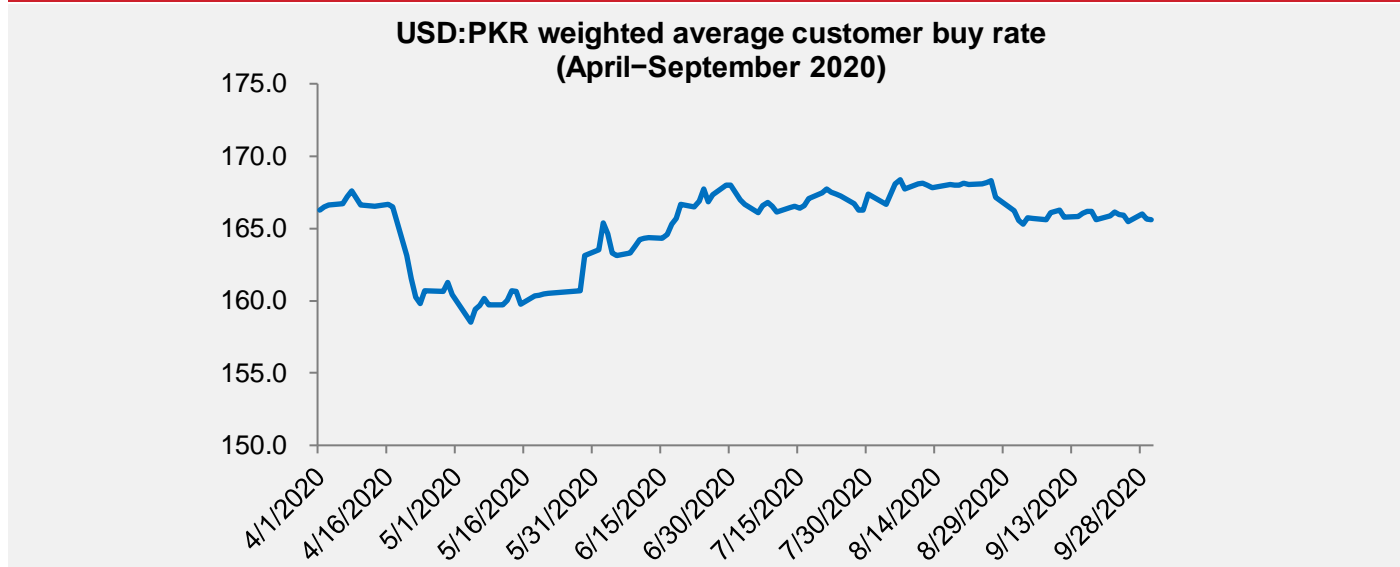
PAKISTAN

Macroeconomic data

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Quantum index of large-scale manufacturing (yoy growth %)	-41.6	-25.5	-5.1	6.1	1.2	-
Consumer price index (yoy growth %)	8.5	8.2	8.6	9.3	8.2	9.0
Exports (yoy growth %)	-54.2	-33.4	-6.1	6.1	-14.8	7.0
Exports (US\$ mn)	957.3	1,396.4	1,598.9	2,000.8	1,583.7	1,889.2
<i>Of which:</i>						
- Garments (US\$ mn)	153.7	316.5	406.4	589.9	451.6	520.7
- Bed linen (US\$ mn)	76.8	146.1	166.3	243.2	181.0	227.3
- Sporting goods (US\$ mn)	7.4	13.8	18.5	26.2	19.2	21.4
Imports (yoy growth %)	-32.0	-42.9	-14.6	-0.7	-10.7	14.8
Imports (US\$ mn)	3,204.1	2,862.8	3,718.9	3,673.9	3,315.7	4,321.4
Balance of trade (US\$ mn)	-2,246.9	-1,466.4	-2,120.0	-1,673.1	-1,732.0	-2,432.2

Source: Pakistan Bureau of Statistics

EXCHANGE RATES



Source: State Bank of Pakistan

PHILIPPINES

Country & sourcing updates

Macroeconomic trends

- Philippines' **merchandise exports** contracted by 18.6% yoy to US\$5.13 billion in August, a deterioration from the 9.1% yoy decline recorded in July. This was mainly attributed to the re-implementation of modified enhanced community quarantine in Metro Manila and surrounding provinces in the month. In the first eight months of 2020, the country's merchandise exports shrank by 16.6% yoy to US\$39.29 billion.
 - During the eight-month period, exports of **electronics, apparel and accessories, woodcrafts and furniture, and travel goods and handbags** registered year-on-year declines of 14.0%, 37.8%, 11.9% and 34.4%, respectively.
- **Real GDP** shrank by 16.5% yoy in the second quarter of 2020, the deepest contraction in the data series which started in 1981. Household consumption fell by 15.5% yoy and exports declined by 37.0% yoy in the second quarter, while government expenditure rose by 22.1% yoy. The economic recession was mainly attributed to the country's tough and prolonged lockdown to curb the spread of the COVID-19.
 - It is expected that the Philippine economy will still take time to heal, as uncertainty is heightened surrounding the country's effectiveness in containing the COVID-19. Confirmed cases in the Philippines rose exponentially after lockdown measures were eased in June, making the country the worst hit by the COVID-19 in Southeast Asia.
- The IHS Markit Philippines **Manufacturing Purchasing Managers' Index (PMI)** rose to a seven-month high of 50.1 in September, up from 47.3 in August. It was the first time since February that the PMI reading rose above the neutral 50.0 threshold, showing early signs of stabilisation of the manufacturing sector. Due to the partial reopening of the economy, new business expanded for the first time since February, albeit marginally, while production volumes fell only slightly in the month.
 - **Inflation** moderated to a four-month low of 2.3% yoy in September, reflecting lacklustre demand for goods and services amid lockdowns to curb the COVID-19. Average inflation in the first nine months of this year stood at 2.5%, well within the government's 2%–4% target range for the years 2020–2022.
 - **Foreign direct investment (FDI)** net inflows into the country reached US\$3.00 billion in the first half of 2020, down by 18.3% compared to the same period last year, due to uncertainties caused by the COVID-19 pandemic. In the period, the bulk of equity capital placements, which accounted for 30% of all FDI net inflows, originated primarily from Japan, the Netherlands, Singapore and the US, and were mainly invested in the manufacturing, financial and insurance, real estate, and administrative and support service industries.
 - The **Philippine peso** has continued to strengthen since June this year, closing at 48.322 against the US dollar on 9 October, the strongest position in four years, according to spot exchange rates provided by Bloomberg. It represented a **year-to-date appreciation of 4.8%** against the greenback, outperforming other major Asian currencies.
 - High foreign reserves and a strong balance-of-payment (BOP) position, resulting from slower imports and lower outward payments, have contributed to the peso's resilience at an unprecedented time of crisis.
 - A strong peso, however, could erode the price competitiveness of the country's exports amid sluggish external demand and lower the value of dollar remittances by overseas Filipino workers, a key driver for domestic consumption and investment.

PHILIPPINES

Country & sourcing updates

Policies & regulations

- The Philippine government has launched a **four-pillar socioeconomic strategy against the COVID-19 pandemic**, which includes emergency support to vulnerable groups and individuals, expanded resources for frontline medical workers, fiscal and monetary measures to keep the economy afloat, as well as an economic recovery plan to create jobs and sustain growth.
 - As of 19 May, the total budget of the four-pillar strategy amounted to 1.7 trillion pesos or 9.1% of the country's GDP in 2019. The strategy includes a direct financial assistance programme for 18 million low-income households, wage subsidies for employees in small businesses, credit guarantee for affected small businesses, and a grace period for public and private institutions affected by lockdown measures on residential and commercial rent and loan payments.
 - Besides, as of early October, the central bank so far had reduced the policy rate four times this year by a cumulative 175 basis points to 2.25% to boost liquidity in the banking system.
- The Duterte Administration is pushing for the passage of the **Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to cut corporate income taxes immediately to 25% from the current 30%**, and further by 1% every year from 2023 until 2027. The bill will also place a "sunset clause" on "unlimited" incentives to ensure that the government can profit from industries that have been enjoying tax breaks and tax holidays for decades.
 - The government hopes this will benefit more than 90,000 small businesses in the country as well as attract high-value foreign investments. The Act was already approved by the House of Representatives last September but is still undergoing plenary debates at the Senate.
- The Philippines' Department of Trade and Industry (DTI) is finalising a **ten-year roadmap (2020–2029) to revive the country's textile and garment sector**. The roadmap envisages the country to become one of the world's top ten garment exporting countries in ten years' time.
 - The roadmap seeks to strengthen links between the government and the private sector, establish a dedicated trade office, and put an end to the proliferation of second-hand clothing imports from North America and Europe that lead to unfair competition for local manufacturers.
 - Other strategies featured in the roadmap include providing capital and land to increase textile and garment production, promoting the purchase of new equipment, reducing value-added taxes and power rates, tackling infrastructure and logistics bottlenecks, and establishing vertically integrated supply chains.

Industry & sourcing developments

- **Utilisation of production capacity in the garment industry** was reduced to just 40% in the third quarter of the year due to a lack of orders and over 30% of the garment workers in the country could be placed on furlough until the end of the year, according to the Confederation of Wearable Exporters of the Philippines.

Infrastructure & environmental sustainability

- The Duterte Administration approved a total of **12 new special economic zones (ecozones)** worth 6.4 billion pesos (US\$130 million) during the first half of this year. The ecozones, which will provide tax holidays and other fiscal incentives to eligible investors, are expected to become drivers for the Philippines' economic recovery, and to help create jobs for the locals and complete the supply chains in the country.
 - The acceleration of ecozone construction is also part of the government's efforts to decentralize economic and business activities from traditional

PHILIPPINES

Country & sourcing updates

economic centres. The Administrative Order No.18 issued last year imposes a moratorium on building new ecozones in Metro Manila, where the bulk of existing ones operate, and promotes the development of ecozones in the countryside.

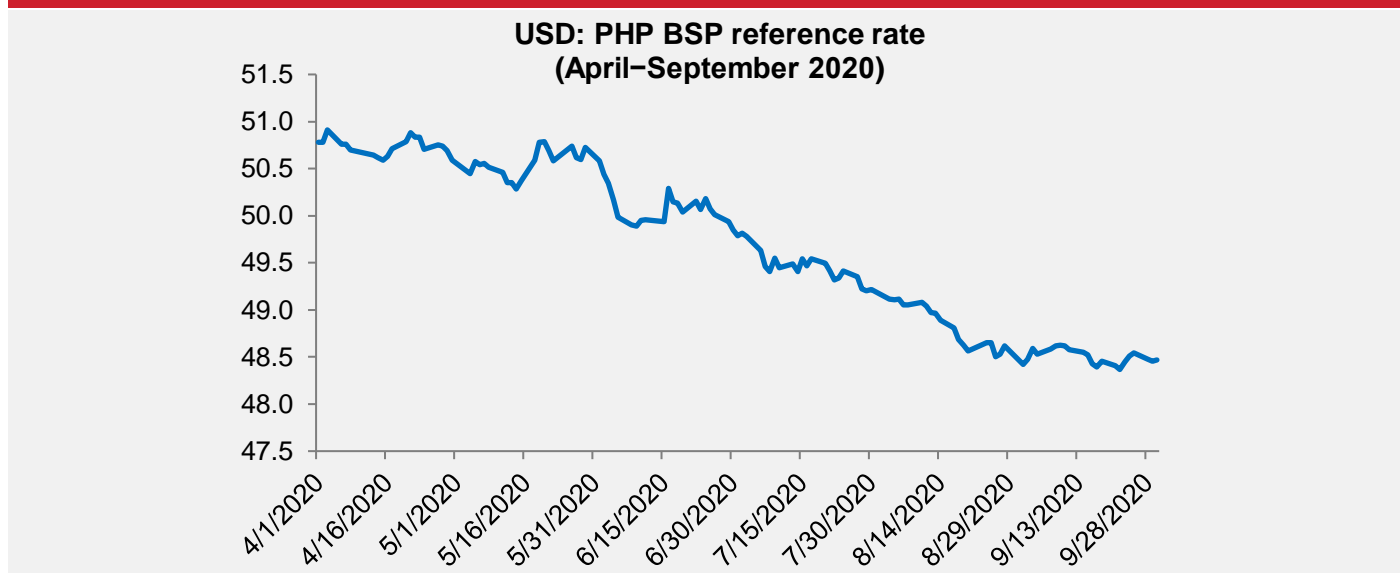
PHILIPPINES

Macroeconomic data

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Quarterly GDP (real yoy growth %)	-16.5 (2Q20)			-		
Value of production index, manufacturing (yoy growth %)	-40.1	-30.1	-19.2	-17.2	-13.8	-
Volume of production index, manufacturing (yoy growth %)	-37.6	-27.4	-15.9	-14.6	-9.9	-
Manufacturing PMI (IHS Markit)	31.6	40.1	49.7	48.4	47.3	50.1
Producer price index for total manufacturing (yoy growth %)	-4.0	-3.6	-3.9	-3.0	-4.4	-
Consumer price index (yoy growth %)	2.2	2.1	2.5	2.7	2.4	2.3
Exports (yoy growth %)	-49.9	-26.9	-12.5	-9.1	-18.6	-
Exports (US\$ mn)	2,834.0	4,533.8	5,381.1	5,681.0	5,128.2	-
<i>Of which:</i>						
- Woodcrafts and furniture (US\$ mn)	11.5	25.0	42.6	49.4	50.0	-
- Garments and accessories (US\$ mn)	7.0	18.8	64.5	77.0	63.1	-
- Travel goods and handbags (US\$ mn)	5.4	4.8	25.9	55.4	36.2	-
Imports (yoy growth %)	-65.3	-40.6	-23.1	-23.8	-22.6	-
Imports (US\$ mn)	3,282.7	5,855.0	6,756.5	7,540.6	7,204.1	-

Source: Philippine Statistics Authority, IHS Markit PMI reports

EXCHANGE RATES



Source: Bangko Sentral ng Pilipinas (BSP)

THAILAND

Country & sourcing updates

Macroeconomic trends

- **Exports** amounted to US\$20.21 billion in August, a 7.9% drop compared to the same month last year. The contraction was softer than the 23.2% yoy and 11.4% yoy export declines recorded in June and July, respectively, indicating that the country's exports are likely to bottom out. In the first eight months of 2020, exports declined by 7.7% yoy to US\$153.49 billion.
 - The National Economic and Social Development Council (NESDC) forecast in August that the country's exports will decline by 10% this year, worse than the previous projection of an 8% contraction.
- **Real GDP** shrank by 12.2% yoy in the April–June quarter, the country's worst contraction since the Asian Financial Crisis in 1998. Following a revised contraction of 2.0% yoy in the first quarter, Thailand's GDP shrank by 6.9% yoy in the first half of 2020. The COVID-19 pandemic has dealt a heavy blow to the Thai economy, which relies heavily on exports and tourism.
- The IHS Markit Thailand **Manufacturing Purchasing Managers' Index (PMI)** edged up to 49.9 in September from 49.7 in August, the highest level since January this year, indicating the stabilisation of the manufacturing sector. Driven by stronger domestic demand, new business inflows increased at the fastest rate for nearly a year, while new export orders continued to contract in the month, albeit at the slowest pace in the current sequence of decline.
- **Consumer price index (CPI)** fell 0.7% yoy in September, the seventh consecutive month that recorded a year-on-year drop, mainly attributed to a decline in energy prices. In the first nine months of 2020, the country's inflation stood at -1.0% yoy.
- **Total value of investment applications** received by the Thailand Board of Investment (BOI) dropped by 17% yoy to 158.9 billion baht in the first half of

this year, while the total number of investment applications filed rose by 7% yoy to 754 projects. The lower average investment value of projects reflects the uncertainty facing investors amid the unprecedented COVID-19 crisis.

- Sectors that received the highest value of investment pledges were electrical appliances and electronics, agriculture and food processing, automotive industry, medical industry and petrochemical industry.
- The **Thai baht** has remained fluctuated since the beginning of this year. Weakening by 9.3% in the first quarter, the currency appreciated by around 7% against the US dollar in the second quarter. It then started to stabilise since July, closing at 30.994 against the US dollar on 9 October and depreciating by 4.2% year to date, based on exchange rates provided by Bloomberg.

Policies & regulations

- The Thai government has so far launched **four stimulus packages** to counter the effects of the COVID-19 pandemic and the accompanying economic recession. These four stimulus packages, amounting to about 14.5% of the country's GDP, have made Thailand one of the big spenders in the COVID-19 crisis.
 - Measures include financial assistance for affected workers, farmers, and businesses through cash handouts, soft loans, tax relief and debt deferral, lower water and electricity charges and social security contributions, as well as extensive support for the local tourism industry.

Industry & sourcing developments

- The impacts of the COVID-19 pandemic on specific manufacturing industries in Thailand are mixed.
 - For example, capacity utilization rates of **textiles, wearing apparel and leather and leather product industries** in August were still substantially below pre-COVID-19 levels,

THAILAND

Country & sourcing updates

according to the Office of the Industrial Economics.

- The COVID-19 pandemic is hitting **Thailand's textile and garment industry** hard, with potential losses from external market and domestic market amounting to more than 150 billion baht this year, according to Yuttana Silpsarnvitch, president of the Thai Garment Manufacturers Association. As more than 70% of foreign buyers have cancelled their orders so far, it is estimated that exports of textiles and garments will decline by 50–100 billion baht this year.
- However, some sectors, such as **computers, electronics, and electrical appliance**, have proven their resilience against the crisis. These sectors are potentially among the biggest winners from the fallout of the China–US trade war, thanks to the well-developed infrastructure, skilled workforce, strong manufacturing capabilities and favourable investment policies in Thailand.

did not submit its application for membership at the annual meeting of CPTPP members held on 5 August.

- A parliamentary committee, which is responsible for studying the costs and benefits of joining the CPTPP, did not finalise the study until mid-September.
- Advocates said joining the CPTPP would boost the country's economy and offset the impacts of the COVID-19 outbreak, while making industries such as electronics and agriculture more competitive against regional rivals such as Vietnam and Malaysia. Opponents, however, are concerned that joining the CPTPP might undermine the country's pharmaceutical and agriculture industries, and that the trade pact's stringent standards in intellectual property might put Thai companies at a disadvantage. Meanwhile, Thailand will have low negotiation power as all provisions of the agreement have been formed.

Politics & geopolitics

- In the past three months, there have been almost daily **student-led anti-government rallies** across the country. Protesters reaffirmed their “three core demands”. Some protesters even called for the reform of the monarchy.
- Although the protest movement is escalating, protests held so far are relatively peaceful and on a smaller scale compared with previous anti-government demonstrations, which had hundreds of thousands of protesters. Business activities in the country have not been impacted so far.

FTAs, trade preferences & facilitation

- Thailand has missed the chance to join the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)** this year as it

THAILAND

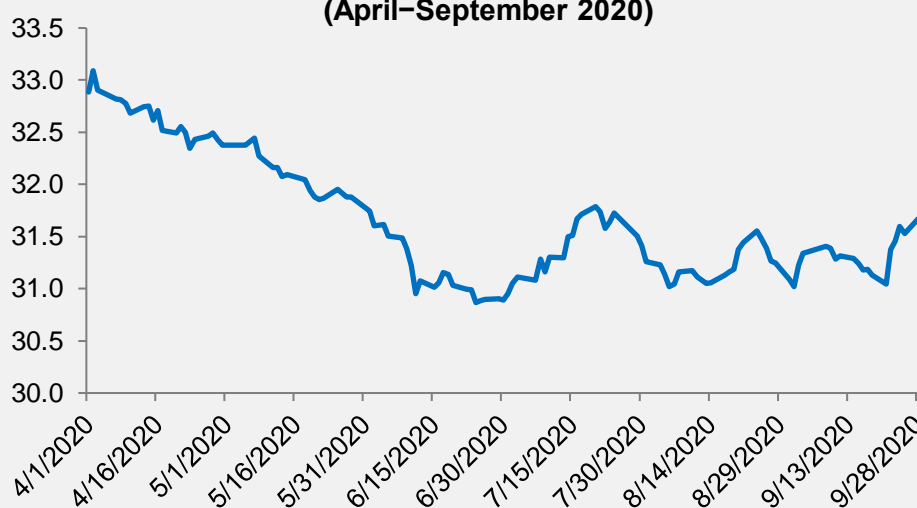
Macroeconomic data

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Quarterly GDP (real yoy growth %)	-12.2 (2Q20)			-		
Industrial production index (value added weight, not seasonally adjusted, yoy growth %)	-18.2	-23.8	-17.8	-12.9	-9.3	-
Manufacturing PMI (IHS Markit)	36.8	41.6	43.5	45.9	49.7	49.9
Producer price index (yoy growth %)	-4.3	-4.8	-3.1	-2.5	-1.3	-1.3
Consumer price index (yoy growth %)	-3.0	-3.4	-1.6	-1.0	-0.5	-0.7
Exports (yoy growth %)	2.1	-22.5	-23.2	-11.4	-7.9	-3.9
Exports (US\$ mn)	18,948.2	16,278.4	16,444.3	18,819.5	20,212.4	19,621.3
<i>Of which:</i>						
- Textiles and apparel (US\$ mn)	390.8	383.0	463.8	470.5	484.6	476.0
- Furniture (US\$ mn)	84.5	90.7	109.4	126.4	136.7	142.1
- Footwear (US\$ mn)	30.1	33.3	41.2	50.2	43.2	34.6
Imports (yoy growth %)	-17.2	-34.4	-18.1	-26.4	-19.7	-9.1
Imports (US\$ mn)	16,485.9	13,583.8	14,833.9	15,476.2	15,863.0	17,391.2

Source: National Economic and Social Development Council, Office of Industrial Economics, Bank of Thailand, Ministry of Commerce, IHS Markit PMI reports

EXCHANGE RATES

USD: THB mid-rate
(April–September 2020)



Source: Bank of Thailand

TURKEY

Country & sourcing updates

Macroeconomic trends

- **Exports** fell by 5.8% yoy to US\$12.45 billion in August. In the first eight months of this year, exports declined by 12.9% yoy to US\$102.34 billion.
 - Exports of **knitwear** and **woven garments** plunged by 19.7% yoy and 11.0% yoy, respectively, to US\$4.84 billion and US\$4.20 billion in the eight-month period, while exports of **furniture** dropped by 4.1% yoy to US\$2.35 billion.
- **Real GDP** contracted by 9.9% yoy in the second quarter of 2020, the worst year-on-year performance in a decade, attributed to lockdown measures and travel restrictions to curb the COVID-19 pandemic. Thanks to swift and comprehensive policy response to the COVID-19 pandemic, the Turkish economy is likely to demonstrate a V-shaped recovery from the third quarter this year and post positive growth next year.
 - Although the country appears to have **overcome the most difficult phase of the COVID-19 pandemic**, it is still facing the impact of the first phase, with new confirmed case counts hitting around 1,500 every day since September.
- The Istanbul Chamber of Industry Turkey **Manufacturing Purchasing Managers' Index (PMI)** slid from 54.3 in August to 52.8 in September, the fourth consecutive month with a PMI reading above the 50.0 no-change mark, signaling a sustained improvement in business conditions of the manufacturing sector. In particular, the rate of job creation in September accelerated to the fastest since February 2018 as firms responded to higher new orders.
- **Foreign direct investment (FDI)** in Turkey amounted to US\$3.62 billion in the first seven months of 2020, slightly up by 0.8% from the same period last year, according to data from the Central Bank of the Republic of Turkey.
- **Inflation** stood at 11.8% yoy in September, the 11th consecutive month that consumer-price inflation remained in the double-digit territory. Turkey's central bank raised its year-end inflation forecast for 2020 from 7.4% to 8.9% in late July, citing an upward revision in oil prices and food inflation projections.
- The **Turkish lira** has continued to hit fresh record lows amid concerns that the country could get dragged into the Armenia–Azerbaijan conflict. The currency closed at 7.9449 against the US dollar on 8 October, representing a sharp year-to-date depreciation of 25.1%, based on spot exchange rates provided by Bloomberg. The lira has been among the worst performing currencies globally this year, attributed to concerns about the country's depleted foreign exchange reserves and sharply negative interest rates, compounded by the newly added geopolitical factor.

Policies & regulations

- The Turkish government's relief package — **Economic Stability Shield** — to counter the impacts of the COVID-19 pandemic exceeded 280 billion Turkish liras (US\$36.8 billion) as of early August.
 - Introduced on 18 March, the relief package includes various fiscal, monetary and financial measures, such as provision of cash assistance, extending tax and debt payment deadlines, tax relief, provision of wage subsidies for affected firms and inventory financing support for exporters, monetary easing, and expansion of credit guarantee and credit insurance.

Industry & sourcing developments

- After two months of discussions between international fashion brands and Turkish clothing manufacturers, **around 80%–90% buyers have agreed to complete and pay for previous orders that were withheld or cancelled** at the beginning of the COVID-19 pandemic, according to the Turkish

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Clothing Manufacturers' Association (TGSD).

- Around US\$3.5 billion of clothing inventory and orders were put on hold during the start of the pandemic, and now most of them are settled through special arrangements, such as discounts and late payments.
- As significant uncertainties remain amid the pandemic, retailers are placing smaller orders and asking for shorter lead time, a trend from which Turkish clothing manufacturers can benefit. As Turkey is a near-sourcing hub for Europe, garment manufacturers in the country can easily produce and replenish orders within two to three weeks.

FTAs, trade preferences & facilitation

- Turkey is close to finalising a **free trade deal with the UK** covering manufactured goods, agriculture, and services.
 - After the UK formally left the EU on 31 January this year, it will continue to abide by the trade terms set by the EU until the transition period ends 31 December this year. Once the UK eventually leaves the Customs Union and no trade deal is reached between the UK and Turkey, new tariffs that come into effect will negatively affect Turkish exports.
 - The UK is Turkey's second-largest export destination after Germany. In 2019, Turkey exported US\$11.28 billion worth of goods, mainly vehicles, home appliances and clothes, to the UK.

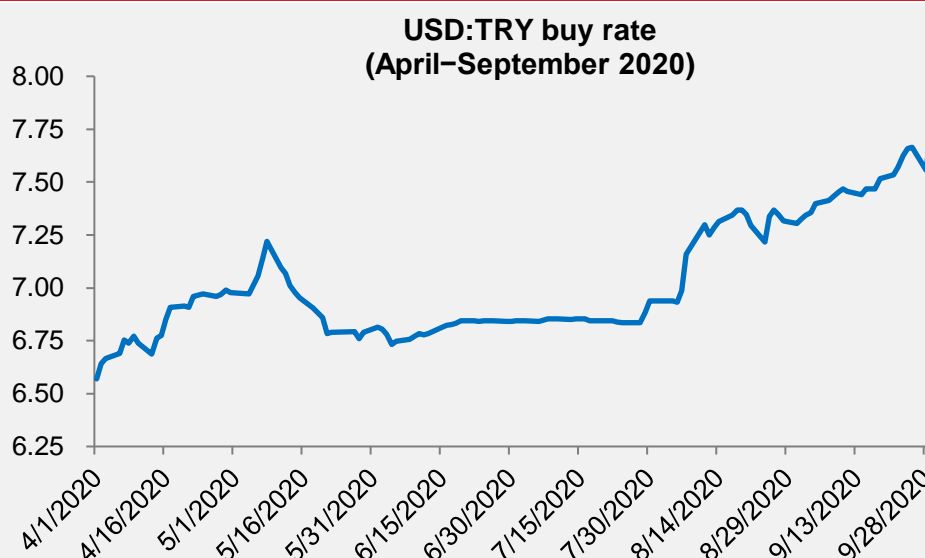
TURKEY

Macroeconomic data

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Quarterly GDP (real yoy growth %)	-9.9 (2Q20)			-		
Industrial production index, manufacturing (yoy growth %, 2015=100)	-33.2	-20.0	1.4	5.3	11.4	-
Industrial turnover index, manufacturing (yoy growth %, 2015=100)	-25.1	-14.2	9.5	20.2	29.1	-
Manufacturing PMI (Istanbul Chamber of Industry)	33.4	40.9	53.9	56.9	54.3	52.8
Producer price index (yoy growth %)	6.7	5.5	6.2	8.3	11.5	14.3
Consumer price index (yoy growth %)	10.9	11.4	12.6	11.8	11.8	11.8
Exports (yoy growth %)	-41.5	-41.0	15.6	-6.6	-5.8	4.8
Exports (US\$ mn)	8,971.8	9,947.1	13,446.7	14,879.8	12,451.2	16,009.2
<i>Of which:</i>						
- Knitwear (US\$ mn)	270.1	322.4	565.7	850.2	758.4	921.7
- Woven garments (US\$ mn)	197.7	358.0	574.0	748.7	591.8	643.6
- Furniture (US\$ mn)	176.5	218.7	325.5	380.7	292.5	365.6
Imports (yoy growth %)	-25.0	-27.8	8.3	-7.9	20.4	23.0
Imports (US\$ mn)	13,552.4	13,387.7	16,309.6	17,707.7	18,743.2	20,836.9

Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

EXCHANGE RATES



Source: Central Bank of the Republic of Turkey

VIETNAM

Country & sourcing updates

Macroeconomic trends

- **Total imports and exports** in the first nine months were estimated at US\$388.7 billion, reported the General Statistics Office (GSO). Of which, exports recorded US\$202.86 billion, up by 4.2% yoy, while imports reached US\$185.87 billion, down by 0.8% yoy. There was a trade surplus of US\$17 billion during the period, which was attributed to a significant decrease in imports amid the COVID-19 pandemic.
- **GDP** growth recorded a decade low at 2.1% yoy in the first nine months of 2020. For the full year of 2020, Vietnam targets GDP growth to be 2%–2.5% by mitigating the effects of the pandemic, according to the Ministry of Planning and Investment. GDP growth in Vietnam was 7.02% in 2019, the second highest rate in a decade behind the 7.08% growth in 2018.
- **The index of industrial production (IIP)** rose by a modest 2.4% yoy in the first nine months of 2020, recording the lowest growth over the past eight years, according to the GSO. The IIP in September grew by 2.3% mom and increased by 3.8% yoy. The recovery in industrial production has been significantly affected by the pandemic, as the country reported the resurgence of COVID-19 in some localities from late July.
- The IHS Markit Vietnam Manufacturing **Purchasing Managers' Index (PMI)** rose above the 50-point line in September at 52.2 from 45.7 in August. It was the first growth in the manufacturing sector in this quarter and the highest growth since July 2019, reflecting improved business conditions after the country regained control of the pandemic.
- **Consumer price index (CPI)** stood at 3.9% yoy in the first nine months of 2020, the highest nine-month rise over the past five years. CPI in September increased by 0.12% mom and 3.0% yoy.
- Due to the pandemic, **foreign direct investment (FDI)** registered in Vietnam fell 18.9% yoy to

US\$21.1 billion in the first nine months of 2020, according to the Foreign Investment Agency (FIA) of the Ministry of Planning and Investment. Of which, Singapore retained its position as the largest foreign investor of Vietnam (US\$6.77 billion), followed by South Korea (US\$3.17 billion) and China (US\$1.87 billion). Fewer FDI projects in textile industry were committed in the first three quarters of 2020, as compared to the same period last year.

- Over five million employees nationwide **lost their jobs** in the first five months of 2020 as a result of the COVID-19 pandemic as many Vietnamese businesses suspended or scaled down their operations. A survey showed that from January to April, active workers accounted for only 75.4% of people of working age, the lowest level in ten years.
 - Workers in the manufacturing, retail, logistics, transportation, lodging, food service and tourism fields have been the most affected, with many being laid off or furloughed. During the five-month period, over 430,000 people applied for unemployment allowances, a 128% yoy increase.
 - The Department of Employment has mapped out various measures to support employers and employees and avoid unexpected layoffs. These include reduction of land-use rent by 15% for certain affected businesses, reduction of interest rate for loans to SMEs, and retraining labourers.

Policies & regulations

- The National Assembly of Vietnam passed a **new investment law (LOI 2020)** on 17 June 2020, effective 1 January 2021. The new investment law will replace the 2014 one (LOI 2014).
 - Under the LOI 2020, foreign investors are entitled to enjoy the same market entry conditions as applicable to local investors, except for certain areas subject to the Market Entry List (negative list) to be issued by the government.

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Country & sourcing updates

- Besides, the LOI 2020 simplifies the process of business registration and encourages investment in new business sectors and projects.

Industry & sourcing developments

- In face of a fall in export orders amid the COVID-19 pandemic, Vietnamese textile and garment firms have **switched to mask production**. Apart from face masks, apparel firms are also looking to set up production lines for protective suits for export markets.
 - Leading Vietnamese apparel manufacturer Garment 10 Corporation Joint Stock Company received an export order for 400 million medical face masks worth US\$52 million to be delivered by July. The company also received export orders from Germany and the US to produce 200 million antibacterial cloth masks.
 - According to Garment 10, export of face masks is expected to account for approximately 30% of the company's revenue this year, helping secure the jobs of roughly 12,000 workers.
- 15 Japanese firms are expected to **shift their manufacturing plants from China to Vietnam** with subsidies from the Japanese government under a scheme aimed at reducing Japan's reliance on China and increasing supply chain resilience.
 - Among the 87 firms participating in the scheme, 57 will relocate to Japan, 15 will head to Vietnam, while another 15 will shift to other Southeast Asian countries, according to the list unveiled by the Japanese Ministry of Economy, Trade and Industry.
 - Most of the 15 firms relocating to Vietnam manufacture medical equipment while the rest produce semiconductors, phone components, air conditioners or power modules.

FTAs, trade preferences & facilitation

- The **EU–Vietnam free trade agreement (EVFTA)** entered into force on 1 August 2020. Under the agreement, the EU eliminated 85.5% of tariff lines for Vietnam immediately after the EVFTA came into force. And the EU will eliminate the remaining tariffs in three to seven years. Almost all products from Vietnam exported to the EU will enjoy zero tariff by 2027, except for certain sensitive goods.
 - Several key export items from Vietnam to the EU enjoy tariff reduction under the EVFTA. Most notably, tariffs on approximately 77% of textile and apparel exports (by value) will be eliminated over the next five years, while the remaining 23% is set to enjoy tariff reduction after seven years.
 - The EVFTA also enables Vietnamese textile enterprises to import high-quality machinery and textile fabrics tariff-free from the EU.
 - In the first two years of EVFTA enforcement, Vietnam's textile, garment and footwear products will continuously enjoy duty privilege under the EU's Generalised System of Preferences (GSP) with average preferential tariff rate of 3%–4%. By then, tariffs will be in line with EVFTA but will not be higher than the GSP levels applied by 1 August 2020.
 - According to a World Bank report released on 19 May, the EVFTA could boost Vietnam's GDP and exports by 2.4% and 12% respectively by 2030. However, the report also noted that Vietnam needs to undertake decisive economic and institutional reforms to fill the legal gaps and address implementation issues in order to fully unlock the potential of the EVFTA.

Infrastructure & environmental sustainability

- The YCH Group, a leading Singaporean logistics company, entered into a joint venture with T&T Group of Vietnam **to develop an international logistics centre and an inland port** in the

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northern province of Vinh Phuc. The construction of the logistics centre will begin in the third quarter of 2020. When completed, it will become a connection point for the commodity supply chains between Vietnam and other ASEAN countries, and other regional and international markets.

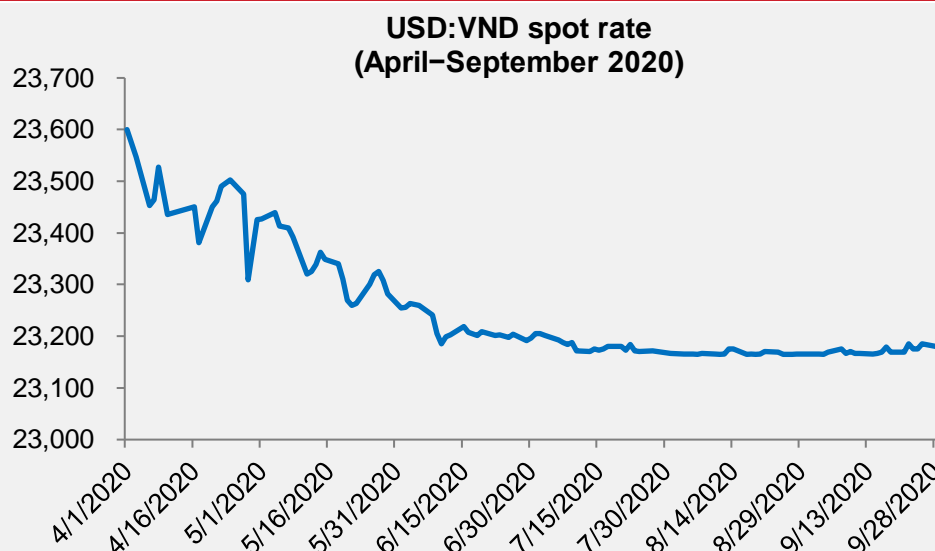
VIETNAM

Macroeconomic data

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Quarterly GDP (real yoy growth %)	0.4 (2Q20)			2.6 (3Q20)		
Industrial production index (yoy growth %)	-9.4	-0.4	7.2	1.1	-0.6	3.8
Manufacturing PMI (IHS Markit)	32.7	42.7	51.1	47.6	45.7	52.2
Price index of materials used for production (yoy growth %)	1.5 (2Q20)			1.4 (3Q20)		
Producer price index for industrial products (yoy growth %)	-1.7 (2Q20)			-1.0 (3Q20)		
Consumer price index (yoy growth %)	2.9	2.4	3.2	3.4	3.2	3.0
Exports (year-to-date, yoy growth %)	2.2	-0.9	0.2	1.5	2.3	4.1
Exports (US\$ mn)	17,601.0	19,180.2	22,584.5	24,872.7	27,702.5	27,162.8
<i>Of which:</i>						
- Textiles & garments (US\$ mn)	1,618.0	1,886.9	2,625.9	3,041.2	2,966.0	2,883.3
- Footwear (US\$ mn)	1,207.3	1,309.6	1,437.3	1,366.6	1,379.9	1,252.6
- Toys and sports requisites (US\$ mn)	176.7	160.3	247.9	291.7	291.9	312.2
Imports (year-to-date, yoy growth %)	0.2	-4.9	-3.1	-3.0	-2.4	-0.7
Imports (US\$ mn)	18,820.6	17,948.2	20,643.8	22,096.7	22,716.9	24,203.8

Source: General Statistics Office of Vietnam. Vietnam Customs. IHS Markit PMI reports

EXCHANGE RATES



Source: Bloomberg

CENTRAL AMERICA

Country & sourcing updates

Regional updates: Export data

Data from the US Office of Textiles and Apparel (OTEXA), released on 5 October, show that US import volume of apparel, as measured by square meter equivalent (SME), plunged by 19.76% yoy for the year ending 31 August, 2020 (Exhibit 1). By region, apparel import volume from the Caribbean Basin Initiative (CBI) region and the Dominican Republic–Central America Free Trade Agreement (CAFTA–DR) region plummeted by 23.52% yoy and 26.08% yoy, respectively, in the period.

In SME terms, the CAFTA–DR countries represented 9.63% of total US apparel imports in the period. The top regional supplier of apparel in the period was Honduras, followed by El Salvador and Nicaragua, with shares of 3.26%, 2.20% and 2.00%, respectively, in the US

apparel import market. In US dollar terms, apparel exports from Honduras and El Salvador to the US contracted by over a quarter during the period, while those from Nicaragua declined by 15.17% yoy.

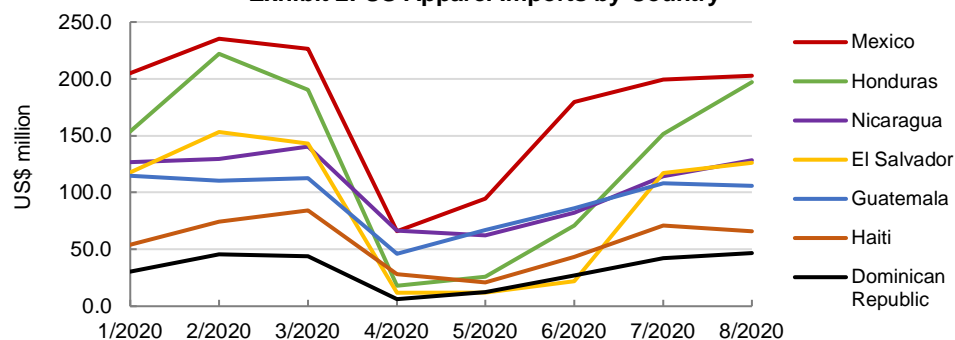
US's apparel imports from Latin American countries have rebounded from the April/May lows and continued to steadily increase. Over the period April to August, Guatemala and Mexico recovered 66.1% and 53.3% of apparel shipments to the US (Exhibit 2), respectively, compared to the same period last year. For Nicaragua and Haiti, of which the lowest point was in May, there was a recovery of 62.8% and 56.0%, respectively, over the May to August period compared to the same period last year. El Salvador and Honduras were the most impacted countries amid the pandemic due to strict lockdowns which forced factories closed in April and May.

Exhibit 1: US Apparel Imports for the Year Ending 31 August 2020

Region/ countries	Square Metre Equivalent (Million)				US Customs Value (Million US\$)			
	Current Year	Previous Year	Percent		Current Year	Previous Year	Percent	
			Change	Share			Change	Share
World	22,989.192	28,649.959	-19.76	100.00	66,880.488	85,974.310	-22.21	100.00
Mexico	681.142	816.323	-16.56	2.96	2,366.309	3,264.327	-27.51	3.54
CBI	314.140	410.767	-23.52	1.37	753.035	1,001.539	-24.81	1.13
CAFTA-DR	2,214.171	2,995.218	-26.08	9.63	6,502.404	8,618.950	-24.56	9.72
<i>Of which:</i>								
- Honduras	748.990	1,005.728	-25.53	3.26	2,014.213	2,743.788	-26.59	3.01
- El Salvador	505.145	769.546	-34.36	2.20	1,322.949	1,900.092	-30.37	1.98
- Nicaragua	459.645	561.726	-18.17	2.00	1,482.467	1,747.563	-15.17	2.22
- Guatemala	306.478	374.352	-18.13	1.33	1,189.618	1,445.224	-17.69	1.78
- Dominican Republic	192.076	281.686	-31.81	0.84	478.680	762.598	-37.23	0.72
- Costa Rica	1.836	2.179	-15.74	0.01	14.477	19.685	-26.46	0.02

Source: Compiled by the Fung Business Intelligence based on data from the US Office of Textiles and Apparel (OTEXA), October 2020

Exhibit 2: US Apparel Imports by Country



Source: US Department of Commerce, Office of Textiles and Apparel (OTEXA)

CENTRAL AMERICA

Country & sourcing updates

Key sourcing countries highlights

1. Guatemala

- The first case of **COVID-19** in Guatemala was confirmed on 13 March. To mitigate the spread of the coronavirus, government authorities suspended events of any size, halted public transport and closed shopping malls, while only pharmacies and essential services were allowed to operate. The use of face masks and social distancing became mandatory. International airport and land boarders were also closed. As the numbers of cases increased, curfew hours were imposed and lockdowns were implemented over the weekends. When confirmed cases rose above 300 per day, the President limited vehicular transit based on license plate numbers.
 - In the middle of the crisis, the Apparel and Textile Association in Guatemala conducted a survey among its associates to measure the economic impact of the COVID-19, 30% of the respondents indicated that they had received **cancelations of orders** worth at least US\$1 million and over 60% indicated that customers had requested to put production on hold.
 - The COVID-19 pandemic has forced vendors to **restructure and streamline their business and resources**. The larger South Korean vendors are reducing their local sales teams and transferring functions back to South Korea, until sales go back to 2019 level.
 - The downturn from the pandemic has **mainly affected woven' s factories** which have seen orders reduced drastically as a result of the trends of more comfortable clothing with the work-from-home new normal.
- Starting from July, the country has been gradually **reopening businesses**, industries and banks which follow strict protocols mandated by the Health Alert Dashboard. By mid-September, the Aurora International airport was reopened for international

flights, and transit of travellers was allowed across land borders with Belize, El Salvador, Honduras and Mexico.

- For the **knitwear** sector, orders have recovered rapidly since the beginning of July when curfew and working hours restrictions were eased.
- **Yarn** spinners have also seen an increase in demand, extending lead times and delivery dates to process backlogs of orders as well as new orders for this year. Yarn suppliers are now taking yarn orders for delivery into next year.
- Based on Guatemala's export records for the period January to August 2020, the largest buyers in the country are **Walmart, Target, Kohls and Old Navy**, which all together accounted for 39% of the country's production.
- Other buying offices activities:
 - **JC Penney** closed the sourcing office in Guatemala in September. QA and compliance staff remain in the country.
 - **Target's** market share has increased as they continued to place orders during the pandemic and avoid order cancelations. An increase in the first quarter of 2021 is foreseen.
 - **GAP** stated that the biggest barrier to placing more orders in the region is the limitation of production capacity.

2. Mexico

- The Mexican government declared a **health emergency** on 30 March, after the number of confirmed cases in the country exceeded one thousand. All non-essential activities in the public and private sectors were suspended. GDP is forecast to contract by over 9% this year.
- Although the COVID-19 outbreak has not been brought under control, Mexico has **reopened and resumed activities** since mid-July. The apparel

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industry is operating with protocols in place in shifts at almost full capacity. Exports to the US has been normalizing.

3. El Salvador

- El Salvador had begun to **implement containment measures** before the first confirmed case of COVID-19 on 14 March. With the state of emergency declared, President Nayib Bukele ordered a total lockdown and closed land borders and airports. El Salvador's complete reopening of the economy began on 24 August. The country's international airport reopened for service on 19 September, just over six months after it shut down. Land borders with Guatemala and Honduras also began reopening during the week of 21 September.
 - On 18 March, the President of the country issued an executive order suspending the operation of sewing factories and call centres for 15 days, which were later extended up to May.
 - In September, nearly 100% of the **companies in the apparel industry** were already working under strict biosecurity measures. El Salvador continues exporting clothing and personal protective equipment (PPE) to the US, and raw materials, yarn and fabrics to other Central American countries.

4. Honduras

- Starting on 23 March, all markets across the country were ordered to close to the public. As the number of confirmed cases increased in Honduras, President Juan Orlando Hernández launched "**Honduras Solidaria**", a state-run programme aimed to provide 800,000 families with food to deal with the COVID-19 crisis as part of the campaign #stayhome.
- In Honduras, **most factories shut down** after the government barred groups larger than 50 people from gathering. Some apparel factories, including one operated by the Canadian company Gildan that

has 2,400 workers, remained opened for the production of COVID-19-related PPE. Since September, companies in the apparel industry have resumed operations.

5. Nicaragua

- President Daniel Ortega's government has been criticized for **not establishing any restrictions nor implementing any social prevention measures** in the country to prevent the spread of the COVID-19 pandemic. Nicaragua did not implement measures such as border closures, restrictions of passenger entry or the imposition of mandatory quarantines, which other countries in the region have implemented.
- Despite the fact that the **free trade zones** in Nicaragua are never closed, they operated at 50%–60% capacity during March, April and May, focusing on the production of face masks and PPE products while customers rebooted orders. By September, factories reported working at 100% capacity on reactivated orders which were earlier cancelled or put on hold.

6. Haiti

- The first case of **COVID-19** in the country was confirmed on 19 March. The President declared State of Emergency and ordered the suspension of schools, universities and factories. All commercial flights and seaports were also suspended until September. The Prime Minister's Office informed the authorization of businesses to **gradually resume activities** on 20 April, so as to guarantee jobs in the business sector.
- Factories started to **resume operations in April** and operated at 30% workforce capacity on alternate shifts. As of September, factories were operating at 100% capacity.

CENTRAL AMERICA

Country & sourcing updates

Costs of production

1. Updates on minimum wages

In the year of 2020, several countries in the region have seen their minimum wages adjust upward, including Mexico (up by 20.0% from the previous level, starting on 1 January), Nicaragua (+8.25%, starting 1 March), Honduras (+7.5%, starting 1 January) and Guatemala (+2.93%, starting 1 January). The effective monthly minimum wage rates are 2,581.77 quetzals (equivalent to US\$332.5) for Guatemala, 8,226.39 lempiras (US\$333.9) for Honduras, 6,399.07 córdobas (US\$184.2) for Nicaragua, 3,696.6 pesos (US\$174.9) for Mexico, 15,000 gourdes (US\$141.5) for Haiti and US\$299.3 for El Salvador, as of September 2020.

2. Exchange rates

For the first nine months of 2020, almost all currencies in the region weakened against the US dollar, except for the Honduran lempira, which remained roughly stable against the greenback (Exhibit 3). The Mexican peso posted the sharpest depreciation (-14.95%) against the US dollar over the nine-month period, followed by the Haitian gourde (-9.04%), the Nicaraguan córdoba (-2.85%), and the Guatemalan quetzal (-0.77%), based on exchange rates provided by OANDA.

Since September, the Haitian gourde has appreciated sharply against the US dollar. As of 15 October, it strengthened against the greenback by 79.2%, from 112.43 gourdes per US dollar on 1 September to 62.75 gourdes per US dollar on 15 October, based on exchange rates provided by Bloomberg.

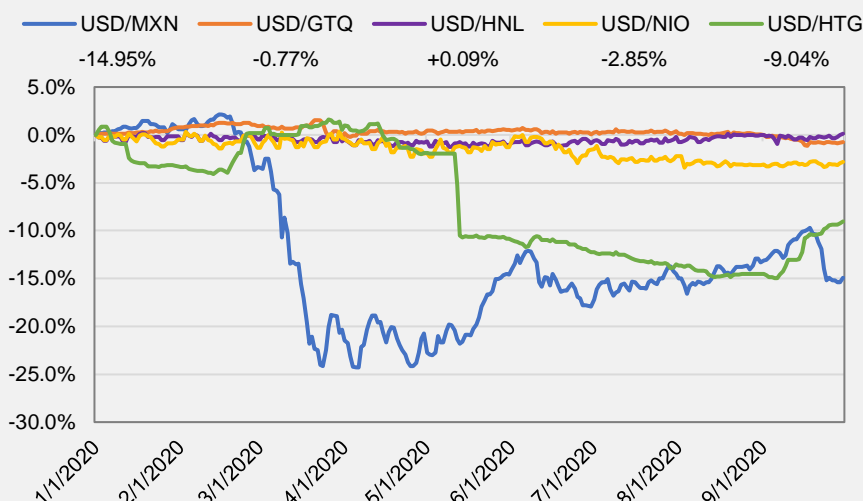
The appreciation of the currency is attributed to:

- The Bank of the Republic of Haiti’s ongoing attempt to control what it had called the speculation in the currency exchange market, injecting US\$150 million into the economy between 10 August and 30 September to buy back gourdes.
- Improving trade balance
- The COVID-19 pandemic has lowered domestic/foreign facility investment and reduced demand for construction-related imports.

All Haitian government projects, such as government-ordered construction or electricity development projects, have been suspended or postponed due to the pandemic.

The sudden and steep appreciation of the Haitian gourde is having a tremendous impact on operational and labour costs of the factories.

Exhibit 3: Foreign Exchange Rates against the US Dollar
(For the Period January–September 2020)



Note: The percentage change denotes the selected currency’s performance against the US dollar based on exchange rate on 1 January 2020

Source: Compiled by the Fung Business Intelligence based on exchange rates from OANDA

FEATURE

Exploring New Sourcing Frontiers: Egypt and Jordan

Compared to major apparel producing countries in Asia, Egypt and Jordan are smaller players in the global apparel sourcing arena, with clothing exports of each accounting for only 0.33% of the world’s total clothing exports in 2018¹. Rising labour costs in China, the prolonged China–US trade war and the ongoing COVID-19 pandemic have promoted fashion brands and retailers to re-evaluate their sourcing strategies, further diversify their sourcing bases and shorten their supply chains. Against this backdrop, Egypt and Jordan have emerged as promising alternatives, thanks to their geographic proximity to Europe and the US and preferential market access for apparel products.

The chart (Exhibit 1) below shows steady export growth of apparel products from Egypt and Jordan since 2016.

I. Egypt

1. Apparel industry profile

The textile and apparel sector plays an extremely important role in the Egyptian economy, contributing roughly 3%–4% to Egypt’s GDP in recent years. It is the second largest industry after agro-industry among all non-petroleum sectors. It is the largest sector in terms of labour force, employing 1.5 million workers, 50 % of whom are women.

There are more than 1,500 apparel factories in Egypt. Most exporting firms are cut-make-trim (CMT) firms or “Original Equipment Manufacturers” (OEMs) that offer few additional services. The sector is split between state-owned and private companies. While state-owned companies are mostly active in spinning and weaving, the private sector is mostly active in the cut-make-trim stage of production.

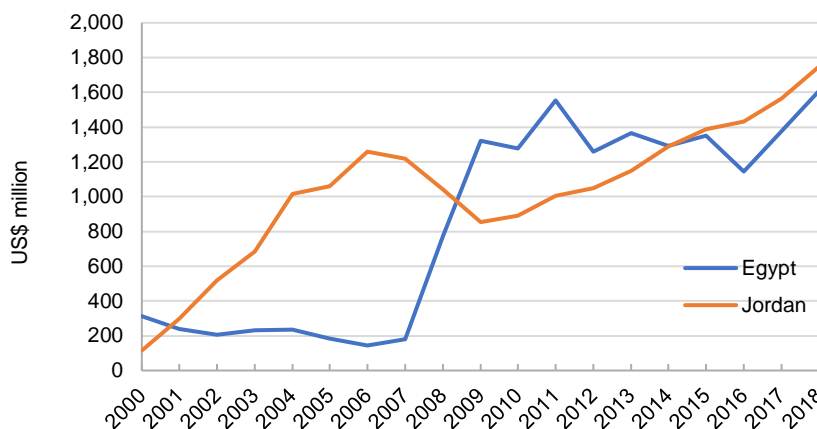
In 2019, the country exported US\$1.70 billion worth of apparel, accounting for 5.6% of the country’s total merchandise exports². Of which, 56% of apparel exports were shipped to the US, while 30.5% went to the EU. Between 2015 and 2019, the country’s apparel exports grew steadily at an average annual rate of 6.3%.

Egypt is one of the few countries in the region that offers the potential for a fully vertically integrated textile and garment supply chain. It produces almost exclusively extra-long staple cotton, which is internationally renowned and often used in high quality bedding, towel products or higher-end clothing. However, due to the mass market nature of Egypt’s apparel exports, the country is highly dependent on imported textiles at present.

2. Advantages of sourcing in Egypt

As a sourcing hub in the Middle East and North Africa for a large variety of apparel products, Egypt has long been benefited from a number of advantages.

Exhibit 1: Egypt's and Jordan's Apparel Exports to the World



Source: WTO database

¹ WTO database

² UN Comtrade database

FEATURE

Exploring New Sourcing Frontiers: Egypt and Jordan

- Large labour pool and relatively low wages** Egypt has the largest working age population in the region, with a young median age at 24.6 years. Demographic projections suggest that the country's "active population" (defined as those aged 15-65) will rise from an estimated 60.7% of total population in 2020 to 62.6% in 2030, ensuring a steady supply of labour. Besides, the country's minimum wage in effect (2,000 Egyptian pounds per month or US\$127.4) is roughly on par with those apparel production countries in Asia, making it a strong competitor in low-cost production.
- Proximity to major export markets** As an intercontinental country with multiple ports, Egypt has a natural advantage for exports to the US and the EU. It offers shorter routes to the US than Asian countries (12 days vs. over a month). Given the rising importance of shorter lead time and greater flexibility, Egypt will probably have a stronger position in apparel sourcing.
- Preferential trade agreements with the US and EU** The signing of the Qualifying Industrial Zones (QIZ) Protocol between the US, Israel and Egypt in late 2004 allows duty-free and quota-free access to the US market for all products manufactured by qualified companies operating within QIZs in Egypt, provided that they satisfy the threshold of 35% minimum content, which include costs incurred in Egypt or the US, and a minimum of 10.5% of Israeli content. Textiles and garments have benefited the most from the QIZ Protocol, as the US imposes relatively high tariff on these items exported from other countries, including those beneficiary countries under the US Generalized System of Preferences (GSP). Besides, as a member of the Euro-Mediterranean Partnership, Egypt has also enjoyed duty-free market access to the EU for manufactured products, including textiles and garments, since 2004.

II. Jordan

1. Apparel industry profile

Compared to some other countries in the region such as Egypt, the apparel industry in Jordan is not a traditional one, as exports started from scratch only in the 1990s following the signing of the QIZ Protocol with the US. Thanks to the preferential market access to the US and the EU, the garment sector is now one of the major drivers of economic growth in Jordan. The sector employs 2.5% of the country's total workforce and makes up 21% of Jordan's export value.

Currently, roughly 90 large factories, each employing 500 to 2,500 workers, account for 95% of the country's apparel exports and 95% of the sectoral workforce. The majority of these factories are foreign owned, either through joint ventures or holding companies abroad. In addition, there are several thousand micro, small and medium-sized factories operating in the sector. In total, the garment sector currently employs around 75,000 people, of whom less than 20,000 are Jordanian. Around three-fourths of the workforce in the sector are international migrants, primarily from Bangladesh, Sri Lanka, India and Nepal.

The sector mainly focuses on the cut-make-trim stage of production and depends highly on imports of intermediate inputs and raw materials such as fabrics, man-made fibres and filament, and cotton. Large factories focus on mid-high market segments, using high-quality, trendy fabrics and trims imported from South Korea, the Chinese Mainland, Turkey, Taiwan or Italy.

The national minimum wage in Jordan has remained unchanged since 2017 at 220 Jordanian dinars (US\$310.3) per month for Jordanian workers, while non-Jordanian workers in the garment sector are paid a minimum of 125 Jordanian dinars as wage plus 95 Jordanian dinars in-kind, with the total amount adding to 220 Jordanian dinars.

In 2019, the country exported US\$1.94 billion worth of apparel, of which 88.0% were shipped to the US and

FEATURE

Exploring New Sourcing Frontiers: Egypt and Jordan

3.0% to the EU. Between 2015 and 2019, the country's apparel exports recorded an average annual growth rate of 8.8%.

2. Advantages of sourcing in Jordan

- **Preferential trade agreements with the US and EU**

Jordan was the first country in the region to sign the QIZ Protocol with the US in 1996. Since then, Jordanian manufacturers and US buyers have established reliable supply chains and long-term partnership. The QIZ Protocol allows duty-free and quota-free access to the US market for all products, including textiles and garments, manufactured by qualified companies operating within QIZs in Jordan, provided that they satisfy the threshold of 35% minimum content, of which 11.7% must come from a Jordanian QIZ, 8% from Israel (7% for high tech goods) and the remainder may be fulfilled by content from a Jordanian QIZ, Israel, the US or West Bank/Gaza; or 20% Jordanian content plus 15% US content.

The EU–Jordan Association Agreement came into force in 2002, with an aim to progressively establish a free trade area between the EU and Jordan over 12 years. In 2016, the Jordanian government and EU representatives signed the Jordan Compact to simplify the rules of origin. Under the agreement, most Jordanian products, including textiles, apparel and footwear, are granted duty-free access to the EU market provided that they are produced in designated areas in Jordan and the factory making them employs at least 15% Syrian refugees for the first two years and 25% thereafter. The relaxed rules of origin were further expanded in December 2018 to apply to all factories across Jordan instead of just those located in the 18 designated economic zones and industrial areas. This is expected to further boost exports from the country and drive investments.

- **Proximity to major export markets**

Jordan's exports to the US go through two main seaports in the Middle East, i.e. Aqaba and Haifa, which are among the fastest routes to the East Coast of the US and offer shipping lead time of less than three weeks. With the reopening of the Iraqi and Syrian borders in September 2017 and October 2018, respectively, transport to and from Europe has become easier, shorter and cheaper, increasing Jordan's competitive position in global trade.

III. Conclusion

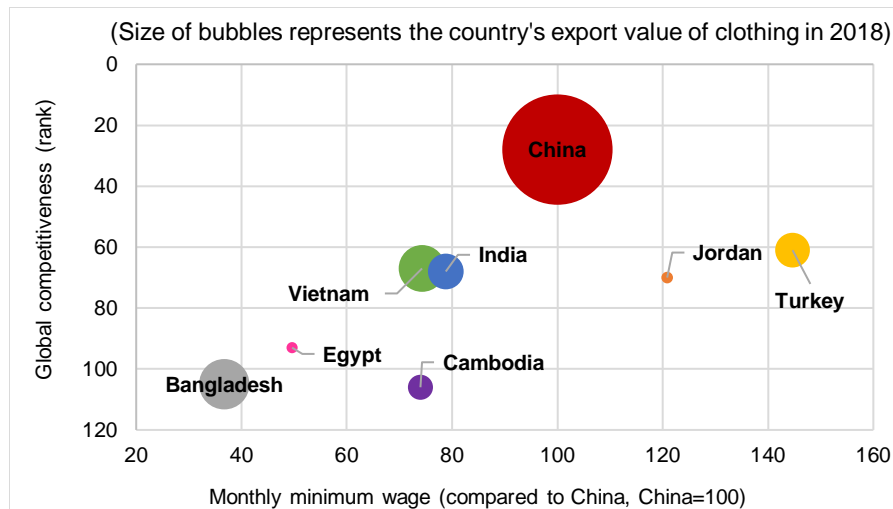
Benefiting from their geographic proximity to major consumer markets as well as trade preferences, both Egypt and Jordan have emerged as new frontiers for apparel sourcing at a time of greater global supply chain diversification. Leveraging on its large labour pool and low labour cost, Egypt is mainly focused on low-cost and mass-market apparel production, while Jordan mainly serves the mid-to-high cost apparel market segment. Below is a chart (Exhibit 2) comparing the wages, capacities and competitiveness among Egypt, Jordan and other major production countries in Asia.

As no sourcing base is perfect, global fashion brands and retailers need to balance the costs of production, speed to market, compliance, and suppliers' capacities and capabilities when making sourcing decisions.

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Exploring New Sourcing Frontiers: Egypt and Jordan

Exhibit 2: Comparison of Sourcing Bases



Source:

Clothing exports (2018): WTO database;

Minimum wages (as of mid-October 2020): China (Dongguan), Vietnam (Ho Chi Minh City/Hanoi), Cambodia (for garment and footwear workers), Bangladesh (for entry-level garment industry workers), India (Delhi – unskilled), Turkey (wage rate before taxes and deductions), converted to US dollar terms based on exchange rates on 16 October 2020 from Bloomberg;

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GLOBAL TRADE POLICY REGIME

Bilateral/multilateral trade agreements that involve the US, the EU, Canada and selected Asian Countries

	Canada	US	EU	Vietnam	Turkey	Thailand	Philippines	Pakistan	Indonesia	India	China	Cambodia	Bangladesh
Bangladesh				GSTP	D-8 FTA	GSTP, BIMSTEC FTA	GSTP	D-8 FTA, GSTP, SAFTA, BD-PK FTA	D-8 FTA, GSTP	APTA, GSTP, SAFTA, BIMSTEC FTA	APTA		
Cambodia			ASEAN-EU FTA	AFTA, RCEP		AFTA, RCEP	AFTA, RCEP		AFTA, RCEP	AFTA	ACFTA, RCEP		
China			EU-China IA	ACFTA, RCEP		ACFTA, RCEP	ACFTA, RCEP	CPFTA	ACFTA, RCEP	APTA			
India	CA-IN CEPA		EU-IN BTIA	AIFTA, GSTP		AIFTA, GSTP, BIMSTEC FTA , IN-TH FTA	AIFTA, GSTP	GSTP, SAFTA	AIFTA, GSTP, IN-ID CECA				
Indonesia			ASEAN-EU FTA , EU-ID CEPA	AFTA, GSTP, RCEP	D-8 FTA, IT-CEPA	AFTA, GSTP, RCEP	AFTA, GSTP, RCEP	D-8 FTA, GSTP, ID-PK PTA					
Pakistan				GSTP	D-8 FTA, ECOTA, PK-TR FTA	GSTP, PK-TH FTA	GSTP						
Philippines			ASEAN-EU FTA , EU-PH FTA	AFTA, GSTP, RCEP		AFTA, GSTP, RCEP							
Thailand			ASEAN-EU FTA , EU-TH FTA	AFTA, GSTP, RCEP	TH-TR FTA								
Turkey			EU-TR CU										
Vietnam	CPTPP		ASEAN-EU FTA , EVFTA										
EU	CA-EU CETA	TIIP											
US	USMCA												
Canada													

Notes:

1. The United Kingdom is no longer a member state of the European Union after Brexit on 31 January 2020.
2. India withdrew from RCEP in November 2019.
3. Agreements highlighted in red are now under negotiation.
3. Details of the agreements are provided in the following tables.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the EU¹, Canada and selected Asian Countries²

FTAs in force							
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2019 ⁴ (% of world total)	Total GDP of signatories, 2019 ⁵ (% of world total)	Highlights	Rules of Origin ⁶
ACFTA	ASEAN–China Free Trade Area	In force since 2005	Brunei, Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	2,058 million (27%)	US\$17,516 billion (20%)	Zero duty for 94.7% of all tariff lines.	Cumulation: RVC 40%. The full value of a material used in the production of a finished good can be accumulated towards the RVC of the finished good only if the material itself qualifies as originating.
AFTA	ASEAN Free Trade Area	In force since 1993	Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	661 million (9%)	US\$3,173 billion (4%)	Zero-duty for 87.8% of all tariff lines, according to the ATIGA Tariff Schedule of 2013.	Cumulation: RVC 40% or CTH. A material can contribute towards the aggregate RVC of the finished good, as long as the material itself has a RVC of 20% or more.
AIFTA	ASEAN–India Free Trade Area	In force since 2010. India and the ASEAN members agreed to review the FTA in September 2019.	Brunei, Cambodia, India, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	2,027 million (27%)	US\$6,048 billion (7%)	Zero duty for 79.6% of all tariff lines.	Cumulation: RVC 35% and CTSH.
APTA	Asia Pacific Trade Agreement	In force since 1976. Mongolia formally acceded to the APTA as the seventh member on 30 September 2020.	Bangladesh, China, India, Republic of Korea, Lao PDR, Mongolia, Sri Lanka	3,009 million (39%, excluding Mongolia)	US\$19,319 billion (22%, excluding Mongolia)	Covers 10,001 tariff lines after the 4 th round of negotiation. The Margin of Preference (the difference in average between the MFN rate of duty and the preferential rate of duty) is 29.2%.	Local value added 45% (35% for LDC's). Cumulation: the aggregate content originating in the territory of the Participating States is not less than 60% of its FOB value (50% for LDC members).
CPFTA	China–Pakistan Free Trade Agreement	In force since 2007. The 2 nd phase of the CPFTA was signed in April 2019 and came into force in December 2019.	China, Pakistan	1,614 million (21%)	US\$14,621 billion (17%)	Under the 2 nd phase FTA, tariff lines will be gradually liberalized from 35% to 75% in a period of 10 years by China and 15 years by Pakistan	Local value added 40% (based on FOB price). Cumulation: bilateral, aggregate originating content on the final product is not less than 40%.
D-8 PTA	Preferential Tariff Arrangement – Group of Eight Developing Countries	In force since 2011	Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, Turkey	1,150 million (15%)	US\$4,016 billion (5%)	In line with targets in the D-8 Roadmap 2018, the PTA aspires to increase the share of trade among D-8 members from the current 7.06% of their total foreign trade to 10-15% within the next 10 years.	Negotiations of the Rules of Origin are in progress.

Notes:

¹ The United Kingdom is no longer a member state of the European Union after Brexit on 31 January 2020.

² Bangladesh, Cambodia, China, India, Indonesia, Pakistan, Philippines, Thailand, Turkey, and Vietnam

³ The US, Canada, the EU, and the selected Asian countries are highlighted in blue

⁴ Source: World Bank

⁵ Source: World Bank

⁶ Abbreviations are explained in the glossary in the end of this section.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the EU¹, Canada and selected Asian Countries²

FTAs in force							
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2019 ⁴ (% of world total)	Total GDP of signatories, 2019 ⁵ (% of world total)	Highlights	Rules of Origin ⁶
ECOTA	Economic Cooperation Organization Trade Agreement	In force since 2008 but not yet operational	Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, Uzbekistan	505 million (7%)	US\$1,841 billion (2%)	Tariffs in a positive list will be lowered to below 15% gradually. Although Pakistan, Iran, Turkey, Afghanistan and Tajikistan agreed in 2008 to operationalise ECOTA, it has yet to be implemented due to disagreement between members on the interpretation of its core provisions and non-ratification of the agreement's annexes by Tajikistan.	Local value added 40%. Cumulation: RVC 60%.
EU-TR CU	EU-Turkey Customs Union	In force since 1996	EU, Turkey	598 million (8%, including the UK)	US\$19,174 billion (22%, including the UK)	Goods can now travel between the two entities without any customs restrictions.	N/A
EVFTA	EU-Vietnam Free Trade Agreement	In force since 2020	EU, Vietnam	611 million (8%, including the UK)	US\$18,682 billion (21%, including the UK)	<p>The FTA eliminates nearly all tariffs (over 99% of all tariff lines) on trade between the two parties. The EU eliminated 85.5% of tariff lines for Vietnam immediately right after the EVFTA came into force. And the EU will eliminate the remaining tariffs in three to seven years.</p> <p>Other commitments include elimination of non-tariff barriers, customs and trade facilitation, liberalization of trade in services, investment and e-commerce, and behind-the-border policies, such as competition, state-owned enterprises, and labor and environmental standards.</p>	Cumulation: 50% For garments, fabrics from the EU or Vietnam must be used, with the exception of: - fabrics produced in South Korea, another FTA partner of the EU, and - a small amount of materials not satisfying the ROO can be used in mixed fabrics under the 'tolerance rule'.
GSTP	Global System of Trade Preferences among Developing Countries	In force since 1989	43 developing economies, including Bangladesh, India, Indonesia, Pakistan, Philippines, Thailand, Vietnam, and the Southern Common Market (MERCOSUR) trade bloc	3,778 million (49%)	US\$15,123 billion (17%)	In the 3 rd round of negotiations, in which participating members agreed to reduce applied tariffs by 20% on at least 70% of dutiable products, concluded in 2010 but has not yet become effective.	Local value added 50% (40% for LDC's). Cumulation: RVC 60%.
ID-PK PTA	Indonesia-Pakistan Preferential Trade Agreement	In force since 2013	Indonesia, Pakistan	487 million (6%)	US\$1,397 billion (2%)	Preferential tariffs for items including cotton yarn, cotton fabrics, readymade garments, leather goods and other industrial products.	Local value added 40% (based on FOB price). Cumulation: RVC 40%.
USMCA	United States-Mexico-Canada Agreement	In force since 2020. Replaced the North American Free Trade Agreement (NAFTA).	Canada, Mexico, US	493 million (6%)	US\$24,422 billion (28%)	<p>USMCA will maintain the tariff-free market entry condition from the NAFTA.</p> <p>All tariffs and most nontariff barriers on goods produced and traded within North America are gradually being eliminated. All duties on textile and apparel goods within North America were phased out over a 10-year period.</p>	The rule of origin might require 1) a change in tariff classification; 2) a RVC requirement; or 3) both a change in tariff classification and a RVC requirement.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the EU¹, Canada and selected Asian Countries²

FTAs in force

	Name of agreement	Status	Current signatories ³	Total population of signatories, 2019 ⁴ (% of world total)	Total GDP of signatories, 2019 ⁵ (% of world total)	Highlights	Rules of Origin ⁶
SAFTA	South Asian Free Trade Area	In force since 2006	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	1,798 million (24%)	US\$3,579 billion (4%)	Tariffs are scheduled to be lowered to 0-5% by 2012 for developed members (2013 for LDC members). The deadline, however, was made obsolete by unresolved differences.	Local Value Added 40% (30% for LDC's) or CTH. Cumulation: RVC 50% with domestic value content 20%.

FTAs pending ratification

	Name of agreement	Status	Current signatories ³	Total population of signatories, 2019 ⁴ (% of world total)	Total GDP of signatories, 2019 ⁵ (% of world total)	Highlights	Rules of Origin ⁶
CA-EU CETA	Canada-EU Comprehensive Economic and Trade Agreement	Signed in October 2016. Entered into force provisionally on 21 September 2017. Pending ratification by Canada and all EU member states for full implementation.	Canada, EU	552 million (7%, including the UK)	US\$20,156 billion (23%, including the UK)	Over 99% of tariffs between the two economies will be eliminated, and sizeable new market access opportunities in services and investment will be created. Once implemented, the agreement is expected to increase two-way bilateral trade in goods and services by 23%.	
CPTPP	Comprehensive and Progressive Agreement on the Trans-Pacific Partnership	Signed in March 2018. Entered into force on 30 December 2018 for 6 out of the 11 members, and on 14 January 2019 for Vietnam. In September 2020, The UK met with the Chief Negotiators from the 11 CPTPP members to discuss for its accession.	Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam	508 million (7%)	US\$11,197 billion (13%)	Tariffs will be eliminated immediately for most tariff lines. The agreement also covers trade in services, investment and behind-the-border matters.	RVC (varies by product and method of calculation) or CTH. "Yarn-forward" rule on textile and garment products.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the EU¹, Canada and selected Asian Countries²

FTAs under negotiation

	Name of agreement	Status	Current signatories ³	Total population of signatories, 2019 ⁴ (% of world total)	Total GDP of signatories, 2019 ⁵ (% of world total)	Highlights
ASEAN–EU FTA	ASEAN–EU Free Trade Agreement	Negotiations were launched in 2007 and paused in 2009 to give way to bilateral FTAs negotiations between the EU and ASEAN member states	Brunei, Cambodia, EU, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	1,175 million (15%, including the UK)	US\$21,593 billion (25%, including the UK)	Negotiations were temporarily suspended in 2009 and superseded by bilateral FTAs negotiations, conceived as building blocks towards a future region-to-region agreement. (see other agreements under negotiation below).
BD–PK FTA	Bangladesh–Pakistan Free Trade Agreement	Under negotiation since 2003	Bangladesh, Pakistan	380 million (5%)	US\$581 billion (1%)	Little progress was made as the two countries cannot resolve their differences over rules of origin and phase-out period.
BIMST EC FTA	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Agreement	Negotiations were formally launched in 2014 after framework agreement in 2004. The 21 st Trade Negotiating Committee meeting, which focused on finalizing the draft texts of the Agreement on Trade in Goods, Agreement on Cooperation and Mutual Assistance in Customs Matters, and Agreement on Dispute Settlement Procedures and Mechanisms, took place in November 2018. The Meeting also advanced the draft agreements on Investment, Services, and Trade Facilitation.	Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand	1,635 million (21%)	US\$3,371 billion (4%)	The BIMSTEC FTA covers 14 priority areas for cooperation: trade and investment, transport and communication, energy, tourism, technology, fisheries, agriculture, public health, poverty alleviation, counter-terrorism and transnational crime, environment and natural disaster management, culture, people to people contact, and climate change.
CA–IN CEPA	Canada–India Comprehensive Economic Partnership Agreement	Under negotiation since 2010. The 10 th round of negotiations was held in August 2017.	Canada, India	1,404 million (18%)	US\$4,612 billion (5%)	A joint scoping report released in September 2010 estimates that total bilateral trade in goods and services between Canada and India can grow by over 50% or almost US\$3 billion under the CEPA.
EU–CN IA	EU–China Investment Agreement	Under negotiation since 2013. The 32 nd round of negotiations took place in September 2020 by videoconference. The two sides committed to work toward concluding the agreement in 2020.	EU, China	1,845 million (24%, including the UK)	US\$32,763 billion (37%, including the UK)	The EU and China agreed that the deal should improve market access opportunities for their investors by establishing a genuine right to invest and by guaranteeing that they will not discriminate against their respective companies. The EU and China are also determined to address key challenges of the regulatory environment, including those related to transparency, licensing and authorisation procedures, and to provide for a high and balanced level of protection for investors and their investments. The agreement will also include rules on environmental and labour-related dimensions of foreign investment.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the EU¹, Canada and selected Asian Countries²

FTAs under negotiation

	Name of agreement	Status	Current signatories ³	Total population of signatories, 2019 ⁴ (% of world total)	Total GDP of signatories, 2019 ⁵ (% of world total)	Highlights
EU-ID CEPA	EU-Indonesia Comprehensive Economic Partnership Agreement	Negotiations started in 2016. After the 9 th round of negotiations held in December 2019, the latest virtual round of negotiations was arranged in June 2020 with further text consolidation in most chapters under negotiation.	EU, Indonesia	785 million (10%, including the UK)	US\$19,539 billion (22%, including the UK)	The EU states that its aim is to conclude an agreement "similar in coverage" to the EVFTA and EU-Singapore FTA. The CEPA could potentially eliminate 95% of current import tariffs.
EU-IN BTIA	EU-India Bilateral Trade and Investment Agreement	Under negotiation since 2007, but negotiations have been at a de facto standstill since 2013. Both sides indicated hopes of relaunching negotiation soon.	EU, India	1,881 million (25%, including the UK)	US\$21,295 billion (24%, including the UK)	India and the EU have agreed to eliminate tariffs on over 90% of all tradable goods during the next 10-year period, but EU's demand on India to drastically cut tariffs on specific products remain contentious.
EU-PH FTA	EU-Philippines FTA	Negotiations formally launched in December 2015	EU, Philippines	622 million (8%, including the UK)	US\$18,797 billion (21%, including the UK)	The Philippines and the EU agreed to cover a broad range of issues, including elimination of customs duties and other barriers to trade, services and investment, access to public procurement markets, as well as additional disciplines in the area of competition and protection of intellectual property rights.
EU-TH FTA	EU-Thailand Free Trade Agreement	Negotiations started in 2013 but have been halted since the military takeover in 2014. Negotiations are expected to resume in early 2021, according to the Thai government.	EU, Thailand	584 million (8%, including the UK)	US\$18,964 billion (22%, including the UK)	Negotiations cover tariffs, non-tariff barriers and other trade related issues, such as services, investment, procurement, intellectual property, regulatory issues, competition, and sustainable development.
IT-CEPA	Indonesia-Turkey Comprehensive Economic Partnership Agreement	Negotiations formally launched in July 2018. The latest (4 th) round of negotiations was held in January 2020. The two sides agreed to finalize negotiations within 2020.	Indonesia, Turkey	354 million (5%)	US\$1,874 billion (2%)	The fourth negotiations covered various issues related to trade in goods, economic cooperation, customs and trade facilitation, trade security, sanitation and phytosanitary and legal matters.
IN-ID CECA	India-Indonesia Comprehensive Economic Cooperation Agreement	Negotiations formally launched in 2011 but had been put on hold. After India's withdrawal from RCEP in November 2019, India and Indonesia are set to relaunch the negotiations.	India, Indonesia	1,637 million (21%)	US\$3,994 billion (5%)	The CECA will build on the ASEAN-India FTA and will be a comprehensive agreement, covering economic cooperation, trade in goods and services, and investment.
IN-TH FTA	India-Thailand Free Trade Agreement	Under negotiation since 2000. Early harvest scheme in force since 2004. However, negotiations have been put on hold. India will review the AIFTA with ASEAN members, after its withdrawal from RCEP in November 2019.	India, Thailand	1,436 million (19%)	US\$3,419 billion (4%)	India and Thailand agreed that negotiations should cover: elimination of tariffs and non-tariff barriers in substantially all trade in goods; liberalization of trade in services; investment; trade and investment facilitation measures; and economic co-operation in other mutually-agreed areas such as agriculture. Under the early harvest scheme (EHS), customs duties on 82 products were slashed by September 2006.

BILATERAL/MULTILATERAL TRADE AGREEMENTS

That involve the US, the EU¹, Canada and selected Asian Countries²

FTAs under negotiation						
	Name of agreement	Status	Current signatories ³	Total population of signatories, 2019 ⁴ (% of world total)	Total GDP of signatories, 2019 ⁵ (% of world total)	Highlights
PK–TH FTA	Pakistan–Thailand Free Trade Agreement	Under negotiation since 2015. In April 2019, Thailand forwarded its final list of 100 products to Pakistan to include in the FTA.	Pakistan, Thailand	286 million (4%)	US\$822 billion (1%)	It is reported that the first phase of the FTA will only cover trade in goods, with emphasis on tariff reduction, customs procedures, and cooperation in sanitary standards and trade remedy measures. After the signing of the first phase of FTA, both countries intend to negotiate on services, investment and competition.
PK–TR FTA	Pakistan–Turkey Free Trade Agreement	Negotiations launched in 2004. As of July 2019, nine rounds of negotiations have taken place.	Pakistan, Turkey	300 million (4%)	US\$1,033 billion (1%)	
RCEP	Regional Comprehensive Economic Partnership	Under negotiation since 2012. India withdrew from RCEP in November 2019. The 31 st round of negotiations took place via video conference in July 2020. The 15 members are preparing to sign the agreement in 2020	Australia, Brunei, Cambodia, China, Indonesia, Japan, Republic of Korea, Lao PRD, Philippines, Malaysia, Myanmar, New Zealand, Singapore, Thailand, Vietnam	3,633 million (48%, with India) 2,267 million (30%, without India)	US\$28,715 billion (33%, with India) US\$25,840 billion (29%, without India)	It will be based on the existing ASEAN+1 agreements.
TH–TR FTA	Thailand–Turkey Free Trade Agreement	Negotiations launched in 2017. The 7 th round of negotiations will take place in December 2020.	Thailand, Turkey	153 million (2%)	US\$1,298 billion (1%)	
TTIP	Transatlantic Trade and Investment Partnership	Negotiations started 2013 and have been suspended since the 15 th round of negotiation in October 2016. A European Council decision of 15 April 2019 stated that the negotiating directives for the TTIP were obsolete and no longer relevant.	EU, US	843 million (11%, including the UK)	US\$39,848 billion (45%, including the UK)	The 15 th round of negotiations, which took place from in July 2016, put a strong emphasis on the consolidation of text. According to the negotiating text published by the EU, the final agreement would have 24 chapters covering four parts — market access, regulatory cooperation, rules, and institutional arrangements.

Glossary:

CTH: Change in tariff heading. The non-originating materials have undergone a change in tariff classification (CTC) at 4-digit level (i.e. a change in tariff heading) of the Harmonized System.

CTSH: Change in tariff sub-heading. The non-originating materials have undergone a change in tariff classification (CTC) at 6-digit level (i.e. a change in tariff sub-heading) of the Harmonized System

FOB: Free on board. The buyer pays for transportation of the goods

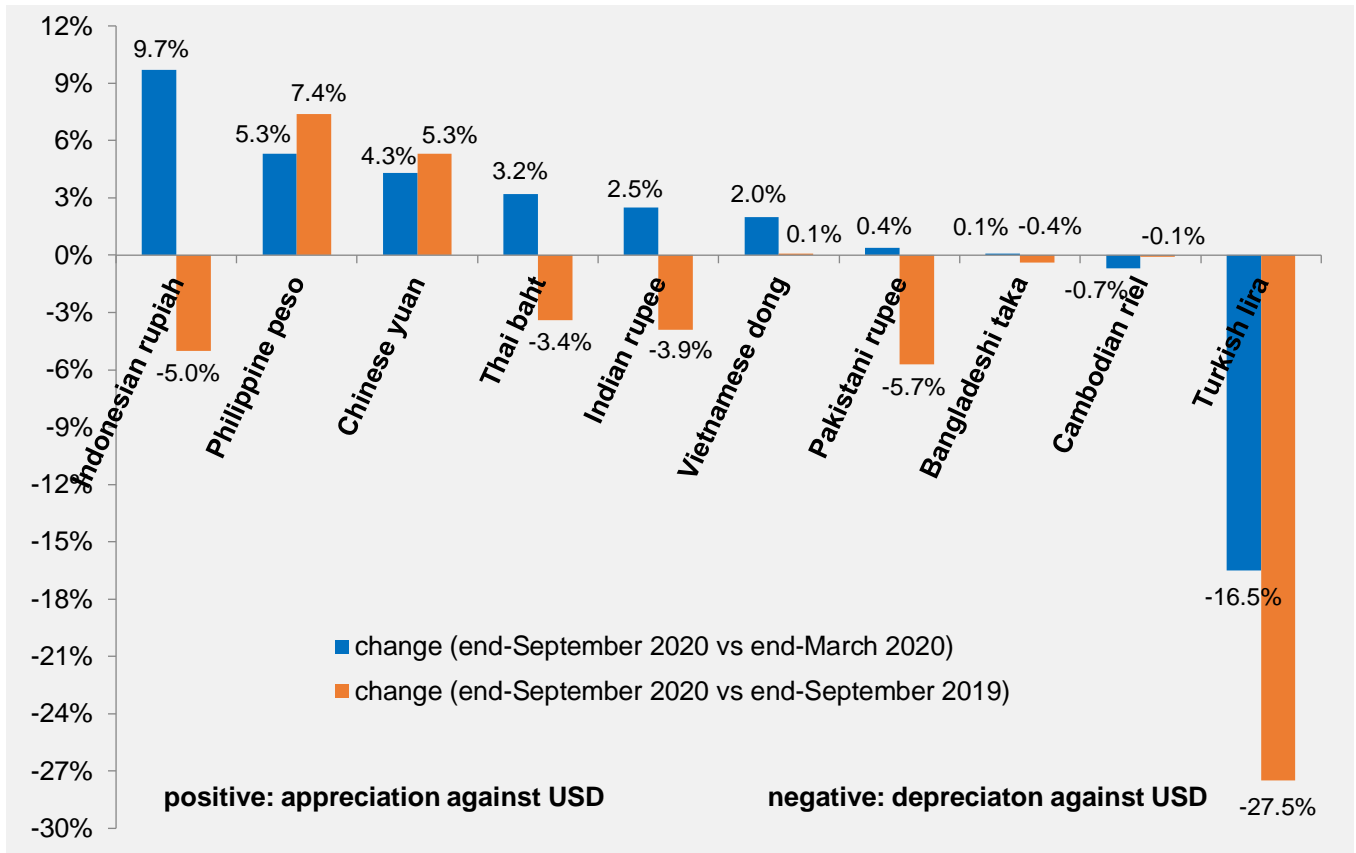
LDC: Least Developed Countries. Includes Bangladesh and Cambodia in the selected countries in the present matrix.

MFN: Most favoured nation. An MFN tariff is the lowest possible tariff a country can assess on another country. Members of the World Trade Organization are required to extend most favored nation status to other members.

RVC: Regional value content. A type of rule of origin that requires a product to include a certain percentage of originating content from the region.

CURRENCY APPRECIATION/DEPRECIATION

Against the US dollar over the past six/twelve months

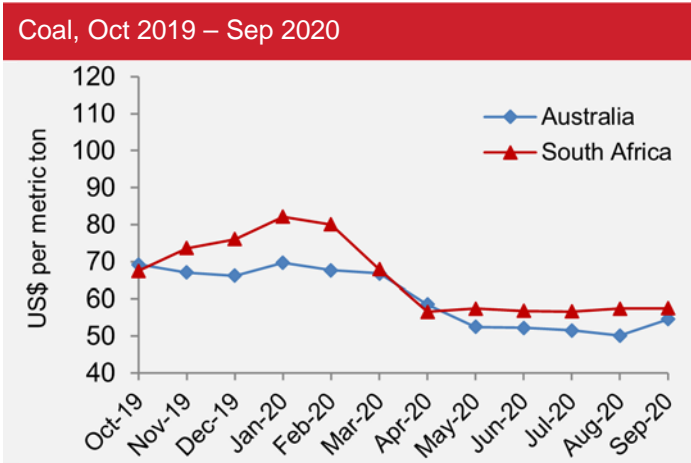


Source: Calculations based on exchange rates retrieved from sources quoted in preceding sections

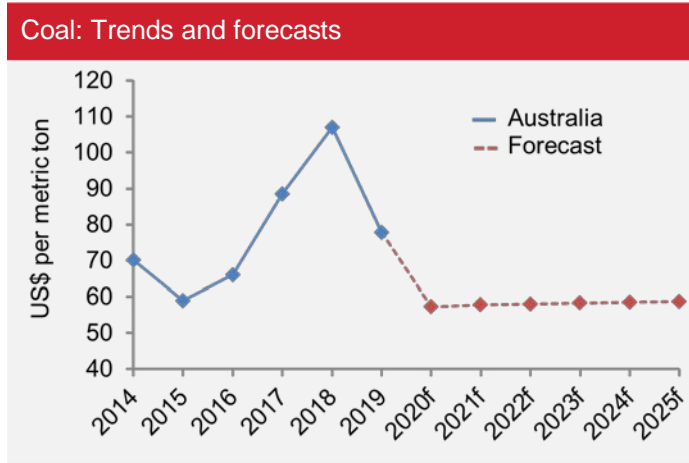
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Trends and forecasts

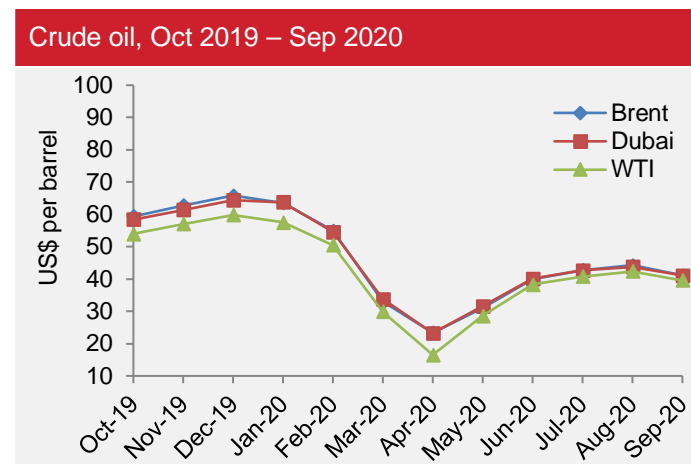
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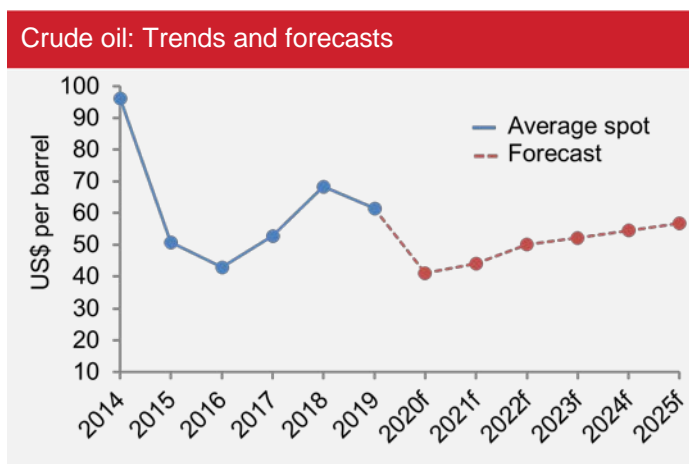
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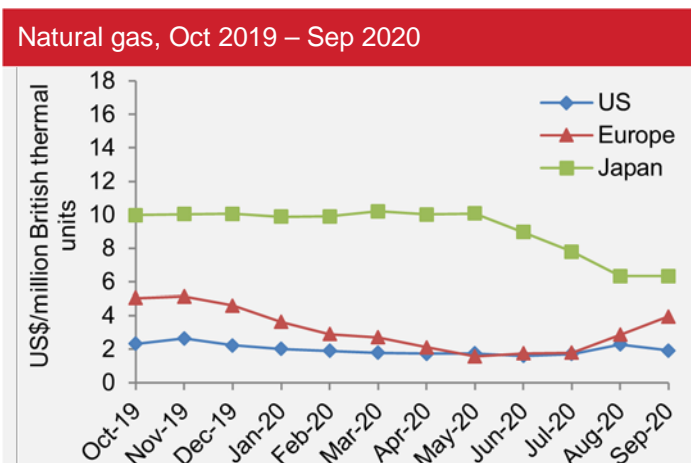
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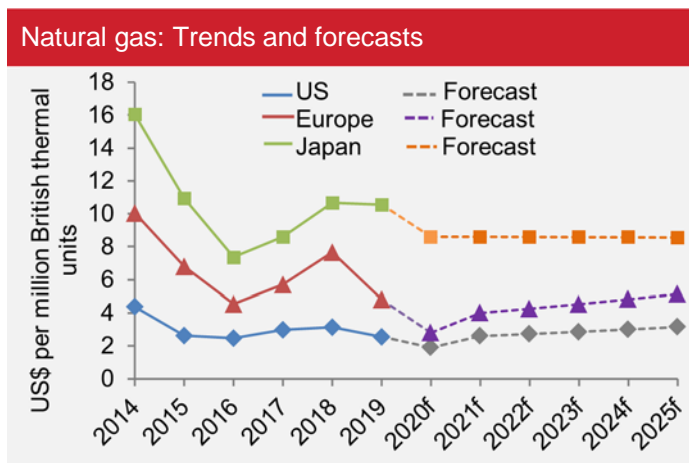
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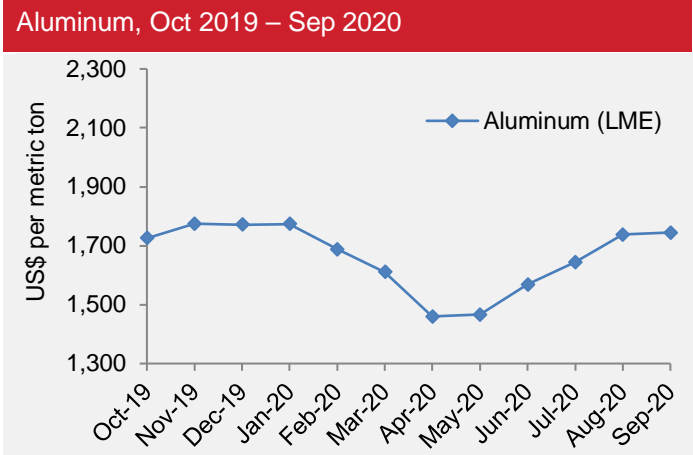


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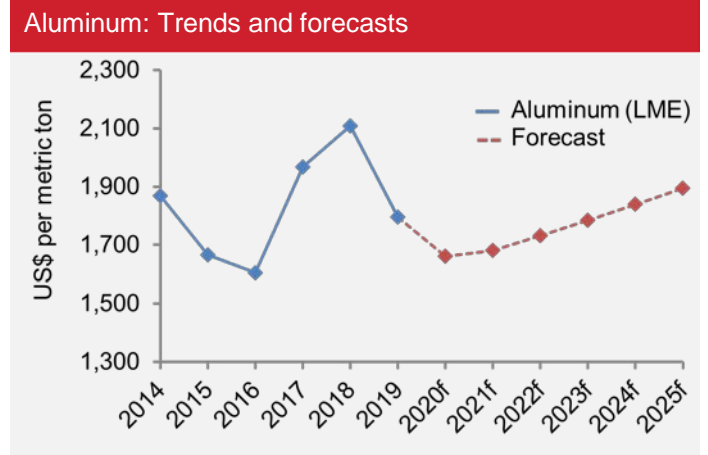
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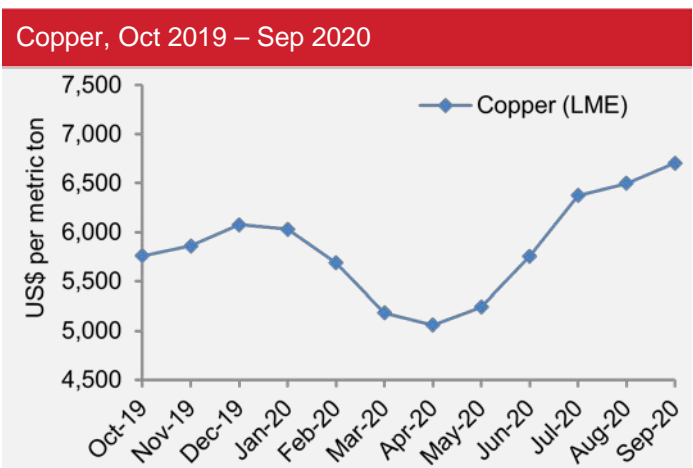
METAL AND MINERALS



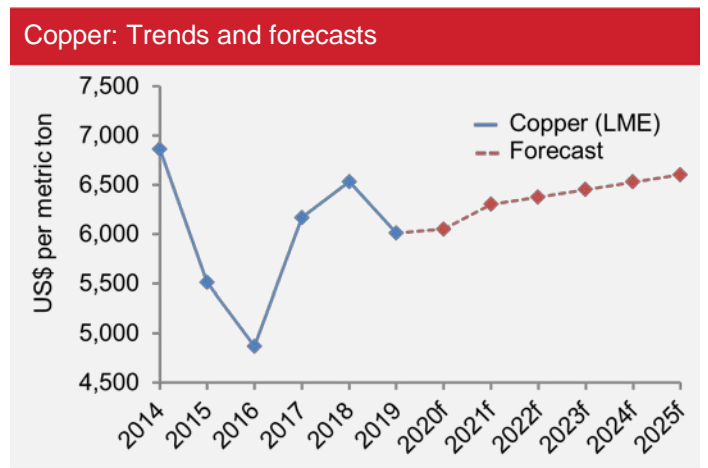
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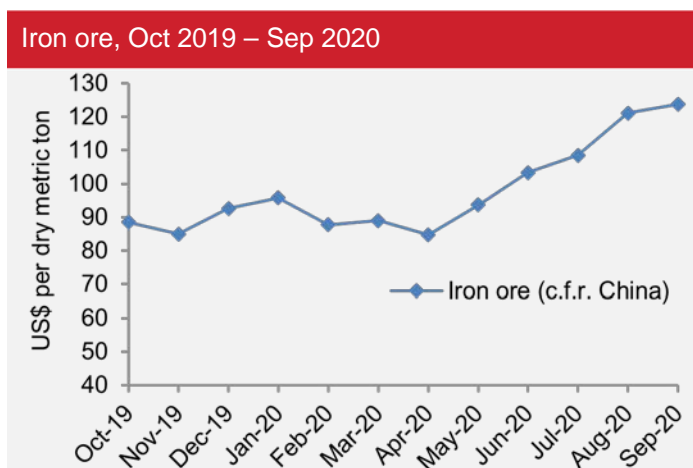
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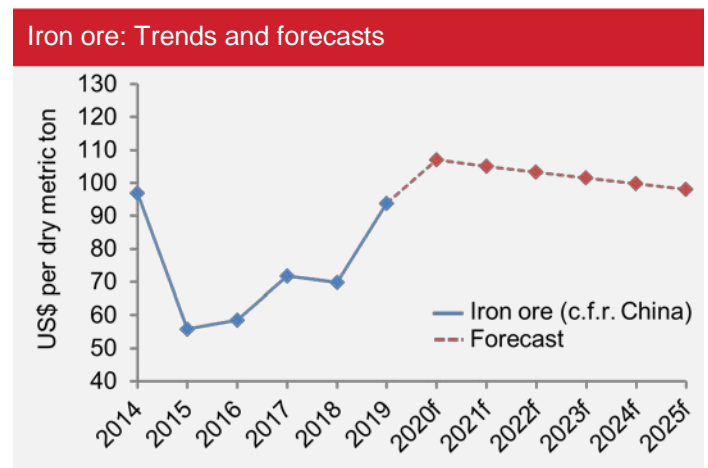
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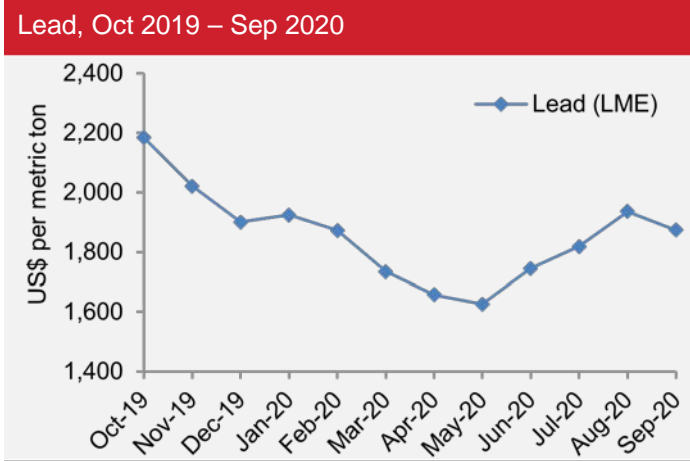


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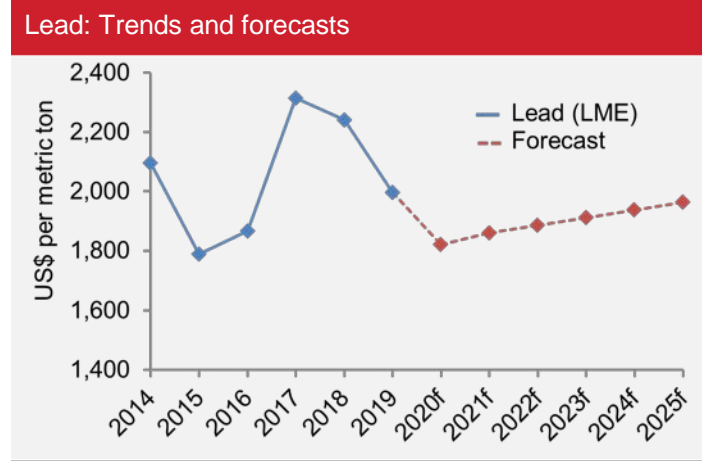
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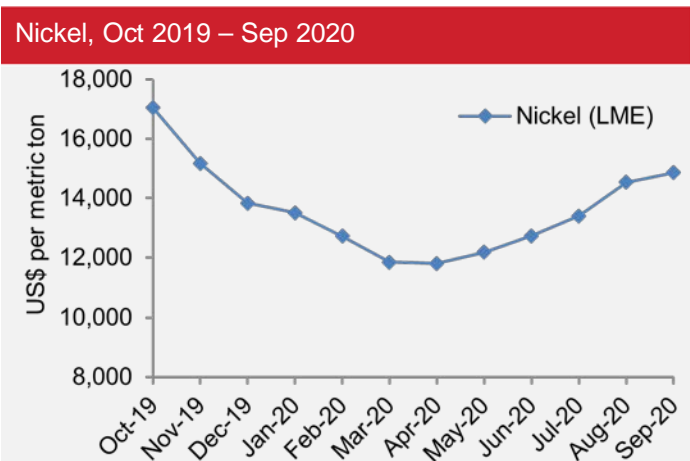
METAL AND MINERALS



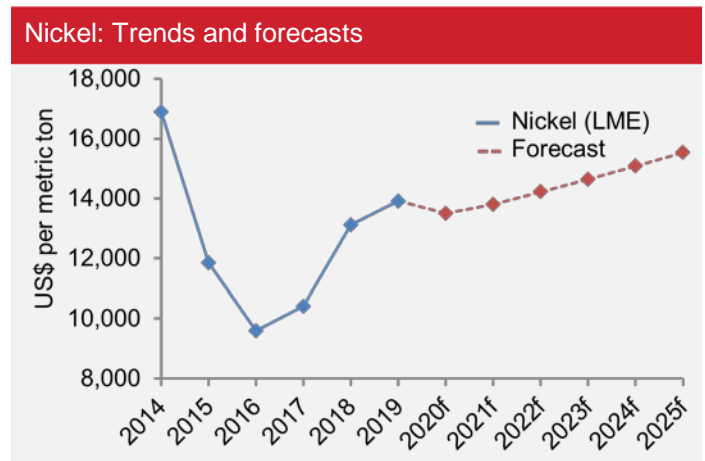
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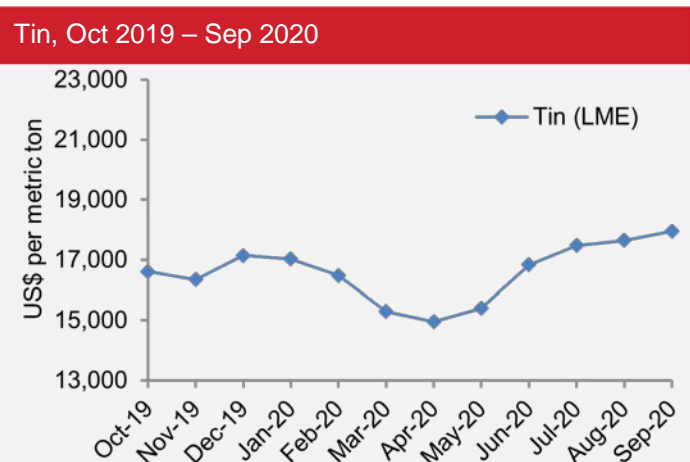
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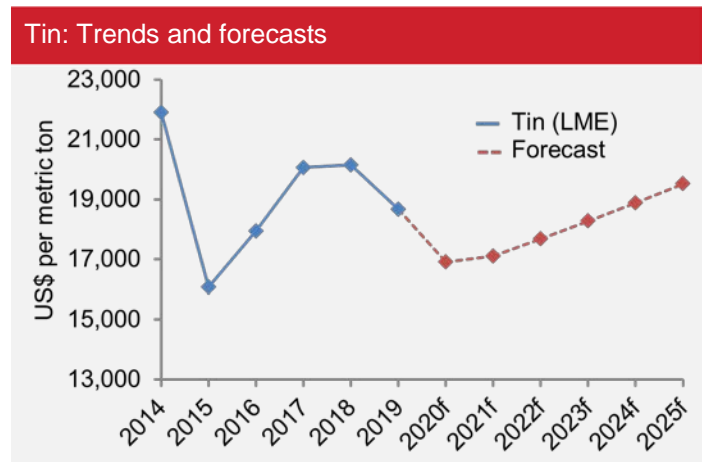
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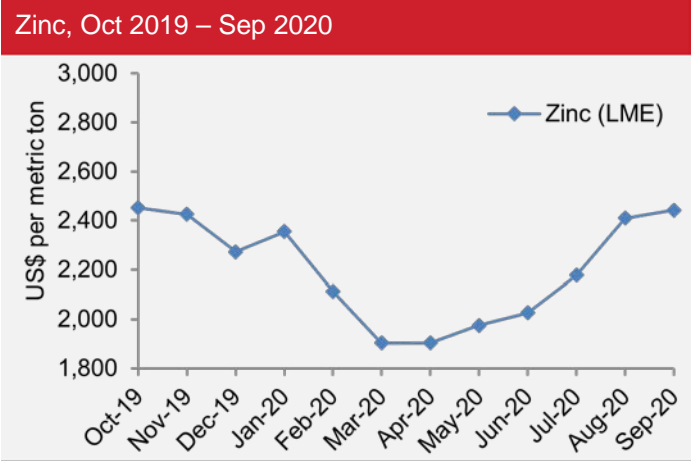


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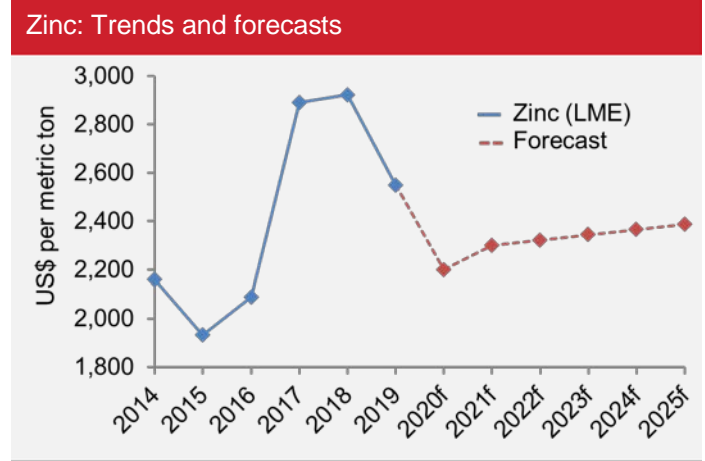
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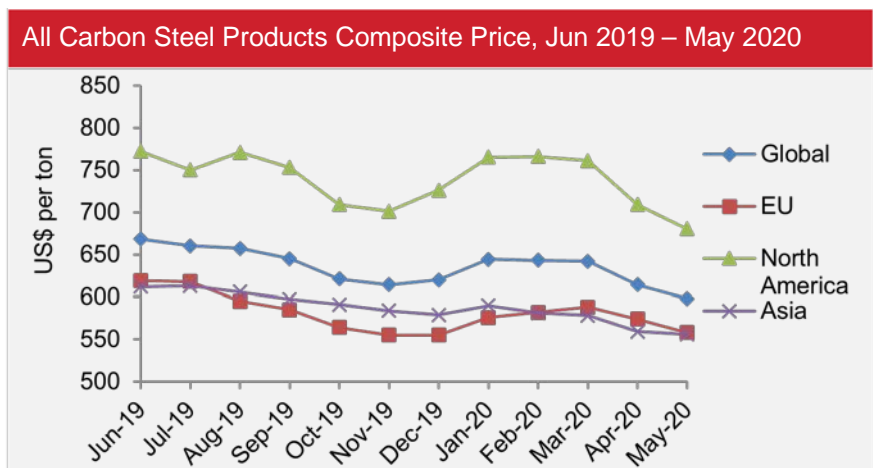
METAL AND MINERALS



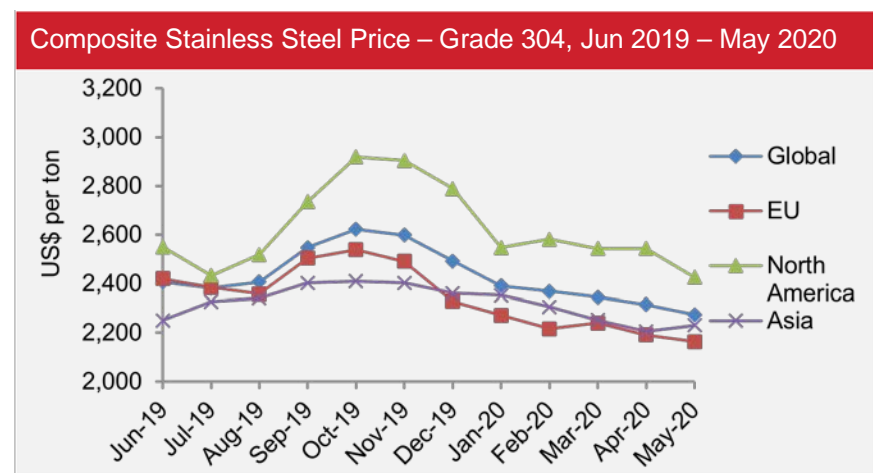
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Source: World Bank



Source: MEPS Online Steel Prices

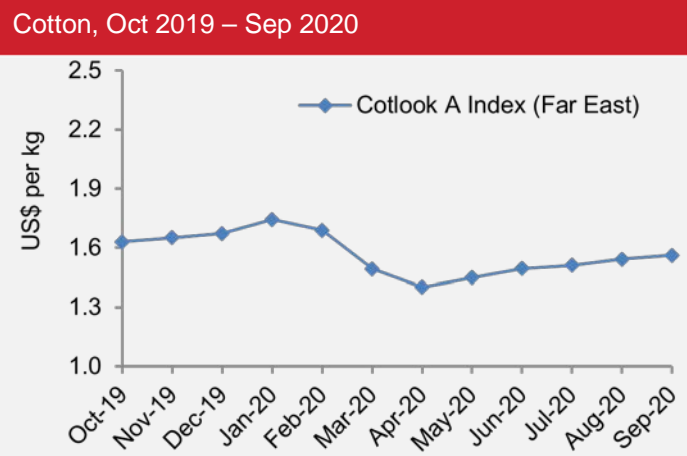


Source: MEPS Online Steel Prices

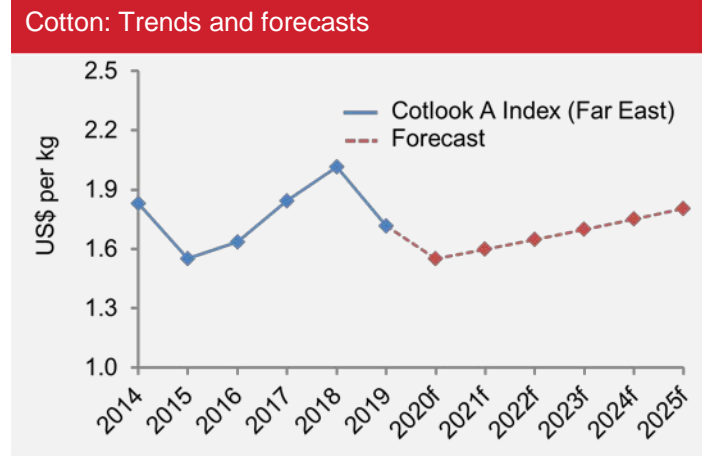
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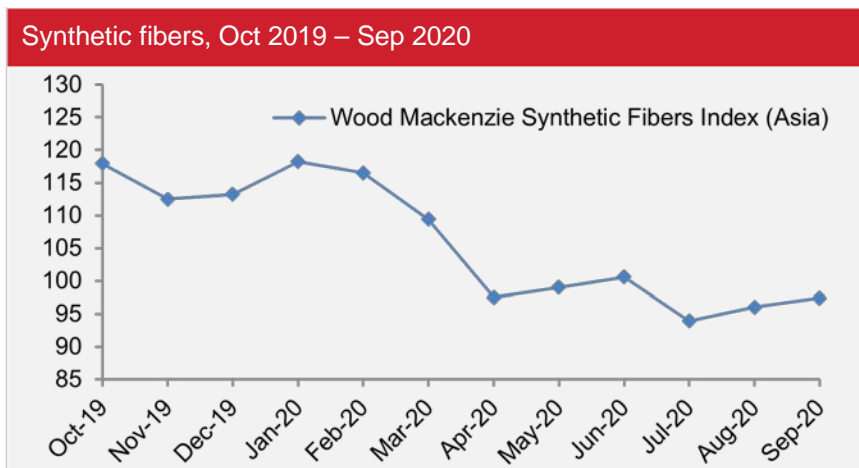
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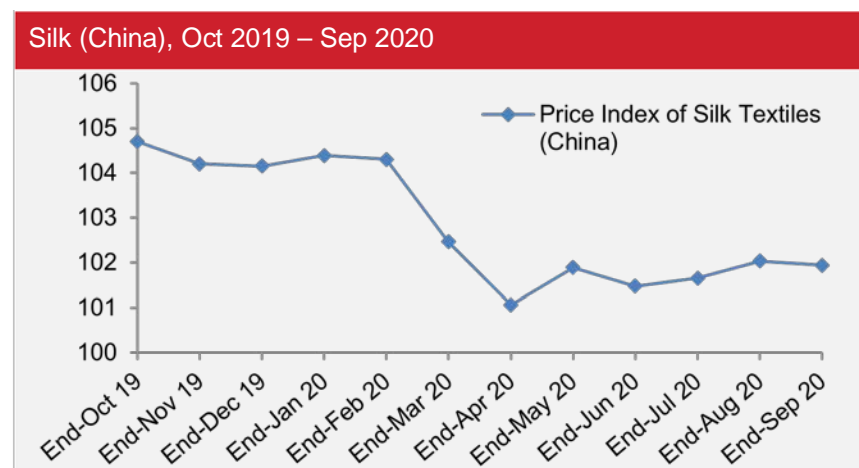
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Source: World Bank



Source: Wood Mackenzie

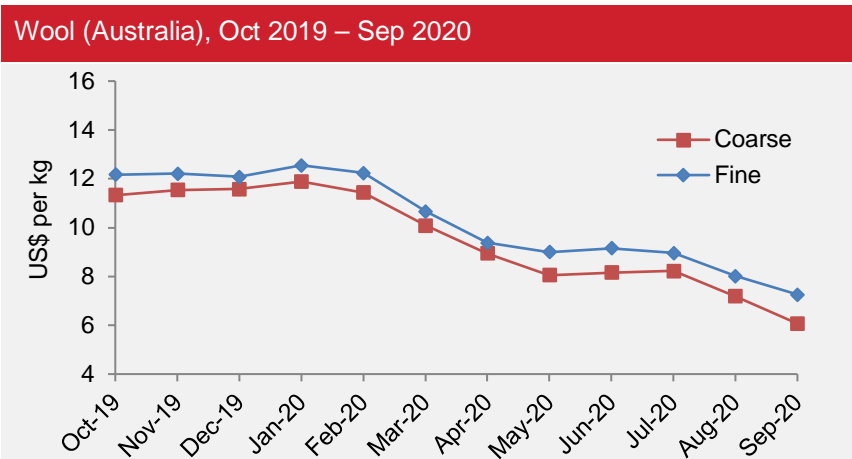


Source: Ministry of Commerce, China

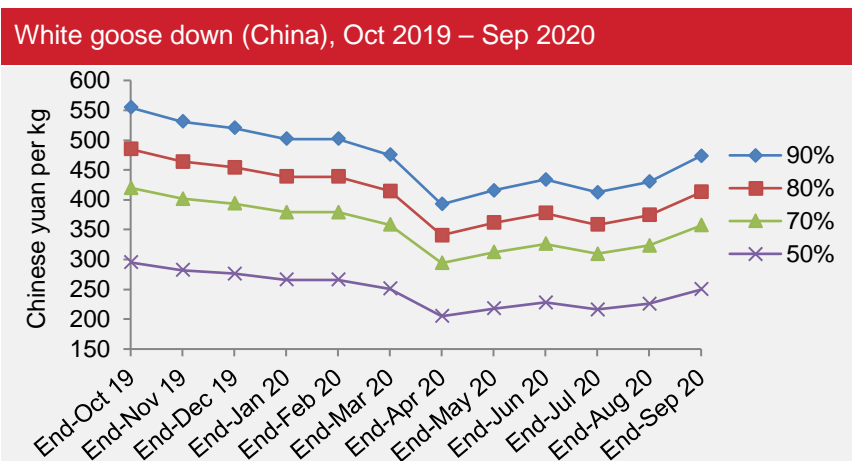
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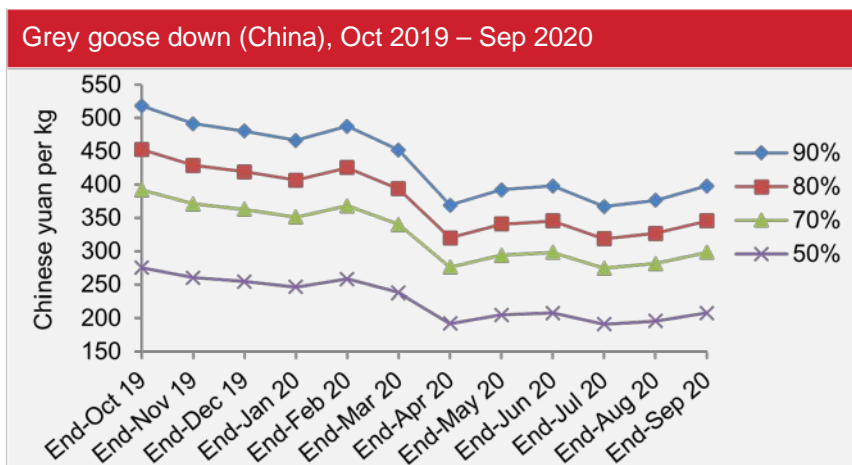
TEXTILE FIBERS



Source: International Monetary Fund



Source: cn-down.com

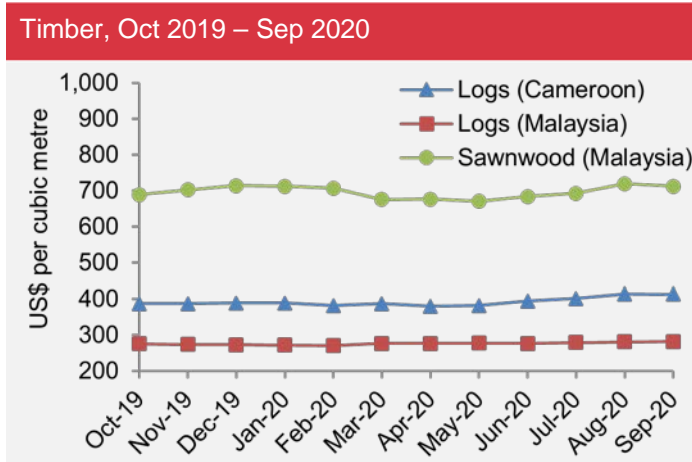


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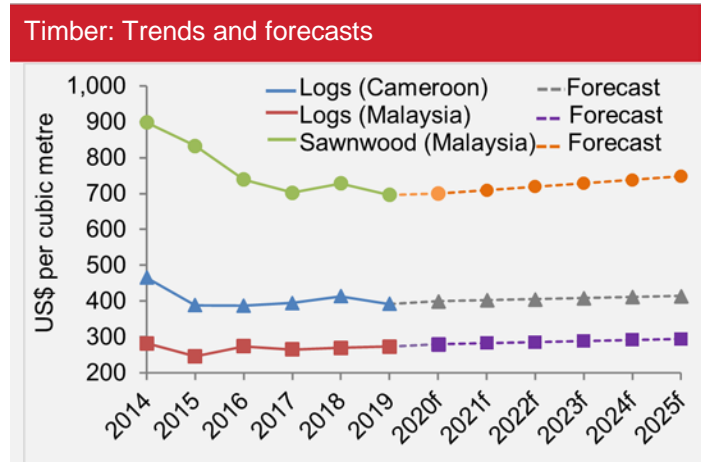
INPUT PRICES

Trends and forecasts

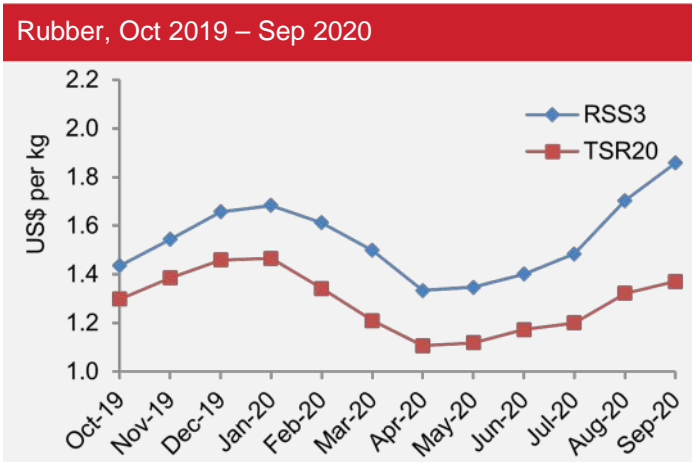
HARD GOODS



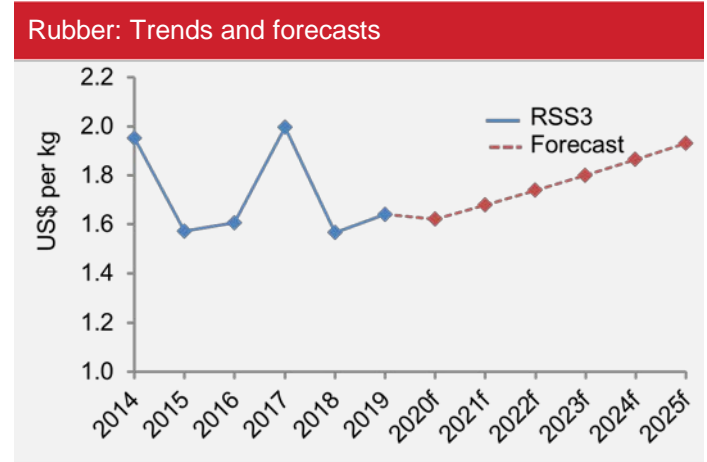
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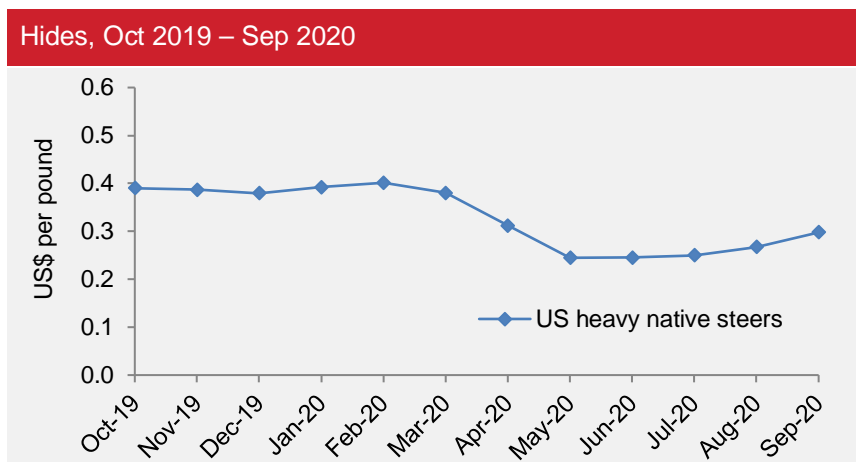
Source: World Bank



Source: World Bank



Source: World Bank



Source: International Monetary Fund

GLOBAL COMPETITIVENESS

Comparisons across selected countries

Rank/141	Asia									
	Bangladesh	Cambodia	China	India	Indonesia	Pakistan	Philippines	Thailand	Turkey	Vietnam
Overall competitiveness	105	106	28	68	50	110	64	40	61	67
Institutions	109	123	58	59	51	107	87	67	71	89
- <i>Burden of government regulation</i>	84	66	19	26	29	46	103	50	60	79
- <i>Intellectual property protection</i>	125	112	53	57	51	78	55	99	87	105
Infrastructure	114	106	36	70	72	105	96	71	49	77
- <i>Quality of roads</i>	108	97	45	48	60	67	88	55	31	103
- <i>Efficiency of train services</i>	65	n/a	24	30	19	47	88	75	65	54
- <i>Efficiency of air transport services</i>	109	113	66	59	56	93	96	48	31	103
- <i>Efficiency of seaport services</i>	92	91	52	49	61	70	88	73	44	83
- <i>Electricity access</i>	108	115	2	105	95	111	103	2	2	84
Macroeconomic stability	95	75	39	43	54	116	55	43	129	64
Skills	117	120	64	107	65	125	67	73	78	93
- <i>Mean years of schooling</i>	116	126	95	117	92	123	69	96	100	97
- <i>Extent of staff training</i>	127	76	38	50	33	67	18	48	122	73
- <i>Skillset of graduates</i>	123	104	35	93	37	49	20	79	103	116
- <i>Ease of finding skilled employees</i>	113	123	41	71	45	58	13	86	99	96
Product market	119	113	54	101	49	126	52	84	78	79
- <i>Prevalence of non-tariff barriers</i>	75	73	60	66	80	115	51	71	79	121
- <i>Trade tariffs</i>	130	100	123	134	73	139	52	92	75	96
- <i>Complexity of tariffs</i>	34	73	45	87	69	49	67	106	100	72
- <i>Efficiency of the clearance process</i>	116	109	31	41	61	128	85	36	58	42
Labour market	121	65	72	103	85	120	39	46	109	83
- <i>Cooperation in labour-employer relations</i>	99	80	55	65	67	103	15	37	118	82
- <i>Flexibility of wage determination</i>	89	114	100	88	81	122	51	116	46	74
- <i>Workers' rights</i>	109	111	93	112	93	89	104	104	109	93
- <i>Pay and productivity</i>	80	55	27	64	28	63	13	30	96	56
Innovation capability	105	102	24	35	74	79	72	50	49	76
- <i>State of cluster development</i>	84	64	26	38	27	57	63	47	67	44

GLOBAL COMPETITIVENESS

Comparisons across selected countries

Rank/141	Central America						Middle East	
	El Salvador	Guatemala	Haiti	Honduras	Mexico	Nicaragua	Egypt	Jordan
Overall competitiveness	103	98	138	101	48	109	93	70
Institutions	132	121	139	116	98	124	82	46
- <i>Burden of government regulation</i>	131	100	134	118	116	104	75	47
- <i>Intellectual property protection</i>	127	103	139	84	67	123	89	35
Infrastructure	90	102	141	99	54	104	52	74
- <i>Quality of roads</i>	61	132	136	66	49	58	28	59
- <i>Efficiency of train services</i>	n/a	n/a	n/a	n/a	58	n/a	50	84
- <i>Efficiency of air transport services</i>	77	95	135	90	80	111	46	40
- <i>Efficiency of seaport services</i>	96	80	131	58	63	106	41	60
- <i>Electricity access</i>	93	98	131	110	2	102	72	2
Macroeconomic stability	112	81	131	83	41	93	135	111
Skills	112	103	123	108	89	116	99	58
- <i>Mean years of schooling</i>	106	113	120	110	84	114	97	54
- <i>Extent of staff training</i>	111	47	140	55	86	125	75	45
- <i>Skillset of graduates</i>	109	73	129	76	70	127	133	69
- <i>Ease of finding skilled employees</i>	108	73	139	84	69	130	87	24
Product market	80	46	137	65	53	98	100	61
- <i>Prevalence of non-tariff barriers</i>	98	87	139	102	47	112	67	59
- <i>Trade tariffs</i>	59	51	80	54	67	53	136	87
- <i>Complexity of tariffs</i>	44	21	77	25	50	29	86	95
- <i>Efficiency of the clearance process</i>	115	124	130	119	54	91	76	89
Labour market	106	122	129	95	96	108	126	84
- <i>Cooperation in labour-employer relations</i>	87	32	140	47	60	54	46	40
- <i>Flexibility of wage determination</i>	36	57	55	113	50	121	14	42
- <i>Workers' rights</i>	39	122	70	102	70	n/a	104	52
- <i>Pay and productivity</i>	131	78	141	77	82	123	58	42
Innovation capability	121	98	139	106	52	122	61	64
- <i>State of cluster development</i>	126	82	141	75	36	123	23	31

Notes: The number in bold refers to the highest rank in an indicator among the selected countries

Source: *The Global Competitiveness Report (2019)*, World Economic Forum

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
Bangladesh	8,000 taka	1 December, 2018	For entry-level (grade 7) garment industry workers; up 51% from the previous level. Entry-level minimum wage is usually referred to as the minimum wage of the country.
Cambodia	US\$190	1 January, 2020	Exclusively for garment and footwear workers; Up by 4.4% from the previous level. Starting January 2021, monthly minimum wage for the sector will rise to US\$192.
China (wage rates in Chinese yuan)			
- Guangxi	Class 1 district: 1,810; Class 2 district: 1,580; Class 3 district: 1,430	1 March 2020	Up from 1,680, 1,450 and 1,300 respectively (effective 1 February 2018 to 29 February 2020)
- Fujian	Class 1 district: 1,800; Class 2 district: 1,720; Class 3 district: 1,570; Class 4 district: 1,420	1 January, 2020	Up from 1,700, 1,650, 1,500, 1,380 and 1,280 respectively (effective 1 July, 2017 to 31 December, 2019) Also note revision of district classification.
- Qinghai	1,700	1 January, 2020	Up from 1,500 (effective 1 May, 2017 to 31 December, 2019)
- Guizhou	Class 1 district: 1,790; Class 2 district: 1,670; Class 3 district: 1,570	1 December, 2019	Up from 1,680, 1,570, and 1,470 respectively (effective 1 July 2017 to 30 November 2019)
- Liaoning	Class 1 district: 1,810; Class 2 district: 1,610; Class 3 district: 1,480; Class 4 district: 1,300	1 November, 2019	Up from 1,620, 1,420, 1,300 and 1,120 respectively (effective 1 January, 2018 to 31 October, 2019)
- Hebei	Class 1 district: 1,900; Class 2 district: 1,790; Class 3 district: 1,680; Class 4 district: 1,580	1 November, 2019	Up from 1,650, 1,590, 1,480 and 1,380 respectively (effective 1 July 2016 to 31 October 2019)
- Hunan	Class 1 district: 1,700; Class 2 district: 1,540; Class 3 district: 1,380; Class 4 district: 1,220	1 October 2019	Up from 1,580, 1,430, 1,280 and 1,130 respectively (effective 1 July 2017 to 30 September 2019)
- Beijing	2,200	1 July, 2019	Up from 2,120 (effective 1 September, 2018 to 30 June, 2019)
- Shanghai	2,480	1 April, 2019	Up from 2,420 (effective 1 April, 2018 to 31 March, 2019)
- Shaanxi	Class 1 district: 1,800; Class 2 district: 1,700; Class 3 district: 1,600	1 May, 2019	Up from 1,680, 1,580, 1,600 and 1,380 for Class 1, 2, 3 and 4 districts respectively (effective 1 May, 2017 to 30 April, 2019). Also note revision of district classification.

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
- Chongqing	Class 1 district: 1,800; Class 2 district: 1,700	1 January, 2019	Up from 1,500 and 1,400 respectively (effective 1 January, 2016 to 31 December, 2018)
- Hainan	Class 1 district: 1,670; Class 2 district: 1,570; Class 3 district: 1,520	1 December, 2018	Up from 1,430, 1,330 and 1,280 respectively (effective 1 May, 2016 to 30 November, 2018)
- Anhui	Class 1 district: 1,550; Class 2 district: 1,380; Class 3 district: 1,280; Class 4 district: 1,180	1 November, 2018	Up from 1,520, 1,350, 1,250 and 1,150 respectively (effective 1 November, 2015 to 31 October, 2018)
- Henan	Class 1 district: 1,900; Class 2 district: 1,700; Class 3 district: 1,500	1 October, 2018	Up from 1,720, 1,570, and 1,420 respectively (effective 1 October, 2017 to 30 September, 2018)
- Jiangsu	Class 1 district: 2,020; Class 2 district: 1,830; Class 3 district: 1,620	1 August, 2018	Up from 1,890, 1,720 and 1,520 respectively (effective 1 July, 2017 to 31 July, 2018)
- Sichuan	Class 1 district: 1,780; Class 2 district: 1,650; Class 3 district: 1,550	1 July, 2018	Up from 1,500, 1,380 and 1,260 respectively (effective 1 July, 2015 to 30 June, 2018)
- Guangdong	Class 1 district: 2,200 (Shenzhen), 2,100 (Guangzhou); Class 2 district: 1,720; Class 3 district: 1,550; Class 4 district: 1,440	1 July, 2018	Shenzhen: Up from 2,130 (effective 1 June, 2017 to 30 June, 2018) Other districts: Up from 1,895, 1,510, 1,350 and 1,210 respectively (effective 1 May, 2015 to 30 June, 2018)
- Shandong	Class 1 district: 1,910; Class 2 district: 1,730; Class 3 district: 1,550	1 June, 2018	Up from 1,810, 1,640 and 1,470 respectively (effective 1 June, 2017 to 31 May, 2018)
- Yunnan	Class 1 district: 1,670; Class 2 district: 1,500; Class 3 district: 1,350	1 May, 2018	Up from 1,570, 1,400, and 1,180 respectively (effective 1 September, 2015 to 30 April, 2018)
- Xinjiang	Class 1 district: 1,820; Class 2 district: 1,620; Class 3 district: 1,540; Class 4 district: 1,460	1 January, 2018	Up from 1,670, 1,470, 1,390 and 1,310 respectively (effective 1 July, 2015 to 31 December, 2017)
- Tibet	1,650	1 January, 2018	Up from 1,400 (effective 1 January, 2015 to 31 December, 2017)
- Jiangxi	Class 1 district: 1,680; Class 2 district: 1,580; Class 3 district: 1,470	1 January, 2018	Up from 1,530, 1,430, 1,340 and 1,180 respectively (effective 1 October, 2015 to 31 December, 2017)
- Zhejiang	Class 1 district: 2,010; Class 2 district: 1,800; Class 3 district: 1,660; Class 4 district: 1,500	1 December, 2017	Up from 1,860, 1,660, 1,530 and 1,380 respectively (effective 1 November, 2015 to 30 November, 2017)

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
- Hubei	Class 1 district: 1,750; Class 2 district: 1,500; Class 3 district: 1,380; Class 4 district: 1,250	1 November, 2017	Up from 1,550, 1,320, 1,225 and 1,100 respectively (effective 1 September, 2015 to 31 October, 2017)
- Heilongjiang	Class 1 district: 1,680; Class 2 district: 1,450; Class 3 district: 1,270	1 October, 2017	Up from 1,480, 1,450, 1,270, 1,120 and 1,030 (effective 1 October, 2015 to 30 September, 2017) Also note revision of district classification.
- Ningxia	Class 1 district: 1,660; Class 2 district: 1,560; Class 3 district: 1,480	1 October, 2017	Up from 1,480, 1,390 and 1,320 respectively (effective 1 November, 2015 to 30 September, 2017)
- Shanxi	Class 1 district: 1,700; Class 2 district: 1,600; Class 3 district: 1,500; Class 4 district: 1,400	1 October, 2017	Up from 1,620, 1,520, 1,420 and 1,320 respectively (effective 1 May, 2015 to 30 September, 2017)
- Jilin	Class 1 district: 1,780; Class 2 district: 1,680; Class 3 district: 1,580; Class 4 district: 1,480	1 October, 2017	Up from 1,480, 1,380 and 1,280 respectively (effective 1 December, 2015 to 30 September, 2017) Also note revision of district classification.
- Inner Mongolia	Class 1 district: 1,760; Class 2 district: 1,660; Class 3 district: 1,560; Class 4 district: 1,460	1 August, 2017	Up from 1,640, 1,540, 1,440 and 1,340 respectively (effective 1 July, 2015 to 31 July, 2017)
- Tianjin	2,050	1 July, 2017	Up from 1,950 (effective 1 July, 2016 to 30 June, 2017)
- Gansu	Class 1 district: 1,620; Class 2 district: 1,570; Class 3 district: 1,520; Class 4 district: 1,470	1 June, 2017	Up from 1,470, 1,420, 1,370 and 1,320 respectively (effective 1 April, 2015 to 31 May, 2017)
India (wage rates in Indian rupees)			
- Delhi	Unskilled: 14,842; Semi-skilled: 16,341; Skilled: 17,991	22 October, 2019	Applicable to all scheduled employment except clerical and supervisory staff; up from 14,000, 15,400 and 16,962 respectively (effective 1 November, 2018).
- Gujarat	<u>Zone I (per day)</u> Unskilled: 332.2; Semi-skilled: 340.2; Skilled: 349.2	1 October, 2020 – 31 March, 2021	Applicable to all scheduled employment. <u>Zone I</u> is defined as the areas in the State of Gujarat within the limits of Municipal Corporation, Municipalities and the jurisdiction of concerned Urban Development Authority; <u>Zone II</u> is defined as other areas excluded in <u>Zone I</u> ;
	<u>Zone II (per day)</u> Unskilled: 324.2; Semi-skilled: 332.2; Skilled: 340.2		

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
- Karnataka	<u>Zone I</u> Unskilled: 12,882.63; Semi-skilled: 14,041.41; Skilled: 15,316.07; Highly-skilled: 16,718.20	1 April, 2020 – 31 March, 2021	Applicable to all scheduled employment except office staff and drivers. <u>Zone I</u> is defined as notified areas of the Greater Bangalore Metropolitan Area; <u>Zone II</u> is defined as all metropolitan areas of the province except Zone I; <u>Zone III</u> is defined as all district areas in the province except areas covered in Zone I & II; <u>Zone IV</u> is other parts of the province not covered in Zone I, II & III.
	<u>Zone II</u> Unskilled: 12,330.83; Semi-skilled: 13,434.43; Skilled: 14,648.39; Highly-skilled: 15,983.75		
	<u>Zone III</u> Unskilled: 11,805.30; Semi-skilled: 12,856.35; Skilled: 14,012.51; Highly-skilled: 15,284.28		
	<u>Zone IV</u> Unskilled: 11,304.80; Semi-skilled: 12,305.80; Skilled: 13,406.90; Highly-skilled: 14,618.11		
Pakistan			
- Provinces of Punjab, Balochistan, Sindh, Khyber Pakhtunkhwa, and the Islamabad Capital Territory	17,500 rupees	1 July, 2019	For unskilled workers
Philippines			
- National Capital Region (NCR)	537 pesos (per day)	22 November, 2018	For non-agriculture workers; up by 25 pesos per day from the previous level that took effect on 5 October, 2017.
Thailand			
- Bangkok	331 baht (per day)	1 January, 2020	Applicable for all industries; up by 6 baht per day from the previous level. Starting from 1 January 2020, daily minimum wages in Thailand have increased by 5-6 baht to 313-336 baht. The 6-baht increment applies in Bangkok, Chon Buri, Phuket, Prachin Buri, Samut Prakan and Samut Sakhon, while the 5- baht rise applies in the other provinces.
Turkey	2,943 liras (before taxes and deductions)	1 January, 2020 – 31 December, 2020	For all workers over the age of 16; Up by 15.0% from the previous level; After taxes and deductions, the net minimum wage is 2,324.7 liras per month.

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
Indonesia (wage rates in Indonesia rupiah)			
- Aceh	3,165,030	1 January, 2020	Regulation No. 78/2015 issued in October 2015 introduced a fixed formula to determine provincial minimum wages: <i>New Minimum Wage = Previous Regional Minimum Wage + (Previous Regional Minimum Wage x (% annual inflation rate + % annual GDP increase))</i>
- North Sumatra	2,499,422		
- West Sumatra	2,484,041		
- South Sumatra	3,043,111		
- Riau	2,888,563		
- Riau Islands	3,005,383		
- Jambi	2,630,161		
- Bangka Belitung Islands	3,230,022		
- Bengkulu	2,213,604		
- Jakarta	4,276,349		
- Banten	2,460,968		
- West Nusa Tenggara	2,183,883		
- East Nusa Tenggara	1,945,902		
- West Kalimantan	2,399,698		
- South Kalimantan	2,877,447		
- Central Kalimantan	2,903,144		
- East Kalimantan	2,981,378		
- Bali	2,493,523		
- Moluccas	2,604,960		
- North Moluccas	2,721,530		
- Gorontalo	2,586,900		
- Southeast Sulawesi	2,552,014		
- Central Sulawesi	2,303,710		
- West Sulawesi	2,571,328		
- South Sulawesi	3,103,800		
- North Sulawesi	3,310,723		
- Papua	3,516,700		
- West Papua	3,134,600		
- Lampung	2,431,324		
- West Java	1,810,350		
- Central Java	1,742,015		
- East Java	1,768,777		
- Yogyakarta	1,704,608		
- North Kalimantan	3,000,803		

MINIMUM WAGES

Comparisons across Asian countries

Countries/Regions/ Provinces	Monthly Minimum Wage (in local currency)	Effective Date	Remarks
Vietnam (wage rates in Vietnamese dong)			
- Zone 1	4.42 million	1 January, 2020	Zone 1 covers the urban districts and some rural districts of Hanoi, Ho Chi Minh City and Hai Phong City; and Vung Tau City, Bien Hoa City and Thu Dau Mot town.
- Zone 2	3.92 million		Zone 2 is applicable to the remaining districts of Hanoi, Ho Chi Minh City and Hai Phong City; urban Can Tho City and Da Nang City; and some other cities.
- Zone 3	3.43 million		Zone 3 comprises the remaining provincial cities and some districts of some provinces.
- Zone 4	3.07 million		Zone 4 consists of the remaining localities.

Source: Governments of respective countries/provinces, as of mid-October 2020

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

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Fung Business Intelligence was established in the year 2000.

Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 34,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

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