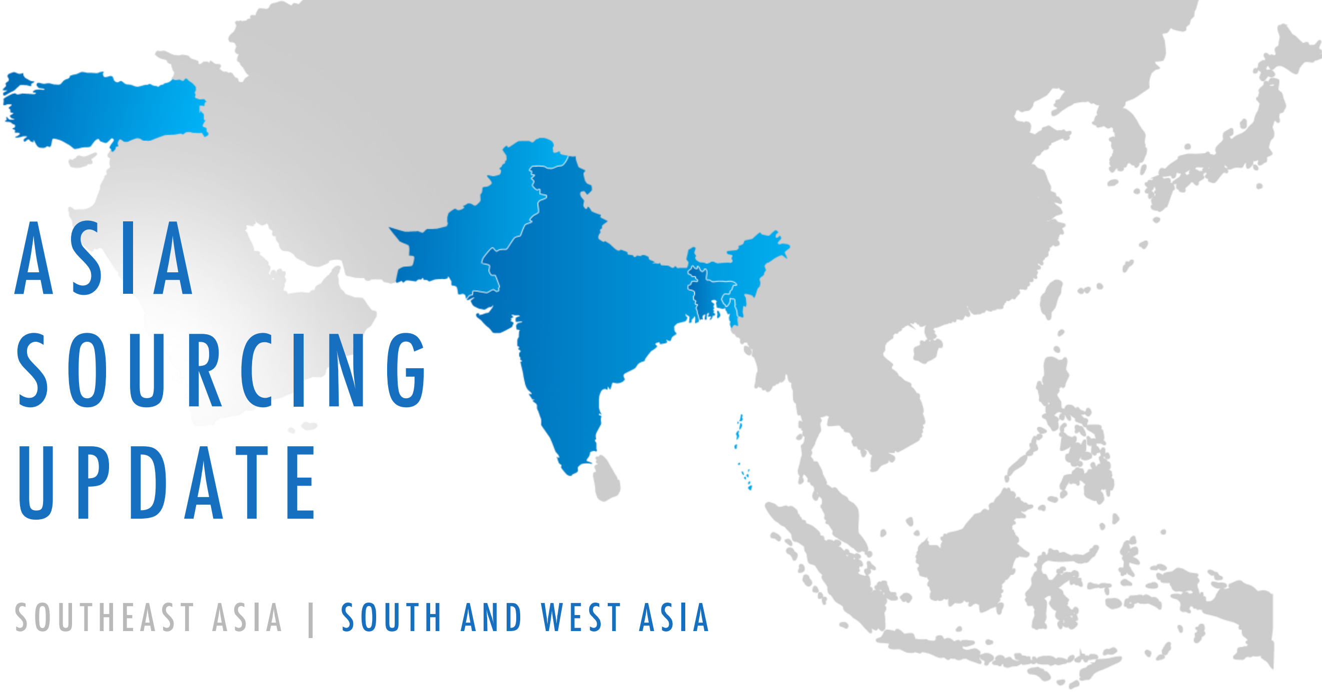

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

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IN THIS ISSUE

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HIGHLIGHTS

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- Export growth hits 15-year low in the 2016-17 fiscal year
- Government to relax FDI restrictions in RMG sector
- Parliament passes government budget for the 2017-18 fiscal year

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- Manufacturing sector records the first contraction in 2017 after GST implementation
- Textile and garment subsidies to be phased out gradually from 2018
- Tanneries in Kanpur face closure risk over environmental concerns

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- Exports drop 1.6% yoy in 2016-17 financial year
- FDI rises moderately in 2016-17 financial year
- Liquidity crunch hurts textile and apparel sector

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- Manufacturing PMI in July reaches the second highest level since November 2013
- FDI inflows take a dive in 2016
- Apparel sector could miss export target as relations with Germany slump to historic low

IN THE NEWS

BANGLADESH

EXPORT GROWTH HITS 15-YEAR LOW IN THE 2016-17 FISCAL YEAR

Growth of Bangladesh's exports in the just concluded fiscal year (July 2016 – June 2017) hit a 15-year low of 1.69% yoy as exports of readymade garment (RMG) products ended flat during the period, according to the provisional data released by the Export Promotion Bureau (EPB).

Exports in the 2016-17 fiscal year amounted to US$34.84 billion, up 1.69% from US$34.26 billion the year before. It was the lowest growth since the 2001-02 fiscal year when exports recorded a year-on-year decline of 7.43%. Exports in the 2016-17 fiscal year also fell short of the government's target of US$37 billion by 5.84%.

Exports of RMG products, which consistently accounted for roughly 80% of the country's total exports, stood at US$28.15 billion in the 2016-17 fiscal year, registering a minimal year-on-year growth of 0.20%. Exports of knitwear in the fiscal year grew by 3.01% yoy to US$13.76 billion, while that of woven garments fell by 2.35% yoy to US$14.39 billion.

Experts and exporters said that shrinking global demand for apparel products and depreciation of currencies of the major importing countries were the main reasons for the lackluster export growth. Abdus Salam Murshedy, president of the Exporters Association of Bangladesh, and Bijoy Bhattacharjee, vice chairman of the EPB, both attributed the poor export performance to the sluggish world market, a fall in apparel prices in the global market and the appreciation of the taka against major currencies. Faruque Hassan, senior vice president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), cited a rising local production cost as a factor contributing to the slow growth, on top of the aforementioned reasons.

BANGLADESH

GOVERNMENT TO RELAX FDI RESTRICTIONS IN RMG SECTOR

The government is set to allow foreign direct investment (FDI) in the RMG sector outside the export processing zones (EPZs), responding to repeated calls from various countries, officials said in June.

Currently, foreign-owned garment factories are only officially allowed inside the EPZs, although there also exist some foreign investment in the form of joint ventures with local companies in the RMG sector outside the EPZs. There are over 300 foreign-funded apparel factories operating inside the EPZs.

Local manufacturers initially opposed foreign investment in the RMG sector outside the EPZs, for fear that foreign companies will pay higher wages than their local counterparts, causing workers in local factories to demand higher wages. According to local apparel manufacturers, joint-venture factories typically offer 8,000 takas per month to a low-skilled worker, compared to the minimum wage of 5,000 takas for this category of workers. BGMEA senior vice president Faruque Hassan said that local manufacturers would not be able to afford such wage levels.

After a meeting with prospective foreign investors in mid-July, convened by the Ministry of Commerce (MoC), the BGMEA and the Bangladesh Knitwear Manufacturers and Exporters

Association (BKMEA) have withdrawn their objection. At the meeting, the BGMEA expressed reservations about allowing foreign-funded factories in basic garments, according to a senior MoC official. The foreign investors agreed that they will only invest in high-end fashion apparel.

BANGLADESH

PARLIAMENT PASSES GOVERNMENT BUDGET FOR THE 2017-18 FISCAL YEAR

On 28 June, the parliament passed the Finance Bill for the 2017-18 fiscal year (1 July 2017 - 30 June 2018), but with substantial changes from the budget proposal presented by Finance Minister Abul Maal Abdul Muhith on 1 June.

Among the most notable changes from the budget proposal is the two-year postponement of the uniform 15% value-added tax (VAT) law as requested by Prime Minister Sheikh Hasina. Former finance adviser Mirza Azizul Islam told the *Dhaka Tribune* that the postponement of the VAT law will lead to a slight budget shortfall, however it is unlikely to impact the country's fiscal position significantly.

Corporate income tax for RMG manufacturers has been reduced to 12%, compared to last fiscal year's 20% and the previously proposed rate of 15%. For green RMG factories, the corporate tax rate has been reduced to 10%, a further reduction from the previously proposed 14%. However, RMG exporters will have to pay tax at the source of 1% on their export revenues this fiscal year, up from 0.7% in the 2016-17 fiscal year. ■

INDIA

MANUFACTURING SECTOR RECORDS THE FIRST CONTRACTION IN 2017 AFTER GST IMPLEMENTATION

India's manufacturing sector, as measured by the Nikkei Manufacturing Purchasing Managers' Index (PMI), slipped to an eight-and-a-half-year low of 47.9 in July, the first contraction in 2017.

In July, new orders and output posted the steepest contraction since early 2009, while new export orders continued to increase. A decline in output led to a reduction in purchasing activities, which also recorded the sharpest contraction since early 2009. Input costs continued to rise moderately in July, while factory gate charges were lowered, as some firms cut their selling prices amid intense market competition.

Pollyanna De Lima, principal economist at IHS Markit, attributed the downturn to the rollout of the Goods and Services Tax (GST) on 1 July, which caused confusion and uncertainty for business. The negative impact of the GST on the manufacturing sector should be temporary, as companies expect more clarity regarding the tax rates in the coming months.

INDIA

TEXTILE AND GARMENT SUBSIDIES TO BE PHASED OUT GRADUALLY FROM 2018

The Indian government is preparing for gradually phasing out export-based subsidies for the textile and garment sector, which have long been criticized by other WTO member countries.

According to WTO rules, least developed and developing countries whose gross national income (GNI) per capita is below US$1,000 per year are allowed to provide export subsidies for any sector that has a share of less than 3.25% in global exports. As India's exports of textiles and garments crossed the 3.25% threshold in 2010, the government has to discontinue export subsidies for the sector within an eight-year transition period, which should end in 2018 according to the rules.

Two popular export incentive schemes provided for textile and garment exporters – the Interest Subvention Scheme, where the government bears part of the interest burden on loans, and the Merchandise Export from India Scheme, which compensates for exporters' payment of duties to certain markets – are most likely to be impacted.

According to a government official quoted by local media *BusinessLine*, the Ministry of Commerce and Ministry of Textiles are examining alternative production-based incentives which are allowed by the WTO, such as subsidies for technology upgradation and capacity building. The official said the government will start the process of phasing out the export incentives gradually next year, and affirmed that the government has no intention to reduce its total support to the sector.

INDIA

TANNERIES IN KANPUR FACE CLOSURE RISK OVER ENVIRONMENTAL CONCERNS

The National Green Tribunal (NGT), a national environmental protection judicial institution, issued an order on 13 July to require tanneries at Jajmau, a leather manufacturing hub in Kanpur in Uttar Pradesh, to properly treat waste water before discharging into river Ganga.

Apart from setting up treatment plants, the green panel has required all tanneries in Kanpur to separately store waste water that contains chrome and recover the metal. The local government has been directed to submit an action plan within six weeks, or it would be duty-bound to close the tanneries at Jajmau and shift them to a new industrial site with an effluent treatment plant and a chromium recovery plant in place.

Tannery owners have expressed anxiety over the environmental order, which has added to the challenges that the industry faces. Quoted by *Just-style*, Ashraf Rizwan, a local tannery owner, said it is impossible to relocate the tanneries due mainly to the high cost of building new factories and the fragility of existing machinery that cannot stand disassembly. Rizwan added that the local industry is losing customers from Germany, Italy and China, who are now sourcing from Brazil due to its reliability of hide supplies and its wider availability of superior cow leather.

Jajmau is currently home to over 400 tanneries, providing employment for over two million people. For long, local tannery owners have refused to install new-technology effluent treatment plants due to high costs. ■

PAKISTAN

EXPORTS DROP 1.6% YOY IN 2016-17 FINANCIAL YEAR

Pakistan's exports amounted to US$20.45 billion in the 2016-17 financial year (July 2016 – June 2017), the lowest level in six years, according to statistics released by the Pakistan Bureau of Statistics. The export figure fell by 1.6% compared to the 2015-16 financial year, and missed the official target of US$24.8 billion by a large margin.

Among the major categories of manufactures, exports of knitwear, sports goods and leather products declined by 0.1%, 5.2% and 6.5%, respectively, in the 2016-17 financial year compared to the previous financial year, while exports of woven garments, bed linen, and chemical and pharmaceutical products grew by 5.6%, 5.7% and 9.2%, respectively.

On the contrary, the country's imports climbed to a historical high of US$53 billion, making a record trade deficit as large as US$32.6 billion in the last financial year.

PAKISTAN

FDI RISES MODERATELY IN 2016-17 FINANCIAL YEAR

Foreign direct investment (FDI) in Pakistan recorded a moderate increase of 4.6% yoy to

US$2.41 billion in the just-ended 2016-17 financial year, according to data from the State Bank of Pakistan. It was the largest amount of FDI received in the past eight years, boosted mainly by Chinese investment in the game-changing China-Pakistan Economic Corridor (CPEC) and improved security situation in the country.

By source of investment, China was obviously the top investor in the 2016-17 financial year, contributing US$1.19 billion of the total FDI to Pakistan, followed by Netherlands (US$463.4 million), Turkey (US$135.6 million), France (US$119.0 million) and the US (US$71.1 million).

Sector-wise breakdown shows that the power sector received the largest amount of FDI in the year, with US$795.4 million investment, followed by food and construction. Investment in the food sector was mainly contributed by a US$448 million-acquisition of Engro Foods by a Dutch food company.

PAKISTAN

LIQUIDITY CRUNCH HURTS TEXTILE AND APPAREL SECTOR

A delay in release of export incentives and huge tax refunds has triggered a serious liquidity crunch for the cash-starved textile and apparel sector, according to a statement issued by the Pakistan Textile Exporters Association (PTEA) on 25 July.

The Prime Minister announced a 180-billion-rupee export incentive package in January; so far, however, only 4 billion rupees were earmarked for disbursement. Moreover, the government failed to disburse sales tax refund and duty drawback claims of up to 200 billion rupees, blocking 30%-40% of exporters' working capital in the tax refund cycle. The ever-growing budgetary deficit made the government difficult to fulfil its promise.

According to Ahmed Kamal, chief of the PTEA, due to the delay in tax refund, at least 30% of textile units have closed down and over 10,000 workers have lost their jobs.

In the 2016-17 financial year, Pakistan's exports of textile and apparel grew by a mere 0.04% yoy to US$12.45 billion. Apart from the liquidity crunch, high energy costs, expensive bank credit and obsolete machinery are the major factors making Pakistani products uncompetitive in the global textile and apparel market. ■

TURKEY

MANUFACTURING PMI IN JULY REACHES THE SECOND HIGHEST LEVEL SINCE NOVEMBER 2013

Turkey's Manufacturing Purchasing Managers' Index (PMI), jointly published by IHS Markit and the Istanbul Chamber of Industry, stood at 53.6 in July, the second highest since November 2013 – only after last month's 54.7. It was the fifth consecutive month that the figure stayed in the expansionary zone, indicating that growth momentum in Turkey's manufacturing sector remains strong.

New orders, manufacturing output, purchasing activities and employment all registered strong growth in July, albeit easing from June's recent highs. Survey data also shows that domestic new orders continued to increase more sharply than new export orders did. Besides, price pressure on input and output continued to moderate in the month.

The robust expansion in the manufacturing sector was in line with the improvement in various parts of the Turkish economy, from exports to domestic consumption. The country's GDP expanded by a faster-than-expected pace of 5.0% yoy in the first quarter of 2017, driven by government spending and household consumption. The country's exports increased by 8.2% yoy in the first half of this year, recovering from a 0.9% year-on-year decline in 2016.

TURKEY

FDI INFLOWS TAKE A DIVE IN 2016

Foreign direct investment (FDI) inflows into Turkey plunged by 30.5% to US$12.0 billion in 2016, according to the *World Investment Report 2017* released by the United Nations Conference on Trade and Development (UNCTAD). Political instability caused by last year's failed coup attempt was the major reason for the steep dive in FDI. In 2015, FDI inflows surged by 38.5% yoy to US$17.3 billion.

The report notes that, unlike most countries in west Asia, which rely heavily on oil, the manufacturing sector accounted for about half of total FDI inflows into Turkey in recent years. Despite a substantial drop in FDI inflows, the report finds Turkey to be the most active country in signing international investment agreements, with seven treaties concluded in 2016.

As the impact of the failed coup attempt fades away, the downward trend in FDI inflows into the country has reversed in 2017. According to a report announced by the Turkish Economy Ministry on 25 July, FDI in the country amounted to US$4.8 billion in the first five months of 2017, up by 11.2% compared to the same period last year.

TURKEY

APPAREL SECTOR COULD MISS EXPORT TARGET AS RELATIONS WITH GERMANY SLUMP TO HISTORIC LOW

Following months of disputes over access to the German troops at Turkey's Incirlik Air Base, imprisoned German journalists and Turkish leaders' repeated Nazi references, bilateral relations between Turkey and Germany have dropped to a historic low when Turkey arrested a German human-rights activist in July.

Due to the deterioration in political relations, several German fashion companies have cancelled their trips to Turkey, Şeref Fayat, chairman of the Turkish Clothing Manufacturers Association, said on 25 July. He added that if the tensions continue, it could make it hard for apparel exports to match last year's figure of US$17 billion, which missed the 2016 target by US$1 billion due to a failed coup attempt in last July.

Germany is the largest export market for Turkish apparel products. The worsening bilateral relations could further weigh on the export performance of the sector. In the first half of 2017, the country's apparel exports recorded a 6.1% decline over the same period last year, according to the Turkish Statistical Institute. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Quantum index of medium and large-scale manufacturing (yoy growth %)	12.8	5.4	12.7	-	-	-
Consumer price index (yoy growth %)	5.2	5.3	5.4	5.5	5.8	5.9
Exports (yoy growth %)	4.0	-4.5	9.8	3.5	1.4	-14.9
Exports (FOB, US$ mn)	3,312.0	2,726.1	3,109.8	2,775.7	3,069.0	3,056.1
Of which:						
Knitwear (US$ mn)	1,246.7	1,016.0	1,067.3	1,110.6	1,250.8	1,252.3
Woven garments (US$ mn)	1,456.8	1,209.7	1,222.7	1,097.9	1,236.7	1,272.8
Home textile (US$ mn)	74.6	72.9	81.9	82.7	72.2	62.1
Footwear* (US$ mn)	72.2	51.5	49.9	49.4	71.0	80.2
Leather products (US$ mn)	33.9	31.7	46.5	51.9	48.0	43.2
Imports (yoy growth %)	20.8	12.3	18.2	18.4	7.1	-
Imports (C&F, US$ mn)	4,153.2	3,446.3	4,048.0	3,865.5	3,920.8	-

** Includes leather footwear.*
Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Export Promotion Bureau

INDIA

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Quarterly GDP (real yoy growth %)		6.1 (4Q16)			-	
Index of industrial production (yoy growth %)*	3.0	0.8	3.8	2.8	1.7	-
Manufacturing PMI (Nikkei)	50.4	50.7	52.5	52.5	51.6	50.9
Wholesale price index (yoy growth %)*	4.3	5.5	5.1	3.9	2.2	0.9
Consumer price index (yoy growth %)	3.2	3.7	3.9	3.0	2.2	1.5
Exports (yoy growth %)	4.3	17.5	27.6	19.8	8.3	4.4
Exports (FOB, US$ mn)	22,115.0	24,490.3	29,232.1	24,635.1	24,014.6	23,562.6
Of which:						
Knitwear (US$ mn)	701.2	760.3	794.4	821.6	775.4	-
Woven garments (US$ mn)	824.6	938.3	1,021.04	928.2	831.4	-
Footwear (US$ mn)	231.0	235.8	233.5	212.1	222.3	-
Furniture (US$ mn)	114.3	114.0	126.8	112.2	119.3	-
Imports (yoy growth %)	10.7	21.8	45.3	49.1	33.1	19.0
Imports (CIF, US$ mn)	31,955.9	33,386.6	39,669.2	37,884.3	37,856.3	36,522.5
Trade balance (US$ mn)	-9,840.9	-8,896.3	-10,437.2	-13,249.2	-13,841.7	-12,959.9

** Financial year in India starts in April. Index of industrial production and wholesale price index are new series using 2011-12 as the base year.*
Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Nikkei PMI reports

PAKISTAN

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Quantum index of large-scale manufacturing (yoy growth %)	1.4	9.1	11.1	10.3	6.3	-
Consumer price index (yoy growth %)	3.7	4.2	4.9	4.8	5.0	3.9
Exports (yoy growth %)	0.7	-8.3	3.6	5.2	-11.0	16.2
Exports (US$ mn)	1,779.7	1,637.8	1,800.7	1,805.2	1,627.1	1,911.7
Of which:						
Garments (US$ mn)	401.7	374.8	389.5	376.2	365.8	497.9
Bed linen (US$ mn)	173.2	175.4	180.5	175.4	155.3	209.3
Towels (US$ mn)	63.5	64.2	70.4	64.5	55.7	75.2
Leather products (US$ mn)	38.2	39.0	37.0	32.2	36.8	47.7
Sporting goods (US$ mn)	23.4	25.0	26.9	27.9	23.2	28.2
Imports (yoy growth %)	36.7	34.7	41.2	30.8	27.9	2.2
Imports (US$ mn)	4,723.8	4,419.0	5,009.2	4,998.3	5,092.0	4,534.2
Balance of trade (US$ mn)	-2,944.1	-2,781.2	-3,208.5	-3,193.1	-3,464.9	-2,622.5

Source: Pakistan Bureau of Statistics, State Bank of Pakistan, Pakistan Readymade Garments Manufacturers & Exporters Association

TURKEY

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Quarterly GDP (real yoy growth %)		5.0 (1Q17)			-	
Industrial production index, manufacturing (yoy growth %)	2.8	0.6	2.3	7.3	3.1	-
Industrial turnover index, manufacturing (yoy growth %)	23.9	21.9	26.2	29.1	26.3	-
Manufacturing PMI (Istanbul Chamber of Industry)	48.7	49.7	52.3	51.7	53.5	54.7
Producer price index (yoy growth %)	13.7	15.4	16.1	16.4	15.3	14.9
Consumer price index (yoy growth %)	9.2	10.1	11.3	11.9	11.7	10.9
Exports (yoy growth %)	17.9	-2.2	13.5	7.7	12.4	2.3
Exports (US$ mn)	11,251.7	12,094.2	14,477.3	12,867.0	13,596.6	13,165.7
Of which:						
Knitwear (US$ mn)	632.2	668.2	778.1	688.0	709.8	724.1
Woven garments (US$ mn)	449.6	457.8	556.8	503.1	510.7	477.9
Furniture (US$ mn)	193.4	202.4	241.6	234.2	243.4	226.3
Imports (yoy growth %)	15.9	1.6	7.0	9.9	21.7	-1.5
Imports (US$ mn)	15,591.9	15,826.1	19,018.1	17,787.6	20,923.1	19,176.7
Balance of trade (US$ mn)	-4,340.2	-3,731.9	-4,540.8	-4,920.6	-7,326.5	-6,011.0

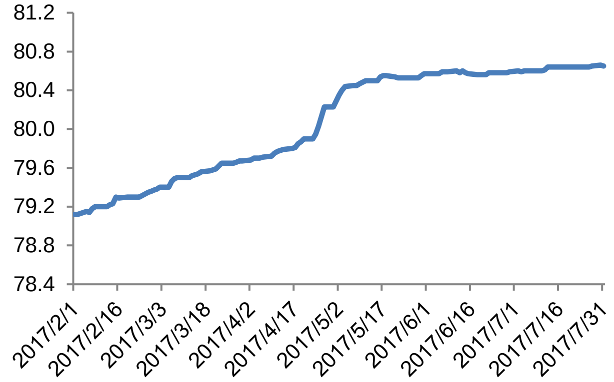
Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

DAILY EXCHANGE RATES

FEBRUARY - JULY 2017

BANGLADESHI TAKA

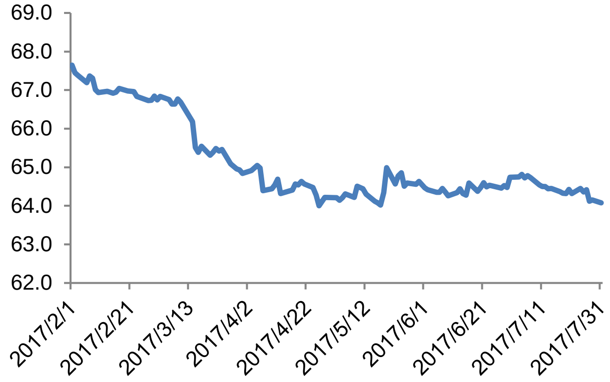
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

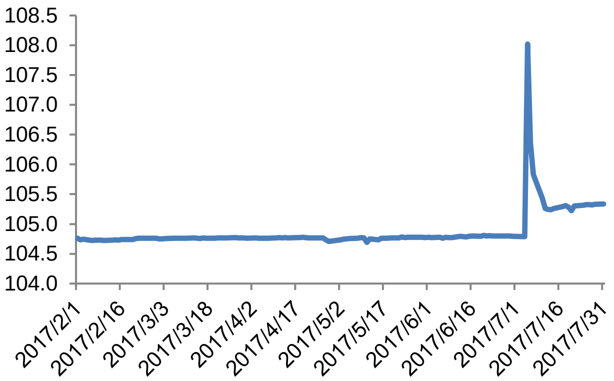
USD:INR RBI reference rate



Source: Reserve Bank of India (RBI)

PAKISTANI RUPEE

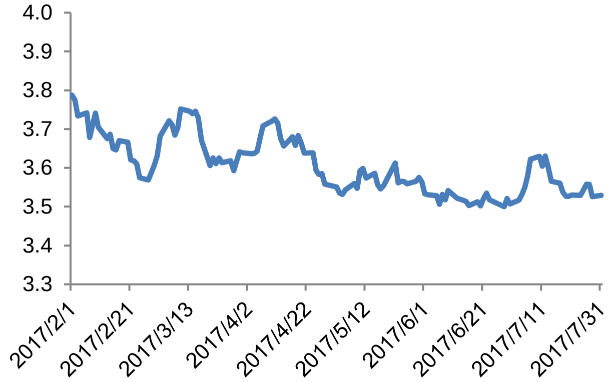
USD:PKR weighted average customer buy rate



Source: State Bank of Pakistan

TURKISH LIRA

USD:TRY buy rate



Source: Central Bank of the Republic of Turkey

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