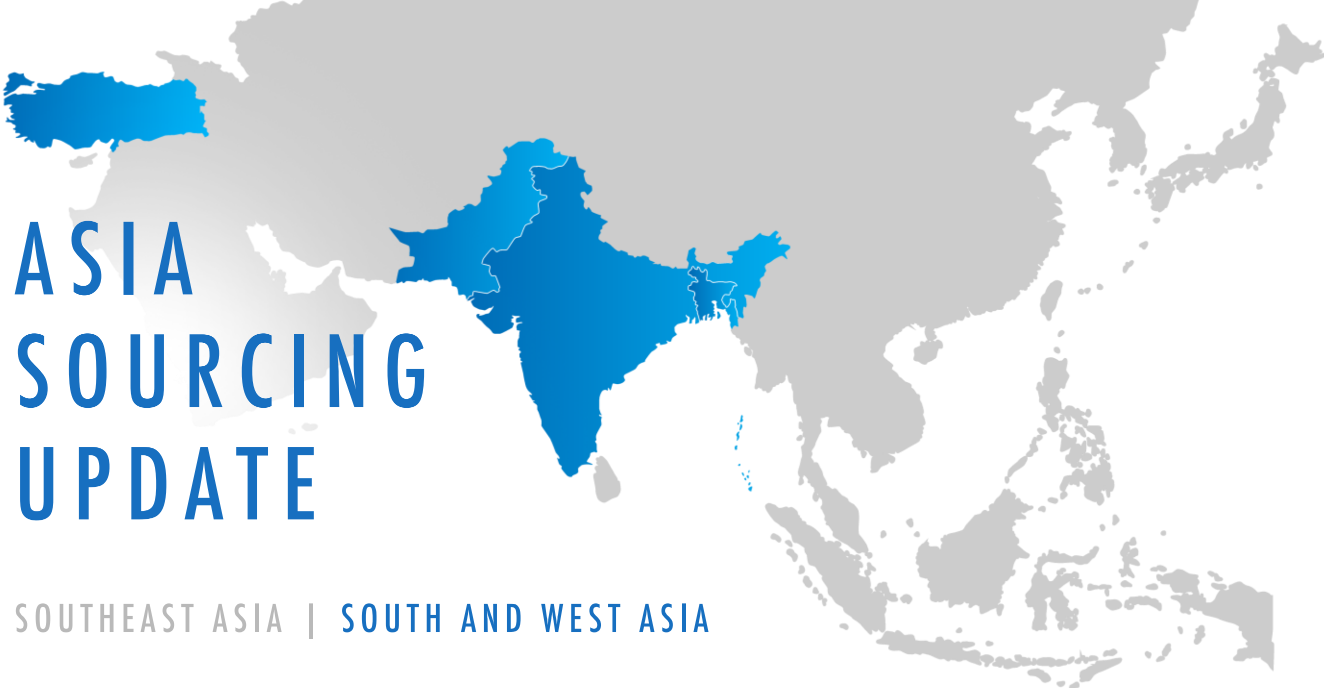

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

JANUARY 2016

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IN THE NEWS

BANGLADESH

EXPORT EARNINGS EXCEED TARGET IN JULY-DECEMBER 2015

Bangladesh's export earnings in the first half of this fiscal year (July 2015-June 2016) exceeded the government's target by 1.38%. According to data from the Export Promotion Bureau (EPB), Bangladesh earned an export revenue of US$16.08 billion during the period, registering a year-on-year (yoy) growth of 7.84%.

The readymade garment (RMG) sector was the main driver of Bangladesh's exports, earning US$13.14 billion with yoy growth of 9.24% during July-December 2015. Within the RMG sector, the woven sector earned US$6.7 billion with 12.42% yoy growth and the knitwear sector received US$6.43 billion with 6.11% yoy increase.

The monthly data showed that, in December 2015, export revenue rose 12.66% yoy to US$3.20 billion, the highest export earnings in the 2015-16 fiscal year so far.

Improvement of safety standards in the RMG sector and peaceful political situation contributed to the export growth, according to the Vice-Chairman of the EPB Shubhashish Bose. Bose referred to the fact that buyers who had decided to temporarily avoid sourcing from Bangladesh in early 2015 due to political instability started to procure products again from the country as the situation improved.

BANGLADESH

BGMEA TO ESTABLISH APPAREL ZONE IN CHITTAGONG

Bangladesh Garment Manufacturers and Exporters Association (BGMEA) signed a Memorandum of Understanding with the Chittagong City Corporation (CCC) on 3 January to establish the Chittagong Apparel Zone in Kalurghat in Chittagong. The CCC will provide over 10 acres of land to develop the zone, while the BGMEA members will provide funds, which would be recovered later on from the rents.

The planned Chittagong Apparel Zone will comply with the safety standards prescribed by the National Action Plan and global retailers. The zone will consist of 11 seven-storied buildings with 20,000 square feet on each floor. It will also be equipped with a central effluent treatment plant, a fire station, a hospital, a childcare centre and cargo lifts.

Readymade garment (RMG) factories, especially small and medium enterprises, that need relocation as identified by various safety assessments, including those carried out by the Alliance for Bangladesh Worker Safety (Alliance) and the Accord on Fire and Building Safety (Accord), will get priority in setting up their factories in the apparel zone.

Factory owners in the zone will have to pay 10% of the total construction cost as down payment, in addition to 10 takas per square feet as the monthly rent which will be increased by 5% every five years, according to the BGMEA.

BANGLADESH

GOVERNMENT TO ESTABLISH NATIONAL BODY TO HANDLE RMG FACTORY POST-INSPECTION REMEDIATION

The Bangladeshi government plans to form a separate national body to oversee the remedial activities in readymade garment (RMG) factories where the initial building structure, fire and electrical safety inspections have been completed.

The decision follows several meetings between the International Labour Organisation (ILO) and stakeholders in Bangladesh's RMG sector, in which all parties agreed that a separate platform was needed to ensure proper remediation and post-remediation monitoring.

The initial purpose of setting up such a separate national body is to monitor the post-inspection remedial activities in the RMG factories already assessed under the National Action Plan (NAP), said the Department of Inspection for Factories and Establishments (DIFE) Inspector General Syed Ahmed. The other objective of the move is to strengthen the government's capacity so that it can take over the responsibility of the safety initiatives being carried out by the Accord on Fire and Building Safety in Bangladesh (Accord) and the Alliance for Bangladesh Worker Safety (Alliance) after 2018 when the safety initiatives of the European and North American buyers' platforms would end.

The body will consist of experts and engineers from the Fire Service and Civil Defense, the Capital Development Authority (Rajdhani Unnayan Kartripakkha), DIFE and Bangladesh University of Engineering and Technology. Industry representatives from Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) will also be included.

The ILO is working to prepare a concept note on the national body, which will be submitted to the Labour Ministry for approval. ■

INDIA

MANUFACTURING SECTOR DETERIORATES IN DECEMBER

India's manufacturing activity, as measured by the Nikkei Manufacturing Purchasing Managers' Index (PMI), contracted in December 2015. The PMI reading slipped to 49.1 in December from 50.3 in November, the first time the figure fell below the neutral 50.0 threshold since October 2013. A PMI reading below 50 indicates contraction in manufacturing activity, whereas a reading above 50 indicates expansion.

In December, total manufacturing production fell at the fastest rate in almost seven years, and the contraction in incoming new work in the month put an end to the indicator's 25-month sequence of growth. Weak domestic demand and crippling floods in Chennai, the largest industrial centre in southern India, are major reasons for the poor manufacturing performance.

The depreciation of the Indian rupee against the US dollar has led to better price competitiveness in external markets and hence more new export orders, but has also caused increases in both input prices and transport costs, which have added to inflationary pressures, according to the PMI press release.

INDIA

PASSAGE OF GST BILL DELAYED

The winter session of the Parliament, held between 26 November and 23 December 2015, failed to pass the Goods and Services Tax (GST) bill. The GST, which is the topmost priority of the Narendra Modi government, was previously targeted to be implemented nationwide on 1 April 2016.

The Constitutional Amendment Bill to roll out the GST was passed by the lower house of Parliament in May 2015, but it is currently stuck in the upper house where the ruling Bharatiya Janata Party lacks majority. Major opposition in the upper house comes from the Indian National Congress, which is demanding the inclusion of a provision to cap the maximum GST rate at 18%.

Currently, the tax regime in India is complicated as both the central and state governments have the power to impose taxes and levies, making inter-state trade and movement of goods tedious and costly. Once implemented, the GST will not only mitigate cascading taxation along the supply chain, but also quicken the movement of goods across India as the whole country will become a unified market from the tax perspective. Besides, the simplification of tax administration is expected to boost foreign investment and economic growth.

The Indian government is now trying to get the GST bill passed in the budget session of the Parliament that will be held in February-May 2016 and, if successful, will start its implementation in the middle of the 2016-17 financial year (April 2016 - March 2017).

INDIA

NEW TEXTILE SCHEME APPROVED

The Cabinet Committee on Economic Affairs approved on 30 December 2015 the Amended Technology Upgradation Fund Scheme (ATUFS), to replace the existing Revised Restructured Technology Upgradation Fund Scheme (RR-TUFS), for supporting the technology upgradation of the textile sector.

Under the new scheme, two types of funds will be provided across different sub-sectors. For apparel and technical textiles, up to 15% subsidy on capital investment, subject to a ceiling of 300 million rupees, would be provided to entrepreneurs over a period of five years. Other sub-sectors of the textile industry are eligible for a 10% subsidy on capital investment, subject to a ceiling of 200 million rupees over five years.

The ATUFS aims at boosting the textile sector under the “Make in India” initiative. It is expected to attract investments of over 1 trillion rupees (US$15 billion) and create over 3 million jobs in the sector. ■

PAKISTAN

NET FDI REMAINS FLAT IN 2H15

According to the State Bank of Pakistan, the country’s net foreign direct investment (FDI), which denotes the balance between FDI inflows and outflows, stood at US$624.1 million between July and December 2015, up by a mere 2.2% yoy. While FDI inflows reduced drastically to US$1.1 billion in 2H15 from US$1.8 billion in 2H14, lower FDI outflows in 2H15 helped Pakistan retain net FDI at a similar level as in 2H14.

The Chinese mainland took the lead in Pakistan’s foreign investment in 2H15, with FDI inflows amounting to US$428.2 million in the period. Investment from the Chinese mainland was boosted by the Pakistan-China Economic Corridor megaproject, on which the Chinese government had committed US$46 billion investment. Other major investing countries or territories included the United Arab Emirates (with FDI inflows of US$112.6 million), Hong Kong (US$74.1 million), and the UK (US$68.9 million). On the other hand, the US, Saudi Arabia, Germany and Egypt were among the largest disinvesting countries, of which FDI outflows exceeded FDI inflows.

The power sector and the oil & gas exploration sector are the largest recipients of FDI during the six-month period, with FDI inflows amounting to US$364.9 million and US$157.0 million, respectively.

PAKISTAN

EXPORTS DECLINE 16.8% YOY IN DECEMBER 2015

Pakistan’s exports amounted to US$1.8 billion in December 2015, down by 16.8% yoy, according to data from the Pakistan Bureau of Statistics (PBS). It was the tenth month in 2015 that the country registered a year-on-year decline in exports. Over the July-December 2015 period, the first half of the current fiscal year (July 2015 - June 2016), exports dropped 14.5% yoy.

A breakdown of the export figures shows that the decline was led by petroleum products and raw cotton, which dropped by 77.5% yoy and 37.0% yoy respectively in July-December 2015, due to the plunging global commodity prices. Among the major garment and textile categories, exports of knitwear and bed linen fell 3.1% yoy and 7.5% yoy, respectively, while exports of woven garments and towels grew 3.9% yoy and 4.6% yoy, respectively, over the same period.

Other than the persisting energy shortage, exporters attributed the weak export performance to the indifference of the Pakistani government towards reviving the country's exports. The government has so far failed to announce the much-delayed Strategic Trade Policy Framework (2015-2018), which was supposed to be ready by July 2015.

PAKISTAN

ELECTRICITY TARIFF FOR INDUSTRIAL USERS REDUCED

Pakistan's Prime Minister announced on 28 December 2015 a reduction in electricity tariff by three rupees per unit for industrial users starting from 1 January 2016. According to the Ministry of Water and Power, the industrial sector is now charged an average tariff of around 11 rupees per unit after the tariff reduction.

The Pakistani government is working on short, medium and long-term projects to make the country self-sufficient in power generation. It is also trying to make electricity more affordable by lowering the cost of power generation. The Port Qasim coal-fired power plant and the Thar coal power project are scheduled to be completed by the end of 2017. Besides, the construction of the Diamer-Bhasha hydroelectric power project, the Dasu Dam, the K2 and K3 nuclear power plants, the Neelum Jhelum hydropower project and the Tarbela Dam fourth extension project will add more power generation capacity to the country. In the 2017-2018 fiscal year, 10,000 megawatts (MW) of electricity is expected to be added to the country's power system and another 15,000 MW will be added by the year 2025. ■

TURKEY

INFLATION ACCELERATES TO 8.8% YOY IN DECEMBER

Turkey's consumer price index (CPI) increased by 8.8% yoy in December 2015, the highest since November 2014, according to data released by the Turkish Statistical Institute.

The acceleration of inflation in December was mainly led by 'food and non-alcoholic beverages' (+10.9% yoy) that weighted 24.25% in the CPI basket, while other major expenditure groups, such as 'housing, water, electricity, gas and other fuels' (+6.7% yoy), 'transportation' (+6.4% yoy), 'furnishing and household equipment' (+11.0% yoy) and 'clothing and footwear' (+9.0% yoy), all recorded accelerated price increases.

The high inflation points to the central bank's failure to meet its annual inflation target of 5% in 2015. Looking ahead, the continuous weakness of the lira, together with a minimum wage rise of 30% starting January this year, clouds Turkey's inflation outlook for 2016.

TURKEY

RUSSIAN SANCTIONS HIT TURKISH TEXTILE EXPORTERS

The Russian government announced on 30 November 2015 a raft of sanctions against Turkey in retaliation for downing a Russian warplane near the Turkey-Syria border a week earlier.

The sanctions include a ban on imports of Turkish fruits, vegetables, salt and poultry from 1 January 2016, a ban on charter flights to Turkey from 1 December 2015, a ban on construction projects with Turkish firms in Russia (unless a special exemption is granted), restrictions on Turkish citizens working for companies registered in Russia. Besides, work on the TurkStream – a new pipeline through the Black Sea to boost Russian gas exports to Turkey – has suspended.

Although Turkish textiles are not officially included in the Russian sanctions, Turkish exporters feel that their goods are subject to an unofficial ban. It is reported that the Russian customs have tightened the checks on textile imports from Turkey, leading to Turkish trucks lining up along the Russian border, unpaid invoices and cancellations of orders.

Meanwhile, Russia's Ministry of Industry and Trade has already proposed to officially ban the imports of 70-80% of light manufactured goods from Turkey, among which textile products are included. If effective, this may force international retailers that target the Russian market to stop sourcing garments from Turkey. Brands including Zara, Mango, Lacoste and Adidas may bear the brunt of such sanction.

TURKEY

MONTHLY MINIMUM WAGE SHOOTS UP 30%

The Minimum Wage Determination Commission finally agreed on 30 December 2015 to an increase of 30% in the minimum wage, making the election pledge of the ruling Justice and Development Party (AKP) a reality.

Starting from January 2016, the net monthly minimum wage after taxes and deductions stands at 1,300.99 liras (US$434), up 30% from the previous 1,000.54 liras (US$334), according to the Ministry of Labour and Social Security. The new wage level will be in effect for one year, which is different from the previous adjustments made semi-annually. Currently, there are about 13 million full-time employees in Turkey, of which 5.3 million are paid the minimum wage.

To reduce the financial burden on the private sector, the Turkish government has decided to cover 40% of the wage increase in 2016, by sharing employers' contributions to the social security system. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Quantum index of medium and large-scale manufacturing (yoy growth %)*	2.7	23.7	3.8	-	-	-
Consumer price index (yoy growth %)*	6.4	6.2	6.2	6.2	6.1	6.1
Exports (yoy growth %)	-12.0	27.7	-7.0	21.2	13.7	12.7
Exports (FOB, US$ mn)	2,625.9	2,758.4	2,374.7	2,371.5	2,749.3	3,204.1
Of which:						
Knitwear (US$ mn)	1,127.4	1,131.2	991.6	920.3	1,066.3	1,195.3
Woven garments (US$ mn)	1,087.8	1,138.7	962.7	878.8	1,158.1	1,477.5
Home textile (US$ mn)	48.6	54.7	57.2	59.6	56.7	71.7
Footwear (US$ mn)	66.8	62.3	46.6	52.8	66.5	73.9
Leather products (US$ mn)	20.5	31.8	21.4	34.7	37.3	31.2
Imports (yoy growth %)	-8.7	-11.5	-14.0	-1.2	-	-
Imports (C&F, US$ mn)	2,903.2	3,253.8	3,081.8	3,422.6	-	-

** The quantum index of medium and large-scale manufacturing and the consumer price index use 2005-06 as the base year.*
Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Export Promotion Bureau

INDIA

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Quarterly GDP (real yoy growth %)*		7.4 (2Q15)			-	
Index of industrial production (yoy growth %)	4.3	6.3	3.8	9.9	-3.2	-
Manufacturing PMI (Nikkei)	52.7	52.3	51.2	50.7	50.3	49.1
Wholesale price index (yoy growth %)	-4.0	-5.1	-4.6	-3.7	-2.0	-0.7
Consumer price index (yoy growth %)	3.7	3.7	4.4	5.0	5.4	5.6
Exports (yoy growth %)	-10.3	-20.7	-24.3	-17.5	-24.4	-14.8
Exports (FOB, US$ mn)	23,137.3	21,266.3	21,845.0	21,352.8	20,014.2	22,297.5
Of which:						
Readymade garments (US$ mn)	1,484.3	1,231.5	1,098.8	1,188.5	1,239.5	-
Cotton yarn and fabrics (US$ mn)	781.2	753.1	812.8	751.4	786.1	-
Imports (yoy growth %)	-10.3	-10.0	-25.4	-21.2	-30.3	-3.9
Imports (CIF, US$ mn)	35,949.7	33,744.3	32,323.7	31,120.1	29,795.9	33,961.5
Trade balance (US$ mn)	-12,812.5	-12,478.0	-10,478.7	-9,767.3	-9,781.7	-11,664.0

** Financial year in India starts in April. The quarterly GDP growth figures are calculated using 2011-12 as the base year.*
Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Nikkei PMI reports

PAKISTAN

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Quantum index of large-scale manufacturing (yoy growth %)	3.4	4.8	2.2	5.3	4.7	-
Consumer price index (yoy growth %)	1.9	1.8	1.3	1.6	2.7	3.2
Exports (yoy growth %)	-16.9	-3.5	-20.4	-11.4	-15.1	-16.8
Exports (US$ mn)	1,597.8	1,834.5	1,732.0	1,729.1	1,661.9	1,787.6
Of which:						
Garments (US$ mn)	398.0	387.1	357.4	363.3	350.4	394.9
Bed linen (US$ mn)	157.1	179.5	173.3	163.4	161.1	152.2
Towels (US$ mn)	58.5	64.5	70.0	59.0	61.8	60.6
Leather products (US$ mn)	50.1	42.5	43.2	45.4	40.3	48.7
Sporting goods (US$ mn)	25.9	24.2	24.0	25.6	23.0	27.9
Imports (yoy growth %)	4.0	-18.5	-23.3	-7.4	7.5	0.2
Imports (US$ mn)	3,370.8	3,823.3	3,484.7	3,925.9	3,866.0	3,843.4
Balance of trade (US$ mn)	-1,773.0	-1,988.8	-1,752.7	-2,196.9	-2,204.1	-2,055.8

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

TURKEY

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Quarterly GDP (real yoy growth %)		4.0 (3Q15)			-	
Industrial production index, manufacturing (yoy growth %)	0.2	8.7	3.2	5.1	4.3	-
Industrial turnover index, manufacturing (yoy growth %)	8.3	15.2	15.8	12.0	13.6	-
Manufacturing PMI (Istanbul Chamber of Industry)	50.1	49.3	48.8	49.5	50.9	52.2
Producer price index (yoy growth %)	5.6	6.2	6.9	5.7	5.3	5.7
Consumer price index (yoy growth %)	6.8	7.1	8.0	7.6	8.1	8.8
Exports (yoy growth %)	-16.6	-3.1	-14.7	2.9	-10.2	-
Exports (US$ mn)	11,132.9	11,028.3	11,590.3	13,260.7	11,737.6	-
Of which:						
Knitwear (US$ mn)	776.3	819.9	737.8	879.0	772.3	-
Woven garments (US$ mn)	495.7	566.7	481.7	522.2	454.2	-
Furniture (US$ mn)	220.4	230.6	211.5	247.2	238.4	-
Imports (yoy growth %)	-8.7	-18.1	-25.2	-11.9	-25.3	-
Imports (US$ mn)	18,212.0	15,967.0	15,403.4	16,907.3	15,974.0	-
Balance of trade (US$ mn)	-7,079.1	-4,938.7	-3,813.0	-3,646.6	-4,236.4	-

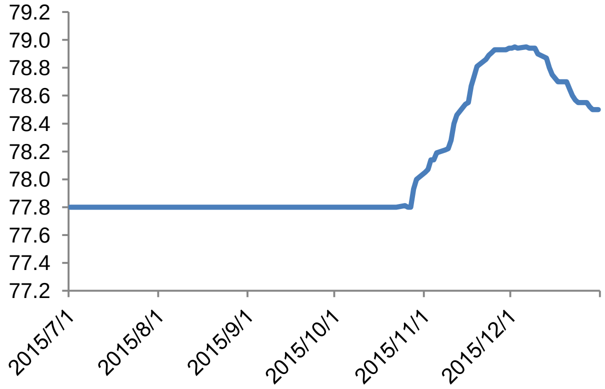
Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

DAILY EXCHANGE RATES

JULY - DECEMBER 2015

BANGLADESHI TAKA

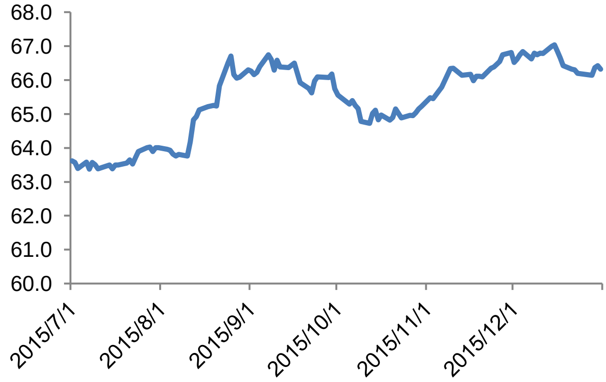
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

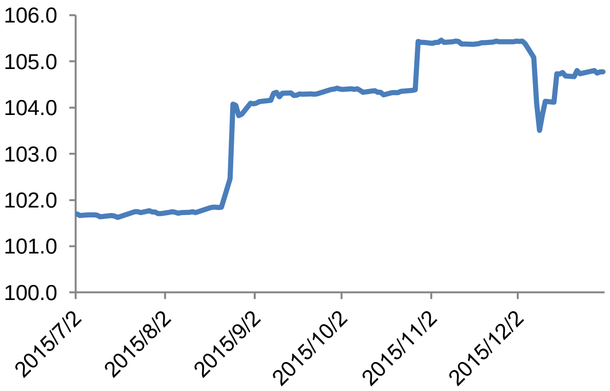
USD:INR RBI reference rate



Source: Reserve Bank of India (RBI)

PAKISTANI RUPEE

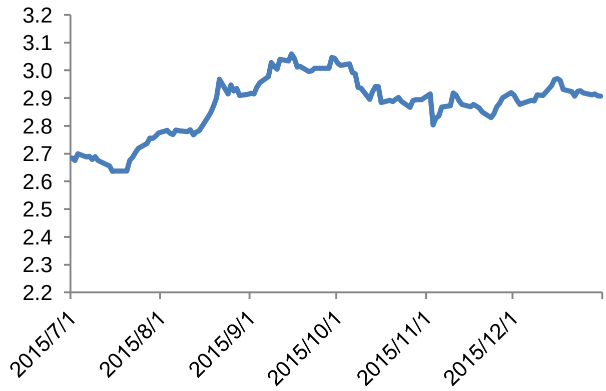
USD:PKR weighted average customer buy rate



Source: State Bank of Pakistan

TURKISH LIRA

USD:TRY buy rate



Source: Central Bank of the Republic of Turkey

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The Fung Business Intelligence Centre (FBIC) collects and analyses market data on sourcing, supply chains, distribution and retail. It also provides thought leadership on technology and other key issues shaping their future.

Headquartered in Hong Kong, FBIC leverages unique relationships and information networks to track and report on trends and developments in China and other Asian countries. In addition, its New York-based Global Retail & Technology research team follows broader retail and technology trends, specialising in how they intersect and building collaborative knowledge communities around the revolution occurring worldwide at the retail interface.

Since its establishment in 2000, the FBIC (formerly known as the Li & Fung Research Centre) has served as the knowledge bank and think tank for the Fung Group. Through regular research reports and other publications, it makes its market data, impartial analysis and expertise available to businesses, scholars and governments around the world. It also provides advice and consultancy services to colleagues and business partners of the Fung Group on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

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