FUNG BUSINESS INTELLIGENCE October 2020

Asia Sourcing Update

Bangladesh, India, Pakistan and Turkey

Southeast Asia | **South and West Asia**

Highlights: Evaluating sourcing destinations

12-month Sourcing Outlook

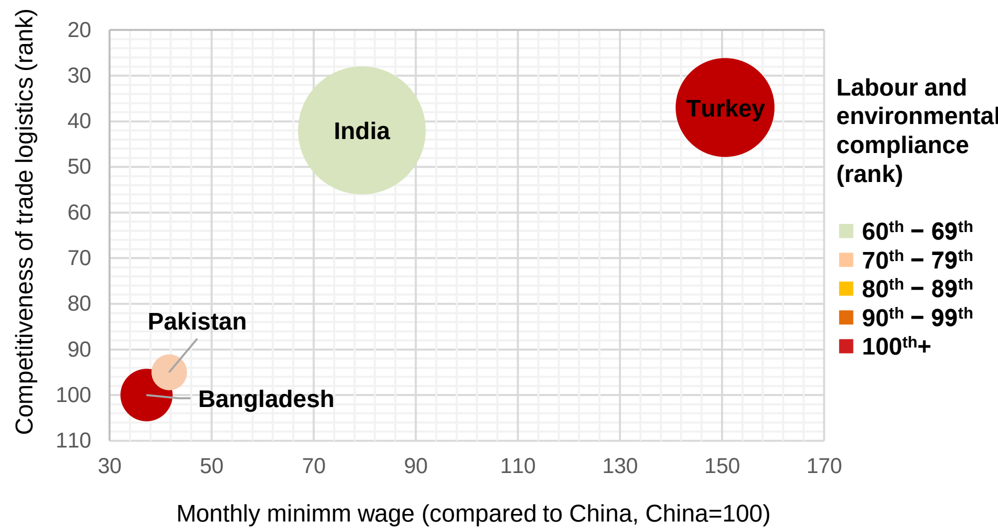
Positive: Turkey

Slightly positive: Bangladesh, Pakistan

Slightly negative: India

Sourcing destinations: balancing costs, speed, compliance and capacity

(Size of bubbles represents the country's total export value of manufactured goods in 2018)



Source:
Exports of manufactured goods (2018): WTO database;
Minimum wage (as of end-Sep 2020): Bangladesh (for entry-level garment industry workers), India (Delhi−unskilled workers), Pakistan (for unskilled workers), Turkey (wage rate is before taxes and deductions), China (Dongguan), converted to US dollar terms based on exchange rates on 30 September from Bloomberg;
Competitiveness of trade logistics (rank): measured by the aggregated Logistics Performance Index released by the World Bank;
Labour and environmental compliance (rank): measured by the average ranking of two index components 'environmental-related treaties in force' and 'workers' rights' in the World Economic Forum's 2019 Global Competitiveness Index

Bangladesh

Fast facts

Quantum index of medium and large-scale manufacturing (Jun 2020)
+5.1% yoy ▲

CPI (Sep 2020)
+6.0% yoy ▲

Exchange rate (USD: BDT, as of 8 Oct 2020)
84.8025 (0.1% appreciation year-to-date)

Merchandise exports (Sep 2020)
+3.5% yoy ▼

- Knitwear: +8.0% yoy ▼
- Woven garments: -2.5% yoy ▲
- Home textiles: +34.9% yoy ▼
- Footwear: +10.2% yoy ▲

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

12-Month Sourcing Outlook: Slightly positive

Bangladeshi garment exporters were severely affected by the COVID-19 pandemic, as most work orders were cancelled or withheld by international retailers and brands during the start of the pandemic. Good news is that many cancelled orders have been reinstated by buyers since August, despite many requests for discounts or tougher payment terms.

In general, it is expected that Bangladesh will have a strong economic recovery in the 2020-21 fiscal year (July 2020–June 2021). For instance, the Asian Development Bank (ADB) has projected that GDP of Bangladesh will increase by 6.8% yoy in the current fiscal year with strong growth in manufacturing and exports. However, if the pandemic in Bangladesh or its major trading partners is prolonged or recurs, there would be potential risks of economic and supply chain disruptions.

Bangladesh

	Latest Developments	FBIC's take
Macroeconomic Trends	Total exports rose by 4.32% yoy to US$2.96 billion in August, the second consecutive month that exports recorded a year-on-year increase. Total exports in September reached US$3.01 billion, up by 3.53% yoy. Exports from apparel sector from July to September, the first quarter of the 2020–21 fiscal year, reached US$8.12 billion, up by 0.85% yoy.	• The positive export performance in August and September reflects an increase in new work orders and the reissuance of previously withheld or cancelled orders from international retailers and brands. • July, August and September are usually the lean period for the garment sector in Bangladesh. It is expected that the sector may have a faster recovery when the western markets fully reopen.
Investment	Bangladesh Export Processing Zones Authority (BEPZA) obtained US$56.33 million investment during the COVID-19 pandemic from seven investors, including five companies from South Korea, Sri Lanka and China, and two local enterprises.	• In the first eight months of 2020, exports from the existing eight EPZs under BEPZA totaled US$3.9 billion and the actual investment from existing companies in EPZs was US$170 million. Apart from producing traditional export items, some enterprises in EPZs manufacture personal protective equipment and healthcare products, which are widely used in Bangladesh and exported to other countries. • BEPZA's successful securing of the new investment was a good sign of keeping the economy moving during the pandemic.
Labour Issue	On 8 September, the Ministry of Labour and Employment announced the adjustment of minimum monthly wage for the workers of the leather goods and footwear sector to 7,100 taka (equivalent to around US$84). This represents a rise of 94% from the last minimum wage for the sector set at 3,652.5 taka in 2013. Under the new wage system, the government, for the first time, has incorporated a provision for a 5% annual increment of the basic salary.	• According to the Leather and Leather Goods Manufacturers and Exporters Association of Bangladesh, global consumption of leather goods dropped by 35% during the COVID-19 pandemic. Even so, the Leather Goods and Footwear Manufacturers and Exporters Association of Bangladesh believed that their 225 members, mainly large-sized enterprises, can comply with the new wage system. • However, implementing the new wage system may be tough for small manufacturers and factories across the country.

India

Fast facts

GDP (Apr–Jun 2020)
-23.9% yoy ▼

Manufacturing PMI (Sep 2020)
56.8 ▲

CPI (Aug 2020)
+6.7% yoy ▼

Merchandise exports (Aug 2020)
-12.7% yoy ▼

Knitwear
-9.3% yoy ▲

Woven garments
-19.2% yoy ▲

Footwear
-14.8% yoy ▲

Furniture
+10.3% yoy ▲

Exchange rate (USD: INR, as of 8 Oct 2020)
73.2425 (2.5% depreciation year-to-date)

Note: Arrows indicate an improvement (▲) or deterioration (▼) compared to the previous period
Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, IHS Markit, Bloomberg

12-Month Sourcing Outlook: Slightly negative

India is still grappling with the COVID-19 pandemic, with daily new case counts exceeding 70,000 since late August. Local lockdowns are still enforced in many districts across the country. A complete withdrawal of all lockdown measures remains unforeseeable for the time being.

The latest manufacturing PMI reading posted 56.8 in September, the highest in over eight-and-a-half years, showing early signs of recovery of India's manufacturing sector. Export orders have also started to improve since September. However, labour shortage and logistics delays are weighing on local manufacturers. With no end to the pandemic in sight, many domestic migrant workers are reluctant to return to their jobs in cities.

India

	Latest Developments	FBIC's take
Macroeconomic Trends	India's GDP shrank by 23.9% yoy in the April–June quarter, the worst contraction since the quarterly GDP data series began in 1997. A sectoral breakdown shows that the construction sector took the steepest hit with a contraction of 50.3% yoy, along with manufacturing (-39.3% yoy) and trade, hotel, transport and communications (-47% yoy). On the expenditure side, private consumption, which accounts for over 50% of the country's GDP, dropped by 26.7% yoy, while investment, as reflected by gross fixed capital formation, plunged 47.1% yoy.	• 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. • The worst-than-expected GDP figure in the April–June 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. • As the second-worst affected country amid the COVID-19 pandemic, India's economic recovery prospects remain bleak. The number of cumulative confirmed cases in India has surpassed six million, with daily new case counts exceeding 70,000 since late August. A complete withdrawal of all lockdown measures remains unforeseeable for the time being.
	India's merchandise exports declined by 12.7% yoy to US$22.70 billion in August, the sixth consecutive month that exports recorded a year-on-year contraction. In April to August, the first five months of the current fiscal year (April 2020–March 2021), exports fell by 26.7% yoy in US dollar terms.	• The export contraction in August was mainly led by lower shipments of petroleum products (-39.9% yoy), gems and jewelry (-43.3% yoy), readymade garments (-14.0% yoy), electronic goods (-13.8% yoy), and leather and leather products (-16.8% yoy). • The decline in August was worse than the contractions of 9.9% yoy in July and 12.5% yoy in June, suspending a short-lived recovery since May. It indicates that external demand still takes time to rebound from the crisis.
Policies & Regulations	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 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. 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. • The new rules impose significant obligations on importers. They may find it challenging to obtain business sensitive information/documentation from suppliers/exporters regarding the value content of a product (raw materials, components, other costs and profit margins, etc.).

India

	Latest Developments	FBIC's take
Labour Issue	The Indian Parliament in September passed three of the four labour codes that comprise the government's flagship labour reforms, namely the Industrial Relations (IR) Code, the Code on Social Security (SS), and the Occupational Safety, Health and Working Conditions (OSHW) 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 and the draft rules under the code have been circulated for public comments since July this 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: 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) There are new provisions and benefits for 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. • We expect that these changes in labour codes will 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. • While the government is aiming at implementing all these four labour codes in one go by December this year, we anticipate that it will take much longer as central and state governments will have to draft various rules for implementing the labour codes and seek public comments on the rules. In India, a law comes into force after notification of rules.

Pakistan

Fast facts

Quantum index of large-scale manufacturing (Jul 2020)
+5.0% yoy ▲

CPI (Sep 2020)
+9.0% yoy ▲

Exchange rate (USD: PKR, as of 8 Oct 2020)
163.8984 (5.5% depreciation year-to-date)

Merchandise exports (Aug 2020)
-14.8% yoy ▼

- Garments: -12.1% yoy ▼
- Bed linen: -12.3% yoy ▼
- Towels: -10.1% yoy ▼
- Leather products: -13.1% yoy ▼

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

12-Month Sourcing Outlook: Slightly positive

The Pakistani economy is on the path of recovery. As global demand has started to rebound, the country's exports are expected to grow stronger in the months ahead.

Capacity utilization in Pakistan's textile and garment sector has revived to close to pre-pandemic level, excluding those shut down permanently during the pandemic. Most of the orders cancelled or withheld due to the pandemic have been reinstated and there is a strong demand for home textiles and denim products. Some foreign buyers have reportedly diverted their orders to Pakistan from China due to the China–US trade war and from India for the reason of worsening COVID-19 situation there.

However, Pakistan is not quite out of the woods with regard to COVID-19 infections, with several hundred newly confirmed cases per day.

Pakistan

	Latest Developments	FBIC's take
Macroeconomic Trends	Exports dropped by 14.8% yoy to US$1.58 billion in August, compared to a temporary growth of 6.1% yoy recorded in July. In the first two months of the current fiscal year (July 2020–June 2021), exports declined by 4.3% yoy in US dollar terms. In the July–August period, exports of textiles and garments, which accounted for over 60% of the country's exports, fell by 1.0% yoy in US dollar terms. Of which, exports of knitwear, woven garments and bed linen posted growth of 4.4%, 2.1% and 5.9%, respectively, compared to the same period last year.	• The poor export performance in August was due to the supply chain disruptions caused by unprecedented monsoon rains and associated fatal flooding. In particular, Karachi, the country's most populous city and major industrial and financial centre, was among the most affected areas and recorded the most August rainfall in 89 years of record keeping. • A looming fear of the second wave of COVID-19 in the EU, which is Pakistan's largest export destination, is the major downside risk for the country's export outlook in the coming months.
	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).	• On a year-on-year basis, major industries that recorded an increase in production in July included textiles (+1.7%), food, beverages and tobacco (+21.7%), coke and petroleum products (+18.3%), pharmaceuticals (+19.2%) and non-metallic mineral products (+29.0%). • On a year-on-year basis, major industries that recorded a contraction in production in July included automobile (-23.3%), iron and steel products (-11.1%), fertilisers (-5.1%), electronics (-33.3%), and leather products (-36.0%). • The latest production index has indicated that the country's manufacturing sector is on the path of recovery.
Policies & Regulations	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 and improve their competitiveness in the global market. • At present, Pakistan's textile sector is using around 70% cotton and 30% manmade fibres in manufacturing of goods, which is opposite to the general trend of global fibre production, where manmade fibres have dominated approximately 60% of the market share. The reduction in import duties will encourage Pakistani manufacturers to expand their product range and increase value addition.

Turkey

Fast facts

GDP (Apr–Jun 2020)
-9.9% yoy ▼

Manufacturing PMI (Sep 2020)
52.8 ▼

CPI (Sep 2020)
+11.8% yoy ▼

Merchandise exports (Aug 2020)
-5.7% yoy ▲

Knitwear
+2.9% yoy ▲

Woven garments
+9.2% yoy ▼

Furniture
+2.1% yoy ▼

Exchange rate (USD: TRY, as of 8 Oct 2020)
7.9403 (25.1% depreciation year-to-date)

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

12-Month Sourcing Outlook: Positive

Economic recovery in Turkey has been gaining momentum since June, with manufacturing PMI staying above the 50.0-threshold for four consecutive months from June to September. A V-shaped economic recovery is expected from the third quarter this year, while uncertainties caused by the pandemic largely remain.

Turkish textile and garment sector is recovering from the pandemic, with previously cancelled or withheld orders cleared and new work orders pouring in. Being a near-sourcing hub for Europe, the country is in a strong position to handle small and fast orders, which emerge as a sourcing trend at a time of unprecedented uncertainty.

Turkey

	Latest Developments	FBIC's take
Macroeconomic Trends	Turkey's economy contracted by 9.9% yoy in the April–June quarter, the worst year-on-year performance in a decade, attributed to lockdown measures and travel restrictions to curb the COVID-19 pandemic.	• By economic activity, the industry sector and service sector contracted by 16.5% yoy and 25.0% yoy, respectively, in the second quarter, while the agricultural sector expanded by 4.0% yoy. • Economic recovery in Turkey has been gathering pace, with manufacturing PMI staying above the 50.0-threshold for four consecutive months since June. 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. However, uncertainties over domestic and external demand conditions remain significant due to the prolonged pandemic.
	The Turkish lira hit fresh record lows in late September amid concerns that the country could get dragged into the Armenia–Azerbaijan conflict. The currency closed at 7.8066 against the US dollar on 29 September, representing a sharp depreciation of 5.9% in a month and a year-to-date depreciation of 23.8%, 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. • Turkey's central bank unexpectedly raised the policy rate by 200 basis points to 10.25% on 24 September — the first rate hike in two years — in a bid to stabilise the lira and arrest high inflation, which stood at 11.75% yoy in September. • Although a weak lira can enhance price competitiveness of Turkish exports, excessive exchange rate volatility will make it challenging for exporters to do raw material costing and negotiate contract price. For the Turkish economy, the sharp depreciation of the lira will lead to soaring prices of imported goods, worsening the economic problems, such as high inflation and depleted foreign exchange reserves, facing the country.
Industry Development	After two months of discussions between 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 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. • It has indicated that the global garment supply chain is returning to normalcy, with retail shops in major western markets reopened and retailers preparing for the holiday season. • 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.

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