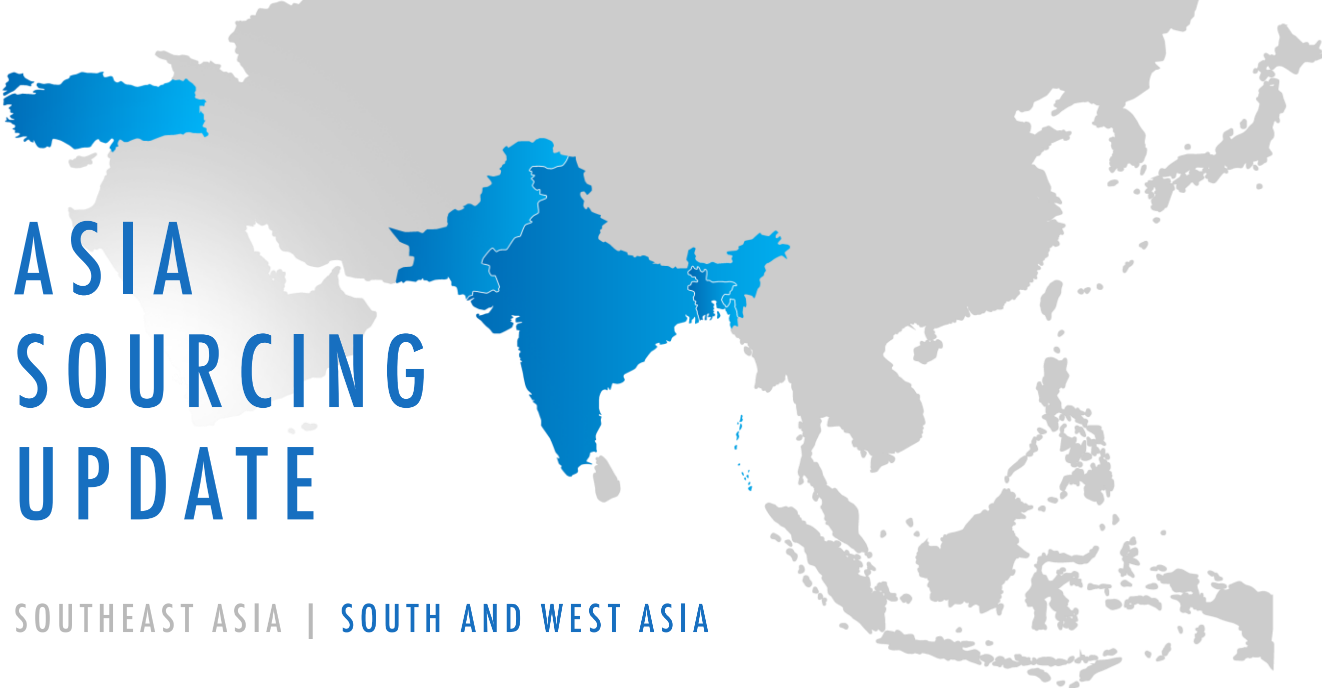

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

FEBRUARY 2018

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Global Sourcing
Fung Business Intelligence
10/F LiFung Tower,
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: http://www.fbicgroup.com

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FUNG BUSINESS INTELLIGENCE

IN THE NEWS

BANGLADESH

EXPORTS GROW BY 7.15% YOY IN JULY - DECEMBER

Exports in the first half of the current fiscal year (July 2017 - June 2018) grew 7.15% yoy to US$17.92 billion, thanks to the devaluation of the taka against the US dollar and a calm political situation, according to statistics published by the Export Promotion Bureau. In the month of December 2017, the country's exports reached US$3.35 billion, up 8.42% compared to a year ago.

Readymade garment (RMG) exports in the first half of the fiscal year amounted to US$14.77 billion, up 7.75% from the same period last year. A further breakdown of RMG exports shows that knitwear exports grew 11.47% yoy to US$7.60 billion, while exports of woven garments increased 4.08% yoy to US$7.18 billion.

Siddiqur Rahman, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) told Reuters that Bangladesh is on track to achieve the government's export target, which is set at US$30.16 billion for the RMG sector and US$37.5 billion for all products.

BANGLADESH

GOVERNMENT RELAXES RULES ON CASH INCENTIVES FOR RMG EXPORTERS

On 25 January, Bangladesh Bank issued a circular, BB FE circular 02/2018, which eases the provision for getting new market exploration assistance for RMG exporters.

According to the newly issued circular, exporters would get cash incentive for RMG exports to new markets whether the exporter repatriates earnings from the country where goods are exported or from any other country.

Previously, leaders of the BGMEA said their members had faced problem in receiving cash incentives for their exports to new markets because the buying offices of the importers might not be located in the same country as the export destination. The FE Circular 22/2011, which was in effect until the issuance of the BB FE circular 02/2018, stipulated that the repatriation of export earnings must be from the country to which the products were exported in order to be eligible for the incentive.

The BGMEA informed Finance Minister Abul Maal Abdul Muhith about the difficulties in mid-2017. In response, Muhith suggested the Bangladesh Bank should amend the circular to relax the rule. The BGMEA leaders said that the problem has been resolved by the latest circular.

BANGLADESH

UNIONS REACH SETTLEMENT WITH A GLOBAL APPAREL BRAND TO FIX WORKPLACE HAZARDS

IndustriALL Global Union and UNI Global Union have reached a US$2.3 million settlement with a multinational apparel brand to fix life-threatening workplace hazards in Bangladesh's garment factories, reported local newspaper *Financial Express*.

The settlement, which was reached through an arbitration process under the legally-binding Bangladesh Accord on Fire and Building Safety (Accord), represents one of the largest payments made by a brand to remedy workplace dangers in its supply chain, according to a statement issued by IndustriALL on 22 January.

The unions brought the case to the Permanent Court of Arbitration arguing that the brand did not require its factories to remedy hazards in a timely manner, leaving thousands of workers in dangerous conditions. The unions also charged that the brand did not ensure it was financially feasible for its factories to fix ongoing safety issues, as required by the Accord.

The brand, which cannot be named under the terms of the settlement, agreed to pay US$2.0 million towards remediation of more than 150 garment factories in Bangladesh. The brand will contribute a further US$300,000 to IndustriALL and UNI's joint Supply Chain Worker Support Fund, established to support the work of the two unions to improve pay and working conditions for workers in global supply chains.

Christy Hoffman, UNI Global Union's Deputy General Secretary, stated that 'under the Accord, brands must shoulder some of the financial responsibility for fixing the Bangladeshi factories that manufacture their products, and this agreement shows that we are actively enforcing these Accord commitments.' ■

INDIA

NOVEMBER'S INDUSTRIAL PRODUCTION EXPANDS AT FASTEST RATE IN 17 MONTHS

India's Index of Industrial production (IIP) grew by 8.4% in November 2017 compared to the same month of the previous year, the highest growth rate since June 2016, according to quick estimates released by the Central Statistics Office on 12 January. Strong performance in manufacturing, and a low base in November 2016 due to the government's demonetisation campaign are reasons for the remarkable growth figure for industrial production.

The manufacturing sector, a major component of the IIP, grew by 10.2% yoy in November 2017. 15 out of the 23 manufacturing sub-sectors recorded a positive year-on-year growth in production in the month, led by 'pharmaceuticals, medicinal chemical and botanical products' (+39.5%), 'computer, electronic and optical products' (+29.1%), and 'other transport equipment' (+22.6%). On the contrary, manufacturing of 'wearing apparel', 'electrical equipment' and 'rubber and plastics products' were among those that registered the fastest year-on-year contraction in output.

The mining sector and electricity sector, the other two components of the IIP, grew by 1.1% yoy and 3.9% yoy, respectively, in November 2017.

In the first eight months of the current fiscal year (April 2017 – March 2018), IIP expanded by 3.2% yoy, while figure for the comparable eight-month period in the 2016-17 fiscal year was 5.5% yoy.

INDIA

INCENTIVES ANNOUNCED TO ARREST FALLING TEXTILE AND GARMENT EXPORTS

Following a sharp decline in textile and garment exports, the Ministry of Commerce and Industry decided in November 2017 to raise the export incentive rates from 2% to 4% for garments and textile made-ups under the Merchandise Exports from India Scheme (MEIS) – which compensates for exporters' payment of duties to certain markets – with effect from 1 November 2017 to 30 June 2018.

In a separate notification on 25 November, the Ministry of Textiles announced the continuation of the Rebate of State Levies (RoSL) scheme for readymade garments and textile made-ups under the Goods and Services Tax (GST) regime. The objective of the scheme is to provide rebate on state levies consisting of taxes and charges on inputs – such as fuels and packaging – that are accumulated through the stages of production from yarn to finished apparel.

The government's decisions provide crucial support for the industry amid falling exports. In October 2017, exports of readymade garments fell dramatically by 39.3% yoy to US$829.8 million, according to data from the Department of Commerce. Industry representatives attributed the decline to a reduction in duty drawback and rebate on state levies following the implementation of the GST on 1 July 2017, which has eroded their profit margins and caused factory closures. The incentives announced are expected to unlock manufacturers and exporters' working capital, boost their confidence in taking new orders and maintain their price competitiveness in the global market.

INDIA

GOVERNMENT FURTHER LIBERALISES FDI IN SINGLE-BRAND RETAIL

The Indian government approved in January the permission of 100% foreign direct investment (FDI) in single-brand retail through the automatic route, which means the investment can be made without prior government approval. A single-brand retail entity sells all its products under only one label in its stores across India.

The government started to liberalise FDI in single-brand retail in December 2011 by allowing 100% of foreign ownership. The policy in 2011 permitted 49% foreign ownership in single-brand retail through the automatic route, while investment with foreign ownership beyond 49% should get approval from the Department of Industrial Policy and Promotion (DIPP). The policy change announced in January 2018 is expected to facilitate easy entry of multi-national retailers into India's fast-growing retail sector.

Simultaneously, the government also relaxed the 30% local sourcing requirement attached to the FDI policy. For the initial five years after the opening of the first store in India, foreign-owned single-brand retail entities are not required to meet the 30% local sourcing target for their Indian operations; instead, they can use their 'incremental sourcing' of goods from India for their global operations to fulfil the 30% sourcing requirement. Incremental sourcing means the increase in terms of value (in Indian rupee terms) of such global sourcing from India in a particular financial year over the preceding financial year. At the end of the five-year period, the entities shall be required to follow the 30% local sourcing requirement for their Indian operations on an annual basis.

Goldie Dhama, partner at PwC India, said allowing incremental sourcing undertaken by overseas group companies to be counted towards the 30% sourcing commitment for the initial five years will provide single-brand retail companies the flexibility and time to align their retail and sourcing business. He added that more fashion, beauty and personal care, and baby product brands are expected to tap into the Indian market, and existing foreign retailers in India will expand their retail footholds. ■

PAKISTAN

INFLATION CLIMBS TO 4.6% YOY IN DECEMBER 2017

Pakistan's consumer price-based inflation rose from 4.0% yoy in November 2017 to 4.6% yoy in December 2017, the highest in seven months, according to data released by the Pakistan Bureau of Statistics.

On a year-on-year basis, prices of 'food and non-alcoholic beverages' and 'housing, water, electricity, gas and fuels', which together have an over 60% weight in the consumer price index (CPI) basket, rose by 5.2% and 4.9%, respectively, in December. Core inflation measured by non-food and non-energy CPI increased by 5.5% yoy in the month.

The inflation acceleration was mainly due to higher oil prices and the imposition of regulatory duty on hundreds of imported items, particularly consumer goods, in mid-October last year. The implementation of regulatory duty was aimed at controlling the country's soaring import bills and widening current account deficit.

In view of the price surge of crude oil in the international market, the government has raised the domestic prices of fuels starting from 1 January this year. Looking ahead, Pakistan's inflation is expected to increase further in the coming months amid rising oil prices and a weak Pakistani rupee.

PAKISTAN

CENTRAL BANK DEVALUATES THE RUPEE TO EASE BALANCE OF PAYMENTS PRESSURES

The Pakistani rupee weakened to a record low after the State Bank of Pakistan (SBP) decided to withdraw its support to the managed-float currency on 8 December 2017. The rupee closed at 105.385 against the US dollar on 8 December, before sliding to 107.45 on 11 December and further to 110.7 on 21 December last year, according to spot exchange rates provided by Bloomberg. This represented a depreciation of around 4.8% during the two-week period. The Prime Minister Shahid Khaqan Abbasi said in mid-December that his administration had no plan to weaken the rupee further.

The country has been facing a widening current account deficit and declining foreign exchange reserves. According to data from the SBP, Pakistan's current account deficit amounted to US$7.4 billion in the first half of the current fiscal year (July 2017 – June 2018), 59% higher than the same period of the last fiscal year. As of 12 January, foreign exchange reserves held by the SBP stood at US$13.7 billion, US$0.4 billion less than that at the end of 2017 and US$4.6 billion less than that at the end of 2016. The continued softening position in the external account was attributed mainly to continuous loan repayments and soaring import bills.

The SBP said a weaker rupee would help the economy grow and ease balance of payments pressures. A delegation from the International Monetary Fund visiting Pakistan last December welcomed the SBP's devaluation decision, which they believed would support the country's export performance and economic growth.

Starting from January, the rupee's exchange rate has stabilized somewhat, trading at around 110.75 against the US dollar.

PAKISTAN

EXPORTS OF TEXTILES AND APPAREL INCREASE BY 8.1% YOY IN JULY-DECEMBER 2017

According to data from the Pakistan Bureau of Statistics, Pakistan's exports of textiles and apparel amounted to US$6.64 billion during the first half of the current fiscal year (July 2017 – June 2018), up by 8.1% yoy. In rupee terms, the number reached 703.62 billion rupees in July-December 2017, an increase of 9.4% over the same period of the previous fiscal year.

The steady growth in exports was mainly supported by the cash subsidy offered to exporters under the prime minister's incentive package announced in January 2017 and the payment of sales tax refunds.

A product-wise breakdown shows that exports of knitwear, woven garments and home textiles – the top three categories in the textile and garment group by export value – all recorded impressive growth during the period, with a year-on-year growth rate of 13.4%, 13.5% and 6.2%, respectively, in July-December 2017. On the other hand, exports of cotton cloth and cotton yarn, the other two major categories, remained flat in the period.

In a review of the industry's performance in 2017, Shaiq Jawed, chairman of the Pakistan Textile Exporters Association (PTEA), said the country's textile and garment exports would exceed US$13 billion in the current fiscal year following disappointing performance in the past three fiscal years. He pointed out that high energy costs, liquidity stuck in the tax refund system, and insufficient investment in technology were among the key factors that harmed the competitiveness of Pakistan's textile and garment sector. ■

TURKEY

GDP GROWTH JUMPS TO 11.1% YOY IN THE THIRD QUARTER OF 2017

Turkey's GDP growth accelerated from the revised 5.4% yoy in the second quarter of 2017 to 11.1% yoy in the third quarter, the fastest growth since the first quarter of 2011, according to data released by the Turkish Statistical Institute. The unexpectedly high growth was attributed to a low base effect after last year's failed coup attempt and strong performance in exports and industrial activities.

Sector-wise breakdown of GDP shows that, in the July-September quarter, value-added increased by 2.8% in the agriculture sector, 14.8% in the industry sector, 18.7% in the construction sector, and 20.7% in the service sector, compared with the same period a year ago.

By expenditure approach, household final consumption expenditure, government final consumption expenditure and gross fixed capital formation grew by 11.7%, 2.8% and 12.4%, respectively, compared to the same quarter of 2016. Exports of goods and services expanded by 17.2% yoy in the quarter, while imports of goods and services grew by 14.5% yoy.

In the first three quarters of 2017, the Turkish economy expanded by 7.4% yoy. According to the Turkish Deputy Prime Minister Mehmet Şimşek, economic growth in Turkey would remain strong in the last quarter of 2017, taking the full year's growth to probably over 6.5% yoy.

TURKEY

MANUFACTURING SECTOR EXPANDS FOR THE TENTH CONSECUTIVE MONTH IN DECEMBER 2017

The Istanbul Chamber of Industry Turkey Manufacturing Purchasing Managers' Index (PMI) rose from 52.9 in November to 54.9 in December last year, the strongest improvement in business conditions since August 2017. The December reading also recorded the tenth consecutive month-on-month expansion in the manufacturing sector. An index reading above 50 indicates an expansion in the sector, while an index reading below 50 points to an overall contraction.

The press release from the Istanbul Chamber of Industry reveals that growth in new orders accelerated in December, with new export orders increasing at the fastest pace since February 2011, reflecting strong demand from home and abroad. Rising new orders in turn supported stronger increases in manufacturing output, which expanded at the fastest rate in three months, and input purchasing activities. Moreover, manufacturing firms also increased employment sharply, with staffing levels rising at the quickest pace since March 2011.

On the price front, a weak lira pushed up input costs, leading to higher output prices. However, the rate of inflation in December moderated from that seen in November.

TURKEY

MINIMUM WAGE INCREASES BY 14.2% STARTING FROM 1 JANUARY

The Turkish Labour Minister Jülide Sarıeroğlu announced on 29 December 2017 the new nationwide minimum wage of 1,603.12 liras (equivalent to US$425) per month effective 1 January 2018, a 14.2% increase from the previous level. Including taxes and deductions such as income taxes and social security premiums, the new gross minimum wage stands at 2,029.5 liras (US$540).

'We have made a 52% raise in the minimum wage on a cumulative basis over the last three years,' said Sarıeroğlu. To relieve employers' burden on rising labour costs, the government will continue to provide them with the monthly minimum wage support of 100 liras per employee in 2018.

The new wage level applies to the full year of 2018, and is expected to affect around 8.5 million workers. The new wage, however, is significantly below the demands of workers' unions. Türk-İş, one of the leading workers' trade union confederations in Turkey, demanded 1,893 liras in the wage negotiation, while the Confederation of Progressive Trade Unions (DİSK) said the minimum wage should be raised to 2,300 liras. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Quantum index of medium and large-scale manufacturing (yoy growth %)	28.5	20.0	8.3	-	-	-
Consumer price index (yoy growth %)	5.6	5.9	6.1	6.0	5.9	5.8
Exports (yoy growth %)	17.9	10.7	-9.8	6.4	6.2	8.4
Exports (FOB, US$ mn)	2,987.7	3,640.9	2,034.1	2,843.1	3,057.1	3,353.1
Of which:						
Knitwear (US$ mn)	1,263.3	1,605.5	878.1	1,239.3	1,258.1	1,351.0
Woven garments (US$ mn)	1,215.9	1,439.5	741.8	1,054.4	1,266.4	1,459.6
Home textile (US$ mn)	63.8	77.0	53.0	67.1	70.3	76.7
Footwear* (US$ mn)	89.8	93.6	51.2	54.8	71.9	76.4
Leather products (US$ mn)	38.5	45.6	27.5	55.3	17.8	30.5
Imports (yoy growth %)	34.3	16.9	20.6	21.7	13.9	-
Imports (C&F, US$ mn)	4,004.4	4,046.7	3,849.1	4,367.0	4,574.7	-

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

INDIA

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Quarterly GDP (real yoy growth %)		6.3 (2Q17)			-	
Index of industrial production (yoy growth %)*	1.0	4.8	4.1	2.0	8.4	-
Manufacturing PMI (Nikkei)	47.9	51.2	51.2	50.3	52.6	54.7
Wholesale price index (yoy growth %)*	1.9	3.2	3.1	3.7	3.9	3.6
Consumer price index (yoy growth %)	2.4	3.3	3.3	3.6	4.8	5.2
Exports (yoy growth %)	3.9	10.3	25.7	-1.1	30.6	12.4
Exports (FOB, US$ mn)	22,543.8	23,818.8	28,613.4	23,098.2	26,195.8	27,030.3
Of which:						
Knitwear (US$ mn)	631.0	682.7	880.0	426.5	-	-
Woven garments (US$ mn)	644.4	682.7	783.5	403.3	-	-
Footwear (US$ mn)	291.4	254.0	242.2	184.1	-	-
Furniture (US$ mn)	115.3	122.3	129.5	115.4	-	-
Imports (yoy growth %)	15.4	21.0	18.1	7.6	19.6	21.1
Imports (CIF, US$ mn)	33,822.2	35,462.8	37,597.7	37,117.0	40,025.0	41,910.5
Trade balance (US$ mn)	-11,278.4	-11,644.0	-8,984.3	-14,018.8	-13,829.2	-14,880.2

** 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

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Quantum index of large-scale manufacturing (yoy growth %)	14.1	10.2	5.8	8.8	-2.0	-
Consumer price index (yoy growth %)	2.9	3.4	3.9	3.8	4.0	4.6
Exports (yoy growth %)	10.6	12.9	8.9	7.9	12.4	14.8
Exports (US$ mn)	1,631.0	1,865.5	1,675.1	1,888.3	1,974.5	1,976.8
Of which:						
Garments (US$ mn)	406.3	451.6	397.8	421.1	441.2	466.4
Bed linen (US$ mn)	170.4	213.9	182.6	188.1	192.1	177.0
Towels (US$ mn)	51.3	65.5	63.4	67.8	69.1	63.8
Leather products (US$ mn)	42.1	47.1	43.1	43.0	44.2	45.5
Sporting goods (US$ mn)	23.4	28.6	23.0	25.3	25.2	25.9
Imports (yoy growth %)	36.7	15.1	16.7	23.6	16.5	10.1
Imports (US$ mn)	4,835.0	4,952.1	4,473.3	4,928.7	4,897.5	4,909.7
Balance of trade (US$ mn)	-3,204.0	-3,086.6	-2,798.2	-3,040.4	-2,923.0	-2,932.8

Source: Pakistan Bureau of Statistics, State Bank of Pakistan

TURKEY

	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Quarterly GDP (real yoy growth %)		11.1 (3Q17)			-	
Industrial production index, manufacturing (yoy growth %)	16.0	5.6	10.4	7.8	7.1	-
Industrial turnover index, manufacturing (yoy growth %)	35.7	26.7	32.3	31.9	28.8	-
Manufacturing PMI (Istanbul Chamber of Industry)	53.6	55.3	53.5	52.8	52.9	54.9
Producer price index (yoy growth %)	15.5	16.3	16.3	17.3	17.3	15.5
Consumer price index (yoy growth %)	9.8	10.7	11.2	11.9	13.0	11.9
Exports (yoy growth %)	28.1	12.0	8.4	8.8	11.0	8.6
Exports (US$ mn)	12,613.8	13,251.0	11,812.4	13,918.8	14,196.6	13,877.9
Of which:						
Knitwear (US$ mn)	768.8	873.5	680.5	819.5	757.4	758.5
Woven garments (US$ mn)	523.5	585.2	426.1	500.7	475.6	487.7
Furniture (US$ mn)	212.4	247.8	188.2	242.5	263.7	266.7
Imports (yoy growth %)	46.2	15.3	30.6	24.7	21.3	25.4
Imports (US$ mn)	21,491.0	19,161.2	19,977.6	21,215.0	20,538.6	23,084.1
Balance of trade (US$ mn)	-8,877.2	-5,910.3	-8,165.2	-7,296.2	-6,342.0	-9,206.2

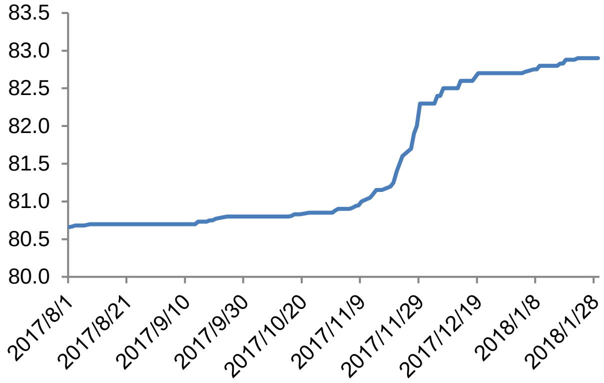
Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

DAILY EXCHANGE RATES

AUGUST 2017 - JANUARY 2018

BANGLADESHI TAKA

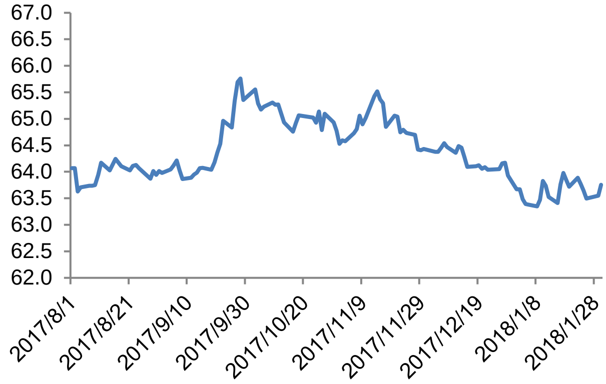
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

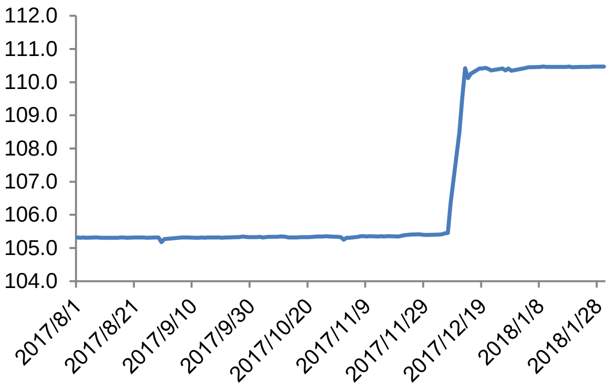
USD:INR RBI reference rate



Source: Reserve Bank of India (RBI)

PAKISTANI RUPEE

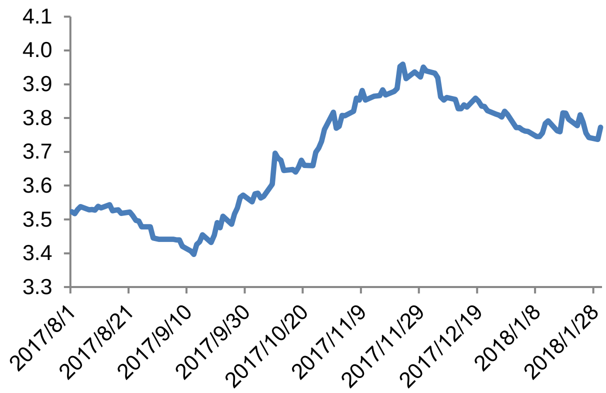
USD:PKR weighted average customer buy rate



Source: State Bank of Pakistan

TURKISH LIRA

USD:TRY buy rate



Source: Central Bank of the Republic of Turkey

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CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

Denise Cheung
Senior Research Manager
denisecheungwy@fung1937.com
(852)2300 2463

Winnie He
Research Manager
winniehe@fung1937.com

Global Sourcing
Fung Business Intelligence
10/F LiFung Tower,
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: http://www.fbicgroup.com

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