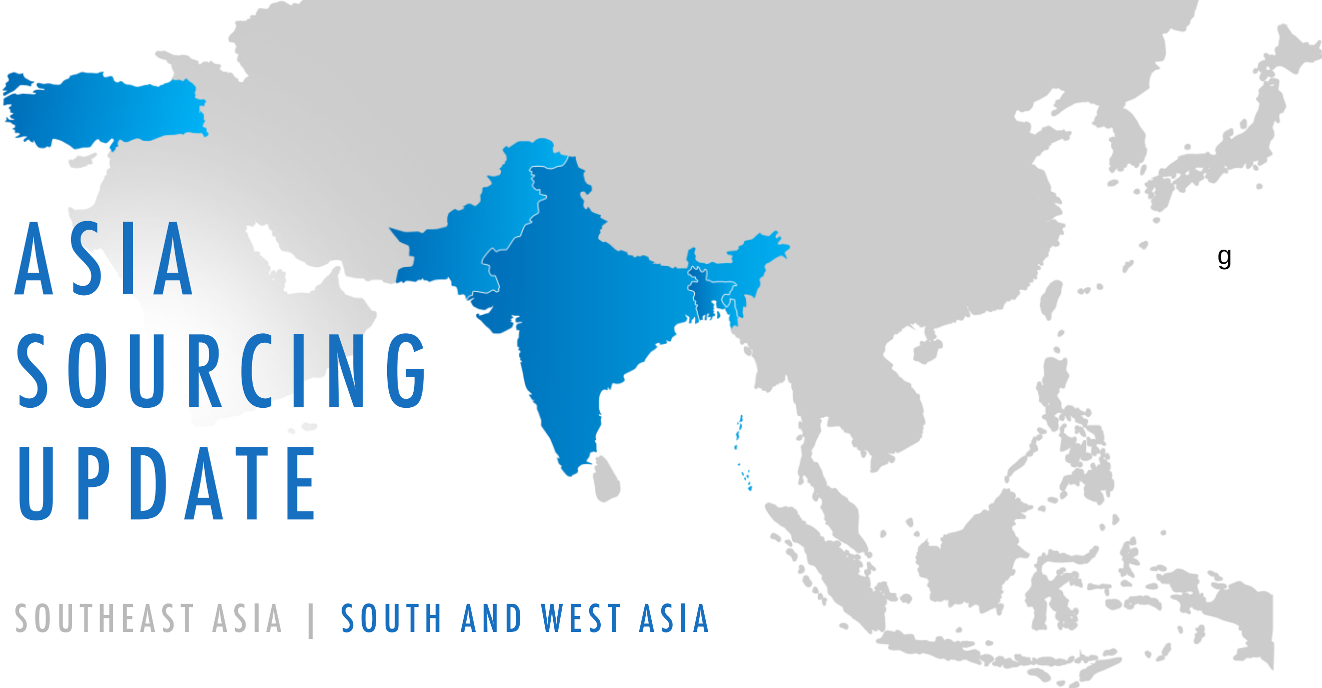

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

JULY 2019

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IN THE NEWS

BANGLADESH

RMG EXPORTS GROW BY 12.82% YOY IN FIRST 11 MONTHS OF 2018-19 FISCAL YEAR

Bangladesh's readymade garment (RMG) exports to global markets saw a 12.82% yoy rise to US$31.73 billion in the first 11 months of the 2018-19 fiscal year (July 2018 – June 2019), according to the Export Promotion Bureau (EPB)'s provisional data.

Of the total export earnings by the apparel sector, knitwear exports amounted to US$15.68 billion during the 11-month period, which is 12.50% higher than the same period of the previous fiscal year. Exports of woven products rose by 13.13% yoy to US$16.05 billion during the same period.

The specialised textile sector saw a 33.79% yoy growth to US$138 million in the first 11 months of the fiscal year, while home textile products saw a negative growth of minus 2.69% yoy to US$801 million.

Speaking to local newspaper *The Independent*, Siddiqur Rahman, former president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), was upbeat about the future prospect of the RMG sector. 'Our capacity has also increased. We can produce any quantity of garment items as we have expanded our operations over the years,' he commented.

Rahman also commended the Bangladeshi government's cash incentive programme, which is currently set at 4%, for exporting specific garments to non-traditional markets. By helping apparel makers overcome difficulties and time spent in entering new markets, the cash incentives have contributed to the double-digit export growth rate of the RMG sector.

BANGLADESH

RMG SECTOR GETS ADDITIONAL INCENTIVE IN 2019-20 FISCAL YEAR

On 30 June, the Bangladeshi Parliament passed the 5.23 trillion takas national budget for the 2019-20 fiscal year, with the theme of 'Bangladesh on a Pathway to Prosperity: Time is Ours, Time for Bangladesh.' The budget includes a series of incentives for the readymade garment (RMG) sector, as proposed by finance minister AHM Mustafa Kamal on 13 June.

In the previous fiscal year, only specific sub-sectors of RMG are getting 4% export incentives (including exports by small and medium enterprises, exports to non-traditional markets, and exports of new RMG product categories). For the 2019-20 fiscal year, in addition to the existing incentives, a 1% cash incentive will be provided for all RMG exports.

An additional 28.25 billion takas has been allocated in the budget for this purpose. The allocation was the highest amount that the RMG sector received in the last 10 years, according to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) president Rubana Huq.

The reduced corporate tax rates for the RMG and textile sectors will continue into the new fiscal year. The RMG sector is subject to a reduced corporate tax of 12% while the rate for green factories is 10%, and the textile sector is subject to a reduced corporate tax rate of 15%.

On the other hand, the tax at source on RMG exports would be reinstated at 1% in the new fiscal year. The government previously reduced the tax rate to 0.25% through a statutory regulatory order, which expired on 30 June.

BANGLADESH

BANGLADESH'S TRADE TERMS WITH UK TO REMAIN UNCHANGED DESPITE BREXIT

Bangladesh High Commissioner to UK Saida Muna Tasneem said that the trade terms of Bangladesh with the UK would remain the same even if the latter withdraws from the EU.

Saida made the remarks while inaugurating an international garment expo in London on 28-29 May. According to the envoy, the UK side had indicated that as long as Bangladesh enjoys the least developed country (LDC) status, the country will enjoy the same privileges for access to the UK market as those under the EU's Generalised Scheme of Preferences (GSP).

Bangladesh has already entered the process of LDC graduation since 2018, a process that will officially finish by 2024, with a grace period until 2027. ■

INDIA

GDP GROWTH SLOWS TO 6.8% YOY IN 2018-19 FISCAL YEAR

India's GDP growth moderated to a five-year low of 6.8% yoy in the 2018-19 fiscal year (April 2018 – March 2019), lower than the 7.2% yoy growth recorded in the previous fiscal year, according to the Central Statistics Office.

The economic slowdown in the year was led by sluggish growth in the 'mining and quarrying' sector and 'agriculture, forestry and fishing' sector. Meanwhile, the 'manufacturing' sector, 'construction' sector and 'financial, real estate and professional services' sector all recorded faster growth in the 2018-19 fiscal year than the previous fiscal year.

By expenditure approach, both private final consumption expenditure and gross fixed capital formation saw faster growth in the 2018-19 fiscal year, while growth in government expenditure decelerated sharply from 15.0% yoy in the 2017-18 fiscal year to 9.2% yoy in the 2018-19 fiscal year. In terms of the external sector, exports of goods and services expanded at a much faster rate of 12.5% yoy in the year, while growth of imports of goods and services moderated.

India's general election held in April – May saw the landslide victory of the Bharatiya Janata Party (BJP) led by Indian Prime Minister Narendra Modi, which won a large parliamentary majority. The BJP's victory is likely to improve business sentiment and the outlook for private investment. It is also expected to see continuity in macroeconomic policy and a reform-minded government.

INDIA

EXPORTS INCREASE 3.9% YOY IN MAY

India's merchandise exports amounted to US$29.99 billion in May, up by 3.9% compared to the same month last year, according to data released by the Ministry of Commerce. In the April – May period, the first two months of the current fiscal year (April 2019 – March 2020), exports grew by 2.4% yoy to US$56.07 billion.

In May, major export categories registering positive year-on-year growth included electronic goods (+51.0% yoy), organic and inorganic chemicals (+20.6% yoy), readymade garments (+14.2% yoy), drugs and pharmaceuticals (+11.0% yoy) and engineer goods (+4.4% yoy). Exports of petroleum products and gems and jewellery, which were among the top three export categories, however, posted a year-on-year decline of 1.4% and 7.4%, respectively, in the month.

In view of the intensifying China-US trade war, India's Ministry of Commerce has carried out a detailed study identifying products where there is potential to increase exports to both markets, reported the *Hindu BusinessLine*. Specifically, the ministry has identified 203 products where exports could increase to the US market and replace Chinese goods, including electrical machinery and equipment, base metals, some agricultural products and chemicals, while India has the outright advantage to replace US exports to China in 151 product lines, including rubber, paper/paperboard, copper ores, equipment for transmission voice/data in a wired network, tunes and pipes.

INDIA

INDIA IMPOSES HIGHER TARIFFS ON 28 US PRODUCTS

The Indian government decided to impose higher tariffs on 28 US products, ranging from nuts, apples and pears to iron and steel products, with effect from 16 June. Earlier, the list included 29 US products, but India has finally removed artemia, a kind of shrimp, from the list.

The decision of higher tariff imposition on US exports was first made in last June in retaliation for the US's higher import duties on certain Indian steel and aluminium products, but it had been postponed for multiple times during the past year as India hoped that some solution would emerge during negotiations between the two countries on a proposed trade package. The negotiations, however, came to a halt after the US decided to withdraw export incentives to Indian exporters under its Generalised System of Preferences (GSP) programme from 5 June. The US made this policy change on the grounds that India has not assured the US that it will provide equitable and reasonable access to its markets.

India has been the largest beneficiary under the US GSP programme with US$5.7 billion GSP-eligible exports recorded in 2017. To mitigate the negative impacts on certain sectors from the withdrawal of GSP benefits, India's Ministry of Commerce is considering extending support to those affected sectors. According to the Federation of Indian Export Organisations (FIEO), imitation jewellery, leather articles (other than footwear), pharmaceuticals and surgical instruments, chemicals and plastics, and agriculture are among sectors that are likely to be worst hit by the US policy change. ■

PAKISTAN

FDI FALLS BY 49.2% YOY IN JULY 2018 – MAY 2019

Net inflows of foreign direct investment (FDI) into Pakistan amounted to US$1.61 billion in the first 11 months of the 2018-19 fiscal year (July 2018 – June 2019), down sharply by 49.2% compared to the same period of the previous fiscal year, according to data released by the State Bank of Pakistan (SBP).

By source of investment, the Chinese Mainland remained the largest foreign investor in Pakistan with net inflows of FDI amounting to US$495.7 million in the 11-month period, followed by the United Kingdom (US$171.2 million), Hong Kong (US$130.8 million) and Norway (US$110.7 million).

A sector-wise breakdown of the statistics shows that construction, oil and gas exploration and financial activities were the top three most attractive sectors, with a share of 24.5%, 18.6% and 16.8%, respectively, in net inflows of FDI in the 11-month period.

The delay in the bailout package from the International Monetary Fund (IMF) has caused uncertainty to foreign investors, who are taking a wait-and-see approach on the expectations of further macroeconomic adjustments and currency depreciations in Pakistan under the potential IMF bailout package. In addition, China has slowed down its investment under the China-Pakistan Economic Corridor (CPEC) project as a number of large projects are near completion.

PAKISTAN

PAKISTAN AGREES TO US$6 BILLION BAILOUT PACKAGE FROM IMF

The Pakistani government reached an agreement with the IMF on 12 May for a 39-month, US$6 billion bailout package to avert a balance-of-payments crisis triggered by high fiscal and current-account deficits and depleting foreign exchange reserves. The loan represents the 13th bailout from the IMF to Pakistan since the late 1980s.

According to data released by the State Bank of Pakistan (SBP), SBP's net foreign exchange reserves shrank to US$7,862.6 million as of the end of May, which was insufficient to cover even three months of trade deficit — the country's monthly trade deficit stood at US$2,655.2 million on average during the July 2018 – May 2019 period.

Under the bailout package offered by the IMF, Pakistan will have a market-determined exchange rate, which means that the Pakistani rupee is likely to undergo further depreciation. The interest rate will also be hiked up. And the federal budget for the 2019-20 fiscal year will be based on austerity, by eliminating tax exemptions, curtailing special treatments and improving tax administration, reported the *New York Times* on 12 May.

The Pakistani rupee fell to an all-time low of 164.06 against the US dollar in the interbank foreign exchange market on 27 June, apparently due to mounting pressures from import payment and foreign debt repayment. It represented a sharp depreciation of 13.7% against the greenback since mid-May when the exchange rate of the rupee stood at around 141.625 per US dollar.

PAKISTAN

HUTCHISON PORTS TO DOUBLE HANDLING CAPACITY BY END-2020

Hutchison Ports Pakistan (HPP), the country's first deep-water container terminal located in Karachi, has entered its second phase of expansion, General Manager of HPP Rashid Jamil said at a media briefing in May.

Starting commercial operations from February 2017, the port at present has an annual handling capacity of 1.5 million TEUs (twenty-foot equivalent units). And the second phase expansion, which will cost US$1.4 billion, is expected to enhance the port's annual handling capacity to 3.4 million TEUs by the end of next year, according to Rashid Jamil. A four-lane railway cargo track of around 4-5 kilometres inside the port facility, coupled with an increase in installed capacity of power production are also included in the second phase expansion plan.

Currently, containerised cargo transported at the port is mostly from China, the single largest trading partner of Pakistan, followed by Europe and the US. ■

TURKEY

TRADE DEFICIT SHRINKS BY 76.5% YOY IN MAY

According to foreign trade statistics released by the Turkish Statistical Institute, Turkey's trade deficit shrank by 76.5% yoy to US$1.84 billion in May, the 12th consecutive month that recorded a trade deficit. In the first five months of this year, the country's trade deficit saw a substantial contraction of 67.0% compared to the same period last year.

In May, exports posted an increase of 12.1% yoy to US$15.98 billion, the highest growth rate since last October, while the country saw its imports decline by 19.3% yoy to US$17.82 billion, the 12th consecutive month that registered a year-on-year contraction in imports.

The continued increase in exports and slowdown in imports are effective in improving the country's foreign trade balance. Particularly, the lira crisis since last April, triggered by concerns over the country's widening current account deficit, overheating economy and the Turkey-US diplomatic tensions, has made imports more expensive and thus reduced import demand, while at the same time has improved price competitiveness of the Turkish exports. The lira depreciated by around 33% against the US dollar over the April – September period last year and fluctuated at the range of 5.16 – 6.16 per US dollar for the rest of the year, based on spot exchange rates provided by *Bloomberg*. As of 28 June, the exchange rate of lira stood at 5.79 per US dollar, representing a year-to-date depreciation of 8.7%.

TURKEY

TURKEY HALVES TARIFFS ON 22 US IMPORTS TO RECIPROCATE US' MOVE TO HALVE DUTIES ON TURKISH STEEL PRODUCTS

The US decided to reduce from 50% to 25% the section 232 tariff on steel products imported from Turkey, with effect from 21 May. The decision came after the withdrawal of duty-free privilege to Turkish exporters under the US Generalised System of Preferences (GSP) as of 17 May.

Reciprocally, the Turkish government decided to reduce by half the additional duties levied on 22 products originating from the US, including passenger cars, alcoholic drinks, tobacco, cosmetics, rice and polyvinyl chloride (PVC). Prior to the decision, Turkey imposed tariffs on US whiskey at 140%, while the rate was at 120% for passenger cars, 50% for PVC and 60% for cosmetic products.

Amid a diplomatic row between the two countries over the arrest of American pastor Andrew Brunson in Turkey, the US had doubled tariffs on Turkish steel and aluminum imports last August. Turkey retaliated by doubling tariffs on selected US imports. The Turkey-US tensions started to ease following the release of the US pastor last October.

Turkish President Recep Tayyip Erdoğan and US President Donald Trump held a meeting on the sidelines of the G20 summit in Japan in June. Despite disputes over Turkey's deal to purchase Russia's S-400 missile defense system, the atmosphere of the Turkey-US meeting turned out to be positive. Trump said Turkey is a friend of the US and proposed to increase the annual bilateral trade goal to US$100 billion from US$75 billion set in February this year.

TURKEY

PTA PLANT PROJECT IN THE PIPELINE TO SUPPORT TURKISH TEXTILE INDUSTRY

The State Oil Company of the Azerbaijan Republic (SOCAR) and British Petroleum (BP) intend to commence construction of a "world-scale" petrochemical plant in Aliağa, a district in İzmir province in the Aegean region of Turkey, by the end of next year, reported *Just-Style* on 1 May. The plant, a joint venture between the two companies, will produce purified terephthalic acid (PTA) to support the country's growing polyester packaging and textile industries.

Estimated to cost US$1.8 billion, construction of the facility is expected to be completed by 2023. Once operational, the facility will produce 1.25 million tons of PTA, 840,000 tons of paraxylene (PX) and 340,000 tons of benzene annually. PTA is used in the manufacture of food and beverage containers, packaging materials, fabrics, films and other industry applications.

According to BP's global aromatics unit CEO Luis Sierra, the plant will become the largest integrated PTA, PX and aromatics complex in the Western Hemisphere and BP's first major new aromatics platform since its Zhuhai site in China opened nearly 20 years ago. He added that the cooperation between BP and SOCAR would create an outstanding platform to serve Turkey's growing polyester packaging and textile industries. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Quantum index of medium and large-scale manufacturing (yoy growth %)	11.0	13.4	-	-	-	-
Consumer price index (yoy growth %)	5.4	5.5	5.6	5.6	5.6	-
Exports (yoy growth %)	8.0	10.1	9.4	2.7	14.8	-
Exports (FOB, US$ mn)	3,679.7	3,383.2	3,340.2	3,034.2	3,813.4	-
Of which:						
Knitwear (US$ mn)	1,488.0	1,352.5	1,307.8	1,284.1	1,597.5	-
Woven garments (US$ mn)	1,644.6	1,556.4	1,517.2	1,255.2	1,645.7	-
Home textile (US$ mn)	81.3	78.4	78.8	76.3	77.3	-
Footwear* (US$ mn)	81.8	58.3	59.3	56.3	97.1	-
Leather products (US$ mn)	20.9	16.9	24.3	20.8	29.3	-
Imports (yoy growth %)	9.7	-5.8	11.0	4.8	-	-
Imports (C&F, US$ mn)	5,543.1	4,118.2	4,951.7	5,103.6	-	-

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

INDIA

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Quarterly GDP (real yoy growth %)		5.8 (4Q18)			-	
Index of industrial production (yoy growth %)	1.6	0.1	0.4	3.4	-	-
Manufacturing PMI (Nikkei)	53.9	54.3	52.6	51.8	52.7	52.1
Wholesale price index (yoy growth %)	2.8	2.9	3.1	3.1	2.5	-
Consumer price index (yoy growth %)	2.1	2.6	2.9	3.0	3.1	-
Exports (yoy growth %)	3.7	2.4	11.0	0.5	3.9	-
Exports (FOB, US$ mn)	26,360.2	26,667.6	32,548.0	26,070.1	29,994.5	-
Of which:						
Knitwear (US$ mn)	704.7	662.8	747.9	611.5	-	-
Woven garments (US$ mn)	823.5	883.5	970.5	797.2	-	-
Footwear (US$ mn)	272.7	269.5	245.7	211.1	-	-
Furniture (US$ mn)	157.6	137.4	162.7	133.0	-	-
Imports (yoy growth %)	0.0	-5.4	1.4	3.6	4.3	-
Imports (CIF, US$ mn)	41,085.8	36,263.0	43,439.9	41,401.1	45,354.0	-
Trade balance (US$ mn)	-14,725.6	-9,595.4	-10,891.9	-15,331.0	-15,359.5	-

** Financial year in India starts in April.*
Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Nikkei PMI reports

PAKISTAN

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Quantum index of large-scale manufacturing (yoy growth %)	-1.4	-1.4	-11.3	-7.8	-	-
Consumer price index (yoy growth %)	7.2	8.2	9.4	8.8	9.1	8.9
Exports (yoy growth %)	4.0	-0.4	-11.1	-1.6	-1.7	-
Exports (US$ mn)	2,043.1	1,888.9	1,978.8	2,093.6	2,102.4	-
Of which:						
Garments (US$ mn)	504.9	441.3	430.2	473.4	527.0	-
Bed linen (US$ mn)	193.3	175.4	189.2	180.8	188.3	-
Towels (US$ mn)	68.4	70.1	71.3	70.7	72.6	-
Leather products (US$ mn)	40.7	38.5	33.2	40.4	44.7	-
Sporting goods (US$ mn)	25.0	21.9	23.9	32.0	29.7	-
Imports (yoy growth %)	-19.1	-12.3	-20.9	-6.4	-12.8	-
Imports (US$ mn)	4,503.7	4,179.9	4,155.3	4,752.6	5,042.0	-
Balance of trade (US$ mn)	-2,460.6	-2,291.0	-2,176.5	-2,659.0	-2,939.6	-

Source: Pakistan Bureau of Statistics, State Bank of Pakistan

TURKEY

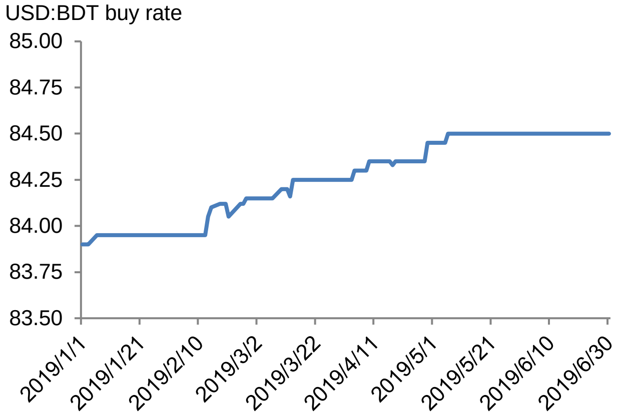
	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Quarterly GDP (real yoy growth %)		-2.6 (1Q19)			-	
Industrial production index, manufacturing (yoy growth %)	-7.6	-5.4	-2.4	-4.2	-	-
Industrial turnover index, manufacturing (yoy growth %)	20.2	20.5	25.6	22.3	-	-
Manufacturing PMI (Istanbul Chamber of Industry)	44.2	46.4	47.2	46.8	45.3	47.9
Producer price index (yoy growth %)	32.9	29.6	29.6	30.1	28.7	25.0
Consumer price index (yoy growth %)	20.4	19.7	19.7	19.5	18.7	15.7
Exports (yoy growth %)	6.0	3.2	-0.6	4.5	12.1	-
Exports (US$ mn)	13,181.7	13,572.0	15,463.7	14,467.5	15,981.1	-
Of which:						
Knitwear (US$ mn)	716.3	708.9	826.3	746.9	811.5	-
Woven garments (US$ mn)	522.0	547.3	666.3	578.5	598.6	-
Furniture (US$ mn)	243.0	261.1	304.1	298.4	337.0	-
Imports (yoy growth %)	-27.2	-16.9	-17.8	-15.1	-19.3	-
Imports (US$ mn)	15,670.7	15,728.5	17,627.1	17,461.5	17,818.9	-
Balance of trade (US$ mn)	-2,489.0	-2,156.6	-2,163.3	-2,993.9	-1,837.8	-

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

DAILY EXCHANGE RATES

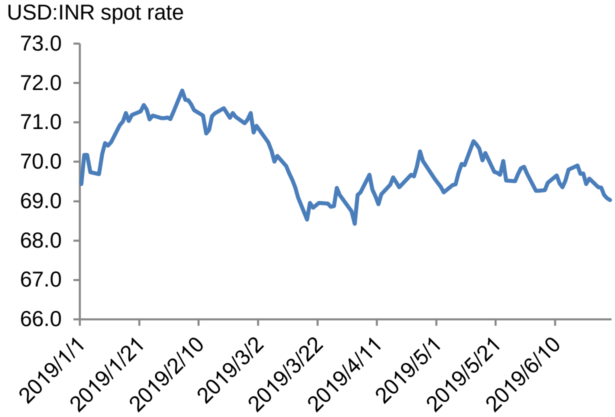
JANUARY – JUNE 2019

BANGLADESHI TAKA



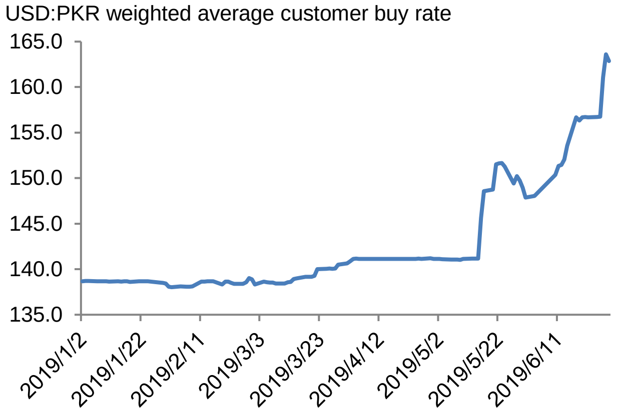
Source: Bangladesh Bank

INDIAN RUPEE



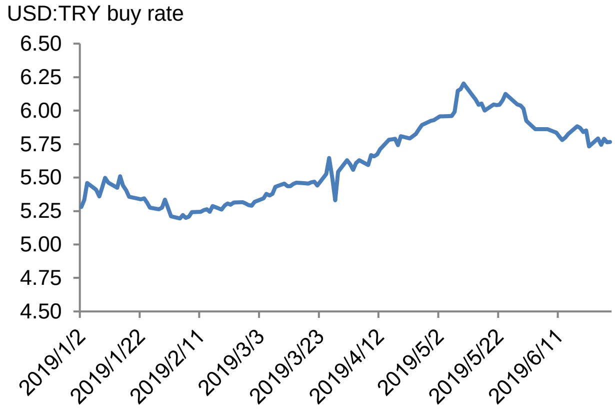
Source: Bloomberg

PAKISTANI RUPEE



Source: State Bank of Pakistan

TURKISH LIRA



Source: Central Bank of the Republic of Turkey

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Fung Business Intelligence was established in the year 2000.

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For more information, please visit www.funggroup.com

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