

Comparative study on inflation, exchange rates and labour cost of major Asian apparel supplying countries:

Bangladesh, China, India, Pakistan, Sri Lanka and Vietnam

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Overview

World Trade Organization (WTO) statistics states world merchandise export growth in real terms slowed down to 6% in 2007 from 8.5% in 2006 mainly due to weakening demand in developed countries mainly in the United States but also in Europe and Japan, realignments in exchange rates and fluctuations in the prices for commodities such as oil and gas and these introduced uncertainties into the global market.

Trade remained strong in most developing countries. Regions such as Africa, the Middle East, the Commonwealth of Independent States (CIS), Developing Asia and South and Central America showed sustain growth in their economies in 2007.

While high commodity prices helped to improve the financial situation of certain countries, higher energy and food prices also increased inflationary pressures worldwide.

Global merchandise exports are anticipated to further slow down to about 4.5% in 2008 from 6.0% in 2007. On the back of projected deceleration in global output from 3.4% in 2007 to 2.6% in 2008.

The adverse consequences of turmoil on financial markets will not only affect USA demand growth but also lead further downward revisions in economic growth for Japan and Western Europe. However, stronger output and trade growth are predicted for developing countries.

Nevertheless even in developing countries, there are certain downside risks, such as uncertainty arises as to how long the developing countries can maintain a strong pace of economic growth in the face of sluggish demand in major developed markets and rising inflationary pressures.

During the year 2007 the share of textiles in the world merchandise was 1.7% and share in world manufactures was 2.5% whereas the share of clothing in the world merchandise trade was 2.5% and 3.6% in world manufactures.

During year 2007 the global textile and clothing exports were US\$583 billion as against US\$ 528 billion in 2006 and up by 10.4%. During 2007 textile exports were US\$ 238 mn as against US\$ 218 mn in 2006 and up by 9.2%, whereas clothing exports during 2007 were US\$345 billion as against US\$ 310 billion in 2006 and up by 11.5%.

The six countries of this study almost covers half of the world population with totaling around 3 billion people. China and India with over one billion, Pakistan and Bangladesh over one hundred thousand ,Vietnam nearly one hundred thousand and Sri Lanka with 20 million people the lowest

China is the largest economy of the six and third of the world with a GDP of US\$ 3.25 trillion in 2007, followed by India-US\$ 1.09 trillion.

China had the highest GDP growth with 11.4% in 2007, followed by India and Vietnam 8.7% and 8.5% respectively.

Once again China is having the highest Per Capita income with US\$ 2,170, followed by Sri Lanka US\$ 1,617, All other countries it was less than US\$ 1,000 mark in 2007.

Inflation

The average Inflation Rate of East Asia during 2007 – 3.90%, South Asia – 5.30% and South East Asia – 4%.

Sri Lanka had the highest inflation rate among the six countries during 2007 with 20.20% followed by Vietnam 8.30% as per Asian Development Bank.

Inflation (% per year) of Six Countries in 2007	
Country	Inflation Rate 2007
Bangladesh	7.2
China	4.8
India	4.4
Pakistan	7.8
Sri Lanka	20.2
Vietnam	8.3

Source : ADB.

Even comparing with all major Asian countries Sri Lanka's Inflation is the 2nd highest in 2007. After Myanmar which had 36.9% as per ADB.

However Vietnam Inflation rate reached no less than 21.4% in April 2008, and around 25.2% in May and 26.80 in June, 2008. During 2007, the Inflation rate was 8.3%.

At the same time, Vietnam reported a continued surge in garment exports. Vietnam had the growth of 25.14% of garment exports to USA market during first-half of 2008. thanks to the China's competitiveness on the lower side of the global apparel sourcing market.

Sri Lanka is another country where prices surged in the recent past. Inflation already reached 20.20% in 2007, and 28.20% in June 2008 a record level in Asia and could still be at 16.20% in 2008 and 14% in 2009, according to a forecast by the Asian Development Bank.

In China Inflation rate grew from 4.80% in 2007 and rose to 7.10% in June 2008. In Bangladesh in 2007, it was 7.20% rose to 7.44% in May 2008 and India which was 4.40% in 2007 rose to 11.91% in July 2008, Pakistan which was 7.80% in 2007 rose to 21.50% in June, 2008.

The current rebound rates in Asia may results in higher production costs for apparel exporters. With food prices up about 50% in a single year in a large number of low-cost countries, working in apparel factories may require higher wages as already observed in Cambodia, Bangladesh or Vietnam. The recent boom in rice prices may accelerate looming crisis in Asian Clothing Industries.

Inflation is back after retreating for years and this new rise in prices could boost Clothing Production Costs, especially in Asia.

The long-term period, with declining apparel import prices may be over, at least for one or two years.

In Vietnam, for example clothing exporters raised their prices after Inflation surged in the country. These data do not reflect the dramatic consequences of the surge in food prices however in low-cost countries. Food account for 40%-70% of monthly spending of citizens. Food prices rose about 50% in nearly all countries from a year ago and even surged 70% from their level in 2005, according to the International Monetary Fund (IMF).

If only considering rice which accounts for a very large part of daily food consumption in Asia, prices soared from about US\$ 300 per metric ton by January 2006 up to nearly US\$ 600 by end of March, 2008 before surging to US\$ 1,100 in April, 2008.

Local governments started subsidizing food prices, however and they began fighting Inflation. Raising interest rates is the most common tool for limiting Inflation by restricting credit as a results. Borrowing costs are therefore rising in large number of countries with higher financial costs hurting exporters. Anti-inflation policies may also try to lower imports costs by raising the level in the domestic currency against the US Dollar.

By contrast, higher export apparel prices in low-cost countries were often offset by a weaker currency in the past. At the same time, textile industries have to face much higher energy costs after Crude oil prices, dramatically rose in the past months. However internationally the prices are currently declining and at a faster pace. A general rise in apparel prices would not be very surprising for all these reasons, even with retail sales slowing down in the United States and Europe.

Comparative Data of Inflation (% Per Year) of Six Countries 2003-2009 (ADB)

Country	2003	2004	2005	2006	2007	2008*	2009*
East Asia	1.30	3.30	2.00	1.60	3.90	4.70	4.20
China	1.20	3.90	1.80	1.50	4.80	5.50	5.00
South Asia	5.00	6.30	5.30	5.90	5.30	5.50	5.60
Bangladesh	4.40	5.80	6.50	7.20	7.20	9.00	8.00
India	5.40	6.40	4.40	5.40	4.40	4.50	5.00
Pakistan	3.10	4.60	9.30	7.90	7.80	8.00	6.50
Sri Lanka	2.60	7.90	10.60	9.60	20.20	16.20	14.00
Southeast Asia	3.40	4.20	6.30	7.10	4.00	5.70	4.70
Vietnam	3.10	7.80	8.30	7.50	8.30	18.30	10.20

* Forecast

Source: Asian Development Bank/Asian Development Outlook 2008.

Comparative Data of Inflation Rate (% Per Year) of Six Countries 2006-2009 (IMF)

Country	Average Inflation Rate (%)			
	2006	2007	2008	2009
Bangladesh	6.54	8.37	9.30	8.14
China	1.47	4.75	5.86	3.65
India	6.18	6.37	5.18	4.02
Pakistan	7.92	7.77	8.50	7.50
Sri Lanka	9.50	19.70	11.50	9.00
Vietnam	7.50	8.30	16.00	10.00

Source : IMF April 2008 update.

Exchange rates

The exchange rate to the US\$ of the Six countries as at June 2008 and are as follows.

Exchange rate to the US\$ of Six Countries as at June 2003 and 2008

Country	Currency	June 2007	June 2008	Change (%)
Bangladesh	Taka	70.37	69.41	+1.4
China	Yuan	7.65	6.94	+9.3
India	Indian Rupee	40.68	42.71	-5.0
Pakistan	Pakistani Rupee	60.61	67.67	-11.7
Sri Lanka	Sri Lankan Rupee	110.89	108.01	+2.6
Vietnam	Dong	16,307.90	16,439.30	-0.8

Source : AEPC Currency Tracker.

India, Pakistan and Vietnam has weakened as compared to same period previous year while Bangladesh, China and Sri Lanka appreciated.

Exchange Rate to the Euro of Six Countries as at June 2007 and 2008

Country	Currency	June 2007	June 2008	Change (%)
Bangladesh	Taka	95.11	108.73	-14.32
China	Yuan	10.33	10.86	-5.12
India	Indian Rupee	54.98	66.90	21.68
Pakistan	Pakistani Rupee	81.93	106.00	-29.39
Sri Lanka	Sri Lankan Rupee	149.88	169.18	-12.87
Vietnam	Dong	22,041.90	25,749.10	-16.82

Source : AEPC Currency Tracker.

All the above countries currencies weakened against the EURO. The currency rates of the six countries table below show that Chinese Yuan and India Rupee have appreciated against US \$ during the period 2003-2007 whereas other 4 countries currencies namely Taka, Pakistan Rupee, Sri Lankan Rupee and Vietnam Dong has depreciated against the US \$.

Indian currency has the highest appreciation of 12.6 when comparing the currency rates of 2003 as against 2007 and China has appreciation of 8.5%. Bangladesh Taka had the highest depreciation of 19.1% when comparing the currency rates of 2003 as against 2007, a followed by Sri Lankan Rupee 14.6% and Pakistan and Vietnam – 3.6% each.

Exchange Rates to the US\$ (Annual Averages) of Six Countries 2003-2007

Country	Currency	2003	2004	2005	2006	2007
Bangladesh	Taka	57.9	58.9	61.4	67.1	69.0
China	Yuan	8.3	8.3	8.2	8.0	7.6
India	India Rupee	46.0	44.9	44.3	45.3	40.2
Pakistan	Pakistan Rupee	58.5	57.6	59.4	59.9	60.6
Sri Lanka	Sri Lanka Rupee	96.5	101.2	100.5	104.0	110.6
Vietnam	Dong	15,509.6	15,704.0	15,858.9	15,994.3	16,063.2

Source : ADB.

There are many other countries currencies in the Asian Region such as Republic of Korea, Taiwan, Malaysia, Philippines, Singapore and Thailand whose currencies appreciated during this period 2003 to 2007. The recent fall in the US dollar may not depress US apparel imports from a series of low-cost countries as many other currencies are following the same trend. Compared with Vietnam, Indonesia, Bangladesh, Sri Lanka, China is losing some competitive advantage as the Yuan rises. By contrast exports from Turkey, Brazil, India, Thailand are weakened by stronger increases in their currencies. However when compared with Euro, Chinese currency declined by 1.17% in 2007, limiting the rise in Chinese

currencies. However with the elimination of European safeguard measures against China in end of year 2007, a surge in imports from China may be expected in theory.

On the other hand, the value of Chinese currency rose since the beginning of 2007, compared with a series of other low-cost countries. For ex-Pakistan rupee lost 3.23% Vs Yuan, Bangladesh Taka was down 4.65%, Vietnam Dong even lost 7.35% and Sri Lanka declined 8.53% against Yuan. Indian rupee rose against currencies of nearly all other competitors including China. China's Yuan is down 4.72% against the Indian rupee in 2007. However in May 2008 Indian rupee sharply fell, probably boosting Indian textile and clothing exports in the coming months. Currencies of emerging countries finally fell in September against the US Dollar, after resisting in August.

Added to the decline in raw material costs, the new currency trend should limit the negative impact of the economic slowdown on the United States import market. By contrast, the fall in the British Pound and Euro should negatively affect European clothing imports in the future. The US Dollar rose against a large

Comparative Apparel Labour Cost in 2008-US\$ Hour and of the Six Countries and Comparison with Currencies of Bangladesh, China, Vietnam, India and Pakistan

Countries	Labour Cost US\$/Hr.	Labour Cost US\$/Hr. Bangladesh = 100	Labour Cost US\$/Hr. China (Inland) = 100	Labour Cost US\$/Hr. China Coastal = 100	Labour Cost US\$/Hr. Vietnam = 100	Labour Cost US\$/Hr. India = 100	Labour Cost US\$/Hr. Pakistan = 100
Bangladesh	0.22	100	33	20	58	43	59
Pakistan	0.37	168	55	34	97	73	100
Vietnam	0.38	173	57	35	100	75	103
Sri Lanka	0.43	195	64	40	113	84	116
India	0.51	232	76	47	134	100	138
China (Inland)	0.55-0.80	305	100	62	176	131	181
China (Coastal)	0.86-1.08	491	161	100	284	212	292

Source : Jassin – O' Rourke Group, LLC – USA.

number of currencies in September, 2008, reflecting a weakness in the Euro and British Pound as the economic slowdown was increasingly affecting the UK and EU. The Pakistan rupee is the only sharply falling currency, with a decline of 9.76% in the first half of 2008 and fall of 13.13% in the third-quarter (July-September) 2008. This is a decisive advantage for Pakistani exporters who are however confronted with a large rise in raw materials and energy cost at home.

Labour cost

With China's production costs now rapidly rising in Yuan and US\$ terms, seven Asian nations are offering lower labour costs in apparel manufacturing than China. They are the other five countries involved in this study namely - Bangladesh, India, Pakistan, Sri Lanka and Vietnam and the other two countries are Cambodia and Indonesia.

The new labour laws that came into effect from January 1st this year is likely to push up labour costs in China, putting pressure on the cost competitiveness of the world most populous nation. This could see business prospects for other nations especially India.

The Apparel Manufacturing Labour Costs in 2008 (including Social Charges)

Country	Labour cost US\$ per hour (Including Social charges)
Bangladesh	0.22
China (Inland)	0.55 - 0.80
China (Coastal)	0.86 - 1.08
India	0.51
Pakistan	0.37
Sri Lanka	0.43
Vietnam	0.38
Others	
Cambodia	0.33
Indonesia	0.44

Source : Jassin-o Rourke Group LLC USA.

Comparative Apparel Labour Cost (Minimum) of Six Countries 2004-2008 in US\$/Per Hour

Country	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008
Bangladesh	0.11	0.11	0.13	0.22	0.22
China (Inland) (Coastal)	0.59	0.59	0.76	0.76	0.55-0.80 0.86-1.08
India	0/30	0/30	0/47	0/51	0/51
Pakistan	0/23	0/23	0/34	0/34	0/37
Sri Lanka	0/26	0/26	0/30	0/38	0/43
Vietnam	0/23	0/23	0/23	0/30	0/38

(Source : Various (Technopak Advisors Pvt. Ltd. India-SMEDA Pakistan National Bureau of Statistics-China, KSA Global Sourcing. Reference-2005, Wages Board for Garment Manufacturing – Sri Lanka, Jassin-O' Rourke Group, LLC-USA.)

Note: There may be differences in labour costs within a country as minimum wages vary depending on economic zones.

Comparative Labour Cost of Textile Manufacturing - 2007

Country	Labour cost US\$ - per hour
Bangladesh	0.28
China (Inland)	0.55
China (Coastal)	0.85
India	0.69
Pakistan	0.42
Vietnam	0.46

Source: Werner International Management Consultant. Note: Werner International Management Consultant has not included Sri Lanka in the comparison study- Sri Lanka was last included in 2004 and the cost at 2004-US\$ 0.46/per hour.

The now labour laws make it mandatory for Chinese factories to make extra payment for working beyond normal working hours, payment into social and pension funds besides providing severance pays upon employment termination a report by credit Suisse reflecting on these new labour laws estimates that operating costs in China's manufacturing sector would rise by 15% to 20% as a result of these changes. As per the article, "The credit Suisse report indicates that the average monthly wages in China has risen at 66%

between 2004-07 compared to 33.3% in case of India. Bangladesh, Pakistan and Vietnam labour cost per hour 3-4 times lower than China's richest coastal area. In addition to Bangladesh, Pakistan and Vietnam are taking advantages of extremely low labour costs of US\$ 0.22, 0.37 and 0.38 cts per hour respectively. By contrast China's

lowest labour cost US\$ 0.55 cts. in the country inland and remote area's while labour costs may now reach US\$ 1.08 in certain areas of coastal provinces.

Regarding labour rates in Pakistan, the Apparel Industry, is working on two systems namely Wage Rate system and Piece Rate system. Under Piece-rate system normally worker earns a higher wage rate than normal wage rate system. Bangladesh is the still lowest on costs. Until October 2006, the minimum wage rate was low as TK 950 (USD 14), which was increased sharply to TK 1760/1800 (USD 25) in late 2006. The sewing operator however would make as much USD 45 per month in Bangladesh. This is still the lowest in the region, with an annual increase of about 8-10%.

In India while the wage rate is close to USD 100 per month, it depends on the location of the facility. The cities of Delhi, Chennai, Bangalore would have a wage rate of USD 100 plus, however there are also areas where the wage rates are lower. As per Wages, Board for the Garment Manufacturing Trade Sri Lanka's minimum wages for a month for Operators has been proposed during 1st year as US\$ 56 and during end of 5th year to reach US\$ 60 per month. In, Sri Lanka the wages paid varies according to size of the organization. However today Operator in a medium scale factory receive around US\$0. 48 to 0.50 cts. per hour whereas large companies receive around US\$ 0.60 cts. per hour.

Vietnam wages differs between local companies and foreign companies. During 2006 local companies paid US\$ 0.23 per hour in Hanoi and Ho chi Minh city and US\$ 0.18 in other area's whereas foreign companies paid US\$ 0.30 per hour in Hanoi and Ho Chi Minch city and US\$ 0.28 per hours in other areas. ♦

Pakistan *textile* Journal

We wish to announce for all concerned that some old issues of the **Cotton & Textile Journal**, launched by me in **December 1950** and renamed as Pakistan Textile Journal in **March 1953**, are missing in our archives.

Also missing is **Pakistan Cotton & Textile Manual**, a Souvenir publication, published by the undersigned on art paper on the occasion of the first Pakistan International Trade fair, organized by Mr.A.M. Jamil in Karachi in October 1950.

If these publications (issues) are available with any reader/subscriber of ours, we would like to buy these from our valued client or alternately get photocopies thereof for our archives.

A suitable reward may also be considered.



Mazhar Yusuf

MAZHAR YUSUF
Editor-in-Chief