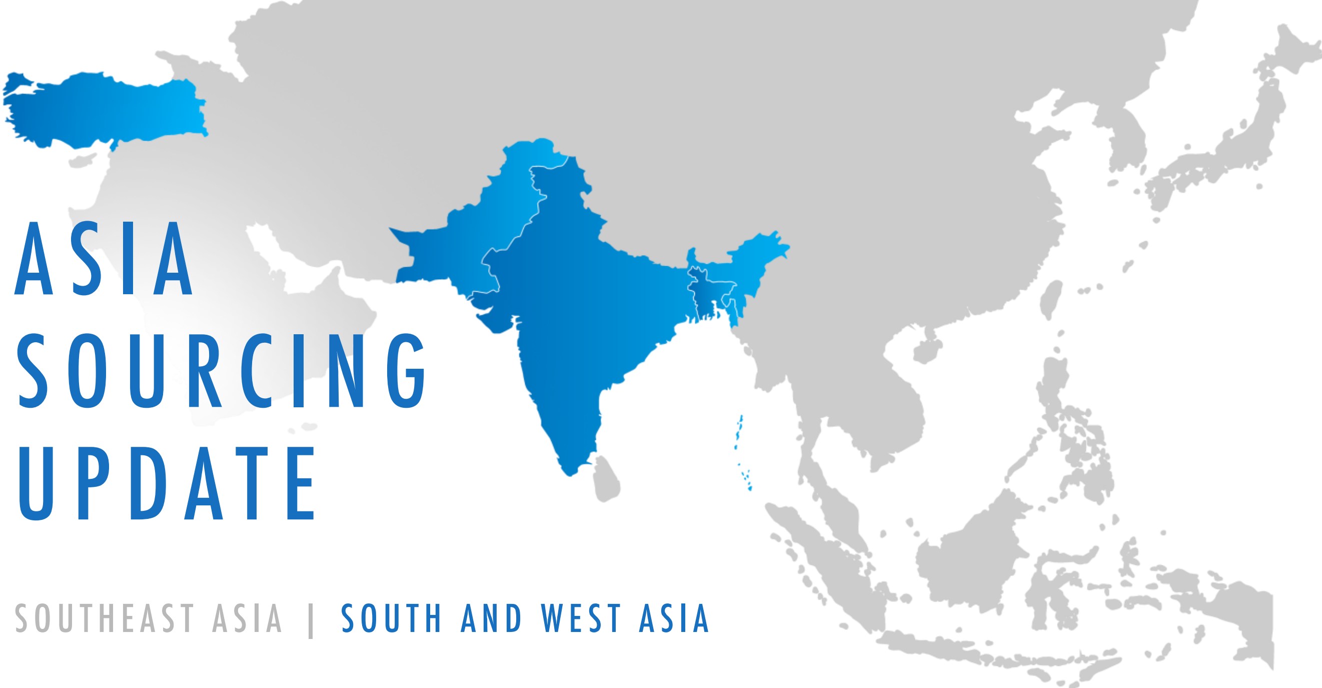

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

AUGUST 2020

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IN THE NEWS

BANGLADESH

CHINA GRANTS TARIFF EXEMPTION FOR 97% OF BANGLADESHI IMPORTS

China has granted zero-duty treatment for 97% of the tariff lines originated from Bangladesh effective 1 July, announced Customs Tariff Commission of China's State Council on 16 June.

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.

The announcement came one month after Bangladeshi Prime Minister Sheikh Hasina and Chinese President Xi Jinping held a discussion to upgrade their bilateral relations during the COVID-19 pandemic. The tariff concession is part of China's commitment to offer duty-free, quota-free access to the least developed countries (LDCs) that have established diplomatic relations with China.

BANGLADESH

TAKA EXCHANGE RATE STANDS STRONG

The exchange rate of taka remained broadly stable in the first seven months of 2020, aided by the intervention by the Bangladesh Bank.

The taka's exchange rate against the US dollar closed at 84.825 on 30 July, a slight appreciation from 84.875 as at the end of 2019, according to exchange rates provided by Bloomberg. In comparison, the Indonesian rupiah depreciated by 5.0% against the US dollar in the seven-month period, while the Indian rupee depreciated by 4.6% against the US dollar during the same period.

The strength of the takas is attributable to shrinking growth of imports and a significant inflow of remittances from overseas Bangladeshi workers. In the previous fiscal year (July 2019 – June 2020), remittance inflow hit a new record of US$18.20 billion, while imports declined by 10.81% to US$46.24 billion from US$51.84 billion in the 2018-19 fiscal year.

The central bank's intervention also contributed to the stability of the currency. 'The Bangladesh Bank's ongoing expansionary policy measures and its recent drives of buying foreign currency from the market helped restore normalcy in both the money and foreign exchange markets, stabilizing the call money rate within the corridor of the repo and reverse repo rates and keeping the taka-USD exchange rate competitive,' said the central bank when it unveiled its monetary policy for the 2020-2021 fiscal year on 28 July.

However, many economists, including former World Bank lead economist in Bangladesh Zahid Hussain, opined that the exchange rate should be more market driven. Some called for a reasonable depreciation. '[The takas] has been overvalued against the US dollar for a long time, hurting the country's exporters," South Asian Network on Economic Modeling (SANEM) Executive Director Selim Raihan said.

BANGLADESH

SURVEY SHOWS ORDER SHORTFALL AND PRICE DROP IN RMG SECTOR

Apparel exporters in Bangladesh have faced shortages in work order as well as falling prices compared to last year, according to a recent survey conducted by the Bangladesh Garment

Manufacturers and Exporters Association (BGMEA).

The BGMEA unveiled the results in a report titled *Analysis of Factory Capacity Booking Survey* on 31 July. About 100 member factories responded to the survey.

According to the report, 56% the total production capacity of the readymade garment (RMG) factories was booked in July. For August to December, only 35% of the total capacity has been booked.

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 the survey findings. 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%. ■

INDIA

INDIA RECORDS FIRST MONTHLY TRADE SURPLUS IN OVER 18 YEARS

India's exports contracted for the fourth consecutive month in June, falling by 12.4% yoy to US$21.91 billion, according to the Department of Commerce. The latest contraction in exports was softer than the declines of 60.5% yoy and 36.2% yoy registered respectively in April and May. Shortage of workers and disruptions in logistics have delayed shipments to major markets like the EU and the US.

In June, contraction in exports was led by lower outbound shipment of gems and jewellery (-50.1% yoy), leather and leather products (-40.5% yoy), readymade garments (-34.8% yoy), petroleum products (-31.7% yoy) and electronics (-22.5% yoy).

India's imports, however, posted a steeper decline in June than exports, leading to the country's first trade surplus in over 18 years. Imports plummeted by 47.6% yoy to US$21.11 billion in the month, signalling that the country's domestic demand remained sluggish even after lockdown restrictions were progressively lifted.

In the first quarter of the current fiscal year (April 2020 – March 2021), India's exports plummeted by 36.7% yoy, while imports plunged by 52.4% yoy.

The Federation of Indian Export Organisations (FIEO) projected in late June a 10% decline in the country's exports in the current fiscal year, while the contraction may reach 20% in case of a second wave of COVID-19 outbreak. There has recently been a worrying spike in new COVID-19 cases in India, as daily confirmed case counts have exceeded 45,000 since 23 July.

The COVID-19 pandemic has prompted the Narendra Modi-led Administration to focus on the path towards a self-reliant India. To this end, the government has so far identified 12 priority sectors with potential for import substitution and boosting exports, including food processing, organic farming, iron and steel, aluminum and copper, agrochemicals, electronics, industrial machinery, furniture, leather and footwear, auto parts, textiles, and marine products.

INDIA

US AND INDIA EDGE CLOSER TO INITIAL TRADE DEAL, WHILE RESTARTING EU–INDIA TRADE TALK SEEMS ELUSIVE

While the China–India relations have deteriorated rapidly due to border tensions and the subsequent economic sanctions, India has turned closer to its Western partners for deeper bilateral engagement.

It was reported that Indian Commerce Minister Piyush Goyal and US Secretary of Commerce Wilbur Ross discussed the possibility of inking a bilateral free trade pact in a telephone conversation in mid-July. The two sides expressed the desire to conclude an initial limited trade package that they had been trying to finalise over the last few months. In a later virtual business summit, Goyal further revealed that the two countries are close to reaching a “quick trade deal” that may include 50-100 goods and services, before moving to a broad-based free trade agreement (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.

On the other hand, 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.

INDIA

BRANDS RAISE CONCERNS ABOUT LABOUR LAW RELAXATIONS AMID COVID-19 PANDEMIC

A group of 49 brands signed and sent a letter to the Indian Prime Minister Narendra Modi on 21 July, expressing grave concerns over newly proposed changes to state labour laws that may infringe labour rights. Collectively, these brands, including Adidas, Primark, Next and Hugo Boss, source apparel, footwear, and other products worth more than US$700 million annually from the country.

As a COVID-19 mitigation measure, some states in India have adopted legislative proposals to significantly relax or suspend labour protections. Among the amendments proposed, 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.

These amendments, which the states have claimed would help employers cope with COVID-19 impacts and boost investment in the manufacturing sector, will be implemented only after they are approved by the central government. Trade unions have held protests across the country to oppose suspension and relaxation of state labour laws.

The group of brands have urged the Modi government to uphold international labour standards, ensure those relaxations of labour laws proposed by state governments are not implemented, and encourage state governments to consult with affected stakeholders before making changes to state labour laws. ■

PAKISTAN

RUPEE SLIPS TO ALL-TIME LOW DUE TO INTERNATIONAL PAYMENT PRESSURE

The Pakistani rupee hit an all-time low of 168.91 against the US dollar in inter-bank trading on 30 June, following a terrorist attack at the Pakistan Stock Exchange on the previous day. According to spot exchange rates provided by Bloomberg, the rupee closed at 167.89 against the greenback on that day, representing a year-to-date depreciation of 7.8%.

Analysts said low supply of US dollars in the local market and high payment of loans by the government have kept the rupee under pressure against the greenback. Moreover, as lockdown restrictions are lifted, the country's import bill is increasing, leading to a higher demand for the US dollar. Compared to the previous month, the country's imports surged by 29.9% in June, while trade deficit soared by 44.6%.

In its latest currency roundup report released in mid-July, Fitch Solutions predicted the Pakistani rupee to average at 163 against the US dollar in 2020 and average at 171.15 in 2021, as concerns over the country's debt sustainability caused underperformance of its currency. As of end-May 2020, Pakistan's public debt amounted to 34.5 trillion rupees (US$205 billion), 15.9% higher than a year ago, according to the State Bank of Pakistan.

PAKISTAN

CPEC INVESTMENT REVIVES DESPITE COVID-19 DISRUPTIONS

Following a series of setbacks over the past two years and disruptions of the COVID-19 pandemic, Chinese and Pakistani leaders have recently shown mutual commitment in revitalizing the China–Pakistan Economic Corridor (CPEC) programme, which is a flagship mega programme under the Belt and Road Initiative.

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 undertaken respectively by China's Gezhouba Group and Three Gorges Corporation. Furthermore, the two governments agreed in early June on 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. It is expected to cost US$7.2 billion and take six years to complete. 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.

Besides, Chinese technicians have successively returned to some project sites by chartered flights as regular flights were suspended since the COVID-19 outbreak.

In the just-ended 2019-20 fiscal year (July 2019 – June 2020), Pakistan received US$2.56 billion worth of foreign direct investment (FDI), up by 88.0% compared to a year ago. China represented US$844.1 million, or 33.0%, of FDI in the period, a drastic increase of 545.3% compared to a year ago. However, the sharp increase in FDI in the 2019-20 fiscal year can be mainly attributed to base effect as China slowed down its investment under CPEC and the Pakistani rupee plunged in the previous fiscal year.

Due to the economic crisis caused by the pandemic, the Pakistani government has requested debt relief from China, especially for power projects under the CPEC.

PAKISTAN

NEW FIVE-YEAR TRADE POLICY FINALISED

The Commerce Ministry announced in late June that the country's new Strategic Trade Policy Framework 2020-25 (STPF) was finalised. The STPF draft is being reviewed by stakeholders while the final version will be presented before the Economic Coordination Committee of the Cabinet shortly.

One of 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. To support export diversification, the Pakistani government has announced to reduce import tariffs on raw materials and components in its budget for the 2020-21 fiscal year.

'We are going to reduce our reliance on the five traditional export sectors,' said Abdul Razak Dawood, Advisor to the Prime Minister on Commerce, Investment, Industries, Production and Textiles. He added that the country is rapidly diversifying its exports into globally competitive engineering products, particularly home appliances.

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. ■

TURKEY

TURKISH ECONOMY SHOWS EARLY SIGNS OF RECOVERY

As lockdown restrictions were gradually eased in early May and mostly lifted starting from June, Turkish economy has demonstrated early signs of recovery. Both industrial production and turnover indices recorded double-digit month-on-month increases in May, and the Turkish Treasury and Finance Minister Berat Albayrak commented that the first sign of a V-shaped recovery was being seen.

According to latest figures released on 13 July, the country's industrial production index expanded by 17.4% month-on-month in May, while the industrial turnover index grew by 12.5% on a monthly basis. On a year-on-year basis, both the indices recorded milder declines in May than the previous month, indicating that the Turkish economy has started to stabilise.

The latest Istanbul Chamber of Industry Turkey Manufacturing Purchasing Managers' Index (PMI) posted 56.9 in July, up from 53.9 in June and the highest since February 2011. The figure signalled that recovery of Turkey's manufacturing sector is gathering steam after the index hit historic lows of 33.4 in April and 40.9 in May.

Moreover, the capacity utilisation rate of the manufacturing sector stood at 70.7% in July, 4.7 percentage points higher than the previous month, according to data released by the country's central bank.

It is expected that economic activity in Turkey will continue rebounding steadily in the second half of the year. However, uncertainties remain high regarding the global economic outlook and a possible resurgence of COVID-19 cases. Although the country appears to have overcome the most difficult phase of the pandemic, it is still facing the impact of the first phase, with new confirmed case counts hitting around 1,000 every day since July.

TURKEY

EXPORTS RETURN TO GROWTH TRAJECTORY IN JUNE

Turkey's exports, which declined by over 40% yoy successively in April and May, witnessed an unexpectedly strong rebound in June. Data from the Turkish Statistical Institute shows that exports reached US$13.46 billion in June, posting an increase of 15.7% over the same period last year or a surge of 35.2% compared to the previous month.

Sectors that demonstrated rapid recovery from the pandemic included furniture, with an increase of 46.4% yoy in exports in June, woven garments (+36.9% yoy), plastic products (+36.2% yoy) and electrical appliances (+18.2% yoy). Meanwhile, exports of automobiles and parts, the country's No.1 export category, remained on a downward trend, with a decline of 10.2% yoy in June. The contraction, however, was much softer than the 58.1% yoy plunge recorded in May.

By export destination, Turkey's strong export performance was supported by demand recovery in the UK and US markets, which are the second and third largest export destinations of Turkey respectively. Exports to UK jumped 42.8% yoy in June, while exports to the US soared by 52.1% yoy. Exports to Germany, Turkey's largest export market, also rose by 12.3% yoy.

TURKEY

PROGRESS MADE IN UK–TURKEY FTA

The ninth round of technical negotiations on the UK–Turkey Free Trade Agreement (FTA) ended on 28 July, with further progress made. According to Turkish Foreign Minister Mevlut Cavusoglu, who visited London for a series of trade talks in early July, the two countries were "very close" to finalising a trade deal 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 and is free to strike new trade deals. Thus, within this year, all industrial products traded between the UK and Turkey are still free of any customs restrictions under the EU–Turkey Customs Union. 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.

After the UK formally departed from the EU, Turkey and the UK have accelerated their negotiations on their own FTA, which they have tried to formulate parallel to the EU–UK trade deal under negotiation. Any UK–Turkey FTA, however, would only be able to take effect after the EU and the UK strike a post-Brexit trade deal, as Turkey is a member of the EU Customs Union and must stay in line with EU's trade policy.

Turkey appears to be among the countries with the most to lose from a no-deal Brexit. 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. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Quantum index of medium and large-scale manufacturing (yoy growth %)	8.1	1.6	–	–	–	–
Consumer price index (yoy growth %)	5.5	5.5	6.0	5.4	6.0	–
Exports (yoy growth %)	-1.8	-18.3	-82.9	-61.6	-2.5	0.6
Exports (US$ mn)	3,322.4	2,732.0	520.0	1,465.3	2,715.0	3,910.9
Of which:						
Knitwear (US$ mn)	1,278.7	1,055.8	180.1	608.4	1,165.0	1,750.3
Woven garments (US$ mn)	1,505.6	1,200.4	194.5	622.2	1,075.3	1,494.7
Home textile (US$ mn)	83.4	72.1	22.7	50.1	87.9	94.0
Footwear* (US$ mn)	74.2	52.0	10.3	33.9	63.6	108.2
Leather products (US$ mn)	23.0	22.6	3.6	11.7	11.5	22.1
Imports (yoy growth %)	7.2	-16.8	-51.0	-49.2	–	–
Imports (US$ mn)	4,419.2	4,121.2	2,489.8	2,532.2	–	–

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

INDIA

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Quarterly GDP* (real yoy growth %)	3.1 (4Q19)			–		
Index of industrial production (yoy growth %)	4.6	-18.3	-57.6	-34.7	–	–
Manufacturing PMI (IHS Markit)	54.5	51.8	27.4	30.8	47.2	46.0
Wholesale price index (yoy growth %)	2.3	0.4	-1.6	-3.2	-1.8	–
Consumer price index* (yoy growth %)	6.6	5.8	–	–	6.1	–
Exports (yoy growth %)	3.2	-34.4	-60.5	-36.2	-12.4	–
Exports (US$ mn)	27,732.4	21,464.0	10,276.0	19,054.1	21,907.6	–
Of which:						
Knitwear (US$ mn)	629.4	479.3	57.7	248.2	401.1	–
Woven garments (US$ mn)	848.5	641.2	69.1	268.7	403.2	–
Footwear (US$ mn)	218.7	152.0	15.3	63.2	139.8	–
Furniture (US$ mn)	168.8	126.0	8.5	59.8	118.4	–
Imports (yoy growth %)	2.5	-28.7	-59.6	-52.4	-47.6	–
Imports (US$ mn)	37,495.8	31,163.8	17,118.0	22,201.3	21,114.4	–
Trade balance (US$ mn)	-9,763.4	-9,699.8	-6,842.0	-3,147.2	793.2	–

** 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 Commerce & Industry, Ministry of Statistics and Programme Implementation, IHS Markit PMI reports

PAKISTAN

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Quantum index of large-scale manufacturing (yoy growth %)	-0.4	-22.0	-41.7	-24.8	–	–
Consumer price index* (yoy growth %)	12.4	10.2	8.5	8.2	8.6	9.3
Exports (yoy growth %)	13.8	-8.1	-54.2	-33.4	-6.1	–
Exports (US$ mn)	2,140.4	1,813.9	957.3	1,396.4	1,598.9	–
Of which:						
Garments (US$ mn)	538.9	418.8	153.7	316.5	406.4	–
Bed linen (US$ mn)	205.8	163.7	76.8	146.1	166.3	–
Towels (US$ mn)	79.5	67.3	18.3	41.7	9.7	–
Leather products (US$ mn)	43.3	39.2	11.9	24.2	36.9	–
Sporting goods (US$ mn)	24.9	22.5	7.4	13.8	18.5	–
Imports (yoy growth %)	-1.7	-19.4	-32.0	-42.9	-14.6	–
Imports (US$ mn)	4,073.0	3,316.0	3,204.1	2,862.8	3,718.9	–
Balance of trade (US$ mn)	-1,932.6	-1,502.1	-2,246.9	-1,466.4	-2,120.0	–

** Consumer price index has been rebased from the 2007-08 fiscal year to the 2015-16 fiscal year.*

Source: Pakistan Bureau of Statistics, State Bank of Pakistan

TURKEY

	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20
Quarterly GDP (real yoy growth %)	4.5 (1Q20)			–		
Industrial production index, manufacturing (yoy growth %)	9.0	-1.6	-33.2	-20.6	–	–
Industrial turnover index, manufacturing (yoy growth %)	17.7	6.0	-25.1	-15.3	–	–
Manufacturing PMI (Istanbul Chamber of Industry)	52.4	48.1	33.4	40.9	53.9	56.9
Producer price index (yoy growth %)	9.3	8.5	6.7	5.5	6.2	–
Consumer price index (yoy growth %)	12.4	11.9	10.9	11.4	12.6	–
Exports (yoy growth %)	1.9	-18.3	-41.5	-40.9	15.7	–
Exports (US$ mn)	14,593.7	13,343.9	8,975.5	9,956.3	13,462.2	–
Of which:						
Knitwear (US$ mn)	731.1	582.7	270.5	323.6	568.3	–
Woven garments (US$ mn)	639.8	488.0	198.1	359.3	575.1	–
Furniture (US$ mn)	332.9	293.2	176.7	218.8	325.9	–
Imports (yoy growth %)	9.8	3.1	-25.0	-27.8	8.3	–
Imports (US$ mn)	17,633.2	18,810.7	13,552.4	13,386.7	16,307.8	–
Balance of trade (US$ mn)	-3,039.5	-5,466.7	-4,577.0	-3,430.4	-2,845.6	–

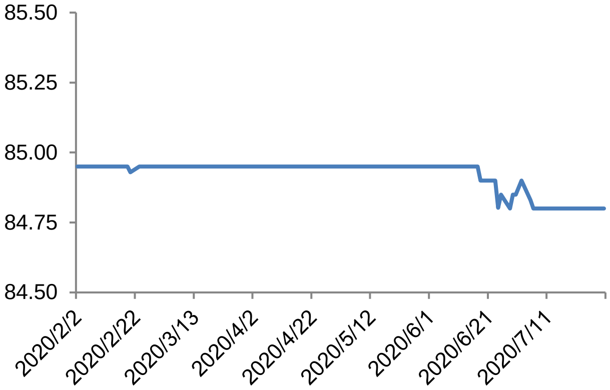
Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

DAILY EXCHANGE RATES

FEBRUARY – JULY 2020

BANGLADESHI TAKA

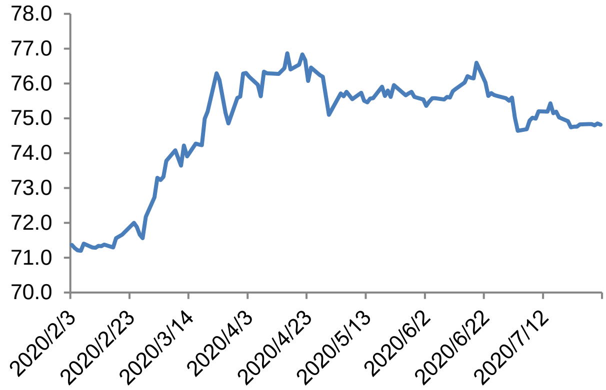
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

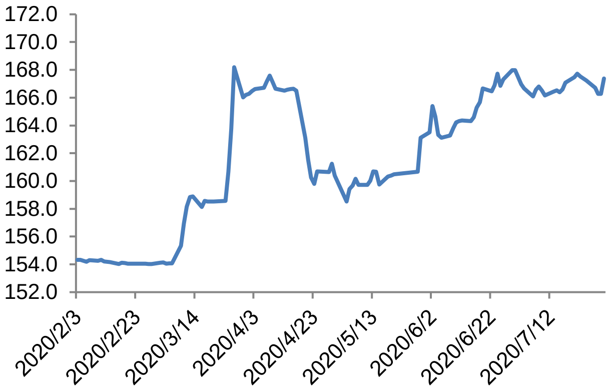
USD:INR spot rate



Source: Bloomberg

PAKISTANI RUPEE

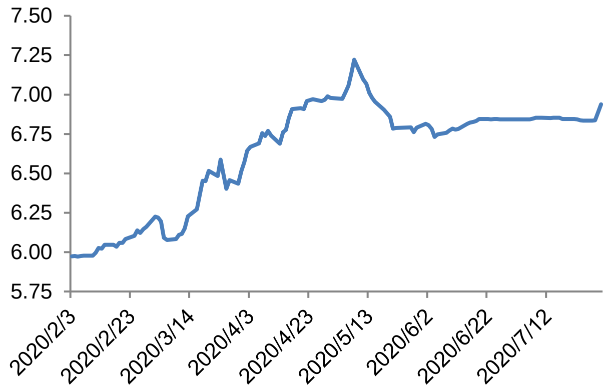
USD:PKR weighted average customer buy rate



Source: State Bank of Pakistan

TURKISH LIRA

USD:TRY buy rate



Source: Central Bank of the Republic of Turkey

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.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

About 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.

Listed entities of the Group include Global Brands Group Holding Limited (SEHK: 00787) and Convenience Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

For more information, please visit www.funggroup.com.

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