



# ASIA SOURCING UPDATE

SOUTHEAST ASIA | SOUTH AND WEST ASIA

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# IN THE NEWS

## BANGLADESH



### INFLATION DROPS TO 42-MONTH LOW IN APRIL

Bangladesh's general inflation, as measured by the year-on-year change in the consumer price index, edged down to 5.61% in April from 5.65% in March, registering the lowest year-on-year inflation since October 2012, according to data released by the Bangladesh Bureau of Statistics (BBS) on 3 May. The average year-on-year inflation rate in May 2015 - April 2016 was 6.04%, down from 6.56% in the preceding 12-month period.

The BBS attributed the fall to declining prices of food products, including rice. According to the BBS, food inflation dropped to 3.84% yoy in April from 3.89% yoy in March. Non-food inflation also eased to 8.34% yoy from 8.36% yoy in the previous month due to declines in global commodity prices.

Citing the recent trend, Planning Minister AHM Mustafa Kamal forecast that inflation will not rise during Ramadan despite possible increase in consumption level.

Meanwhile, the World Bank, in the latest edition of its *Bangladesh Development Update* released on 30 April, says the country's non-food inflation, which has perpetually remained above 8% yoy, is high. The persistence of high inflation amidst declining global commodity prices reflects the influence of supply-side bottlenecks and a lack of pass-through of international price to the domestic market, says the World Bank report.

### BANGLADESH

### MANDATORY CONTRIBUTIONS TO THE RMG WELFARE FUND BEGINS ON 1 JULY

The government will start collecting contributions on 1 July for the Readymade Garment Industry Central Fund to finance labour welfare schemes, according to the decision during the first board meeting of the Fund, which took place in May.

The fund was set up in line with a provision of the amended Labour Law 2013, which requires formation of sector-based central welfare funds for the country's export-oriented sectors. Owners of export-oriented readymade garment factories are required to contribute 0.03% of their export value, in terms of free-on-board (FOB) prices, to the sector's central fund, while contributions from the government and foreign buyers are voluntary.

The contributions will be allocated equally to two accounts, namely the beneficiary account and the contingency account. Grants for workers or their family members will be withdrawn from the beneficiary account while the money in the contingency account will be used to meet the dues of workers of any closed factory if the factory owner is unable to pay the workers. From the beneficiary account, a worker would get up to 300,000 taka in case of death or permanent disability due to an accident in the workplace and up to 200,000 taka in case of illness.

### BANGLADESH

### NEW VAT ACT TAKES EFFECT ON 1 JULY

The VAT Act 2012, which stipulates that a 15% flat value-added tax (VAT) rate should be applied to all

sectors at all stages of production and sale, will come into effect on 1 July.

Finance Minister AMA Muhith confirmed at a meeting with the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) on 28 April that the new VAT rate will be applicable from the next fiscal year (1 July 2016 - 30 June 2017). However, Commerce Minister Tofail Ahmed clarified on 15 May that the government would take time and implement the new VAT by phases if necessary, adding that both Muhith and himself would be cautious about the implementation of the new law.

Under the current system, different methods of calculating VAT apply to different businesses. For example, small retail businesses pay a lump sum VAT; preferential rates are applied to several services; net VAT rates ('truncated rates') are imposed on a number of goods and services where accurate calculation based on the invoice method is difficult.

The new VAT law has met with strong opposition from the business community because of the anticipated administrative and financial burden. In particular, the new VAT law is widely viewed as harassment on small businesses, which often do not have the capacity to maintain proper accounts of all purchases. In addition, a report by the National Board of Revenue (NBR) also expressed concerns that consumer prices could shoot up following the implementation of the new VAT Act.



## EXPORTS CONTRACT FOR THE 17TH CONSECUTIVE MONTH

Weighed down by sluggish external demand, decline in global commodity prices and a weak Indian rupee against the US dollar, India's merchandise exports dropped by 6.7% yoy to US\$20.6 billion in April, the 17<sup>th</sup> consecutive month that registered a year-on-year decline, according to

data released by the Ministry of Commerce and Industry.

In April, exports of petroleum products, which accounted for 9.6% of total exports in the month, fell 28.2% yoy, while exports of non-oil commodity declined 2.7% yoy. Non-commodity exports contracted by 4.1% yoy in April, compared with the 2.5% yoy drop recorded in March. The faster pace of decline in non-commodity exports in the month was led by the drop in exports of engineering goods (-18.9% yoy), manmade yarn and fabrics (-10.1% yoy), readymade garments (-8.1% yoy), and leather and leather products (-6.4% yoy).

India's imports, on the other hand, contracted at a faster pace of 23.1% yoy in April compared with 21.6% yoy in March, bringing the country's trade deficit to a five-year low.

### INDIA

## INDIA AND EU FAIL TO RESUME FTA NEGOTIATIONS

During the 13<sup>th</sup> EU-India Summit held in Brussels in late March, the EU and India endorsed the 'EU-India Agenda for Action 2020', a concrete roadmap for the EU-India strategic partnership for the next five years. However, both sides remained muted on the negotiations on the Broad-based Trade and Investment Agreement (BTIA), a free trade agreement between the EU and India, which were launched in 2007 and have been stalled since 2013.

Although the joint statement of the summit said 'the leaders welcomed that both sides have re-engaged in discussions with a view to considering how to further the EU-India BTIA negotiations', both sides did not announce a specific date to restart the talks or a possible completion date for the negotiations.

The talks remained deadlocked as the two parties are yet to bridge substantial gaps on crucial issues, including India's demand for more access to the European market for its professionals under service trade, and the EU's demand for tariff elimination on wine, spirits and automobiles.

Moreover, the planned United Kingdom EU membership referendum, which is scheduled to be held on 23 June to decide whether the country should remain in the EU, is said to complicate the trade negotiations between the EU and India. Both sides are closely watching how the situation evolves and what outcomes may result.

## INDIA

### GOVERNMENT PROPOSES TO RAISE MONTHLY MINIMUM WAGE FOR CONTRACT WORKERS TO 10,000 RUPEES

The Central Government has proposed recently to amend the Contract Labour (Regulation & Abolition) Central Rules (1971) to fix minimum wage for contract workers at 10,000 rupees (US\$150) per month nationwide. The move is part of the government's efforts to check exploitation of workers employed on a contractual basis. The final notification will be issued after considering comments from all stakeholders.

At present, employers are required to pay contract workers the fixed minimum wages, which is around 6,000 rupees per month, for 45 economic activities stipulated in the Minimum Wage Act (1948). The proposed move will drastically increase the minimum wages for contract workers. Besides, the proposed wage level will apply to all kinds of work across all states, which contradicts the current system where each state fixes minimum wages for workers of different skill levels based on local conditions.

The proposal has met with strong opposition from the apparel industry. According to Shri H K L Magu, Vice Chairman of the Apparel Export Promotion Council (AEPCC), if the proposed wage increase is uniformly implemented across the country, some states such as Odisha and Rajasthan will see an over 90% increase in wages for contract workers, while most other states will see an over 30% increase. He added that, for the labour-intensive apparel industry, the proposed wage increase will definitely reduce the flexibility of hiring contract workers, especially in the peak order season. Tirupur Exporters' Association (TEA), representing

the largest knitwear production hub in India, has also expressed serious concerns over the government's wage hike proposal. ■

## PAKISTAN



### INFLATION CLIMBS TO 4.2% YOY IN APRIL

Pakistan's inflation, as measured by the year-on-year change in the consumer price index, went up from 3.9% yoy in March to 4.2% yoy in April, the highest since January 2015, according to data released by the Pakistan Bureau of Statistics. In the first ten months of the current fiscal year (July 2015 - June 2016), average inflation stood at 2.8% yoy.

The acceleration in inflation was mainly driven by price increase in 'food and non-alcoholic beverages', which climbed up by 3.5% yoy in April compared with the 2.5% yoy increase in March. Other major categories that witnessed inflation acceleration in the month included 'housing, water, electricity, gas and fuels', 'health' and 'alcoholic beverages and tobacco'. Meanwhile, price increases in 'clothing and footwear', 'furnishing and household equipment maintenance' and 'education' moderated in April.

The central bank of Pakistan expects average inflation in the current fiscal year would remain in the range of 3-4%, while the Asian Development Bank stated in its *Asian Development Outlook 2016* released in March that it expected Pakistan's inflation to average at 3.2% in the current fiscal year, reflecting lower global oil and commodity prices.

## PAKISTAN

### AGREEMENT SIGNED TO PROMOTE TEXTILE AND APPAREL COOPERATION WITH CHINESE COMPANIES

A memorandum of understanding (MoU) was signed between the Pakistan Readymade Garments Manufacturers & Exporters Association

(PRGMEA) and the China Chamber of Commerce for Import and Export of Textile and Apparel (CCCT) during the China & Asia Textile Forum 2016 held in Shanghai in March.

It was the first time that a Pakistani garment body signed an agreement with an overseas chamber for strengthening cooperation in the sector. With more than 1,000 members, the PRGMEA is the largest association of Pakistani garment manufacturers and exporters, while the CCCT has more than 12,000 member companies operating in 34 provinces across China.

According to the MoU signed, the two bodies have agreed to manage business contacts, seminars, meetings, business trips and exhibitions to strengthen business cooperation and explore trade possibilities between the two countries. Meanwhile, it is expected that garment companies from China will establish their production facilities in the economic zones planned along the China-Pakistan Economic Corridor through joint ventures, according to industry insiders.

## PAKISTAN

### ORGANIC COTTON PROJECT LAUNCHED IN BALOCHISTAN

World Wildlife Fund (WWF)-Pakistan and the Agriculture Extension Department Balochistan signed a memorandum of understanding (MoU) in May to initiate a three-year partnership for promoting organic cotton farming in Balochistan, a southwest province in Pakistan.

The project is aimed at improving the income and yield of organic cotton farmers by introducing new farming techniques and working with other parts of the supply chain to put an effective system in place for procurement of organic cotton. The project will focus on the Lasbela, Sibi and Barkhan districts. If the cotton crop produced adheres to the standards of organic cotton farming in its initial two years, the yield will be certified as organic cotton in the third year.

Pakistan is the fourth largest producer and the fourth largest exporter of raw cotton in the world.

Cotton and cotton products contribute about 10% to the country's GDP and 55% to the country's export earnings. According to the Pakistan Cotton Ginners' Association, Pakistan's cotton production plunged 34.3% yoy to 9.8 million bales in the current season ending in mid-April, due to reduced acreage of cotton farming amid changing climate conditions and sluggish global cotton prices. ■

## TURKEY



### EXPORTS DROP 10.2% YOY IN APRIL

Turkey's exports amounted to US\$12.0 billion in April, down 10.2% compared to the same month last year, according to provisional data released by the Turkish Statistical Institute. Exports slipped back into a year-on-year contraction in the month, after a rebound in February and March this year.

A product-wise breakdown shows that exports of 'precious stones, metals and pearls', which plunged 61.6% yoy in April, led the decline. Other major export categories witnessed year-on-year drops in the month included 'iron and steel' (-33.4%), 'mineral fuels/oil and related distilled products' (-38.1%) and 'fruits and nuts' (-13.6%). On the other hand, exports of knitwear and woven garments grew steadily by 10.8% yoy and 13.7% yoy in April.

By export destination, Turkey's exports to the top four markets, namely Germany, the United Kingdom, Italy and the US, continue to grow on year-on-year basis in April, while exports to Iraq, the United Arab Emirates, Saudi Arabia and Egypt saw double-digit year-on-year declines.

Turkey's imports stood at US\$16.2 billion in April, down 11.9% yoy, the eighth consecutive month in which imports recorded a sharper decline than exports. Trade deficit narrowed to US\$4.2 billion on weaker imports.

## TURKEY

### SUDDEN CHANGE OF PRIME MINISTER LEADS TO HEIGHTENED UNCERTAINTY

Turkey's Prime Minister Ahmet Davutoğlu, who had served in the position since 2014, resigned unexpectedly on 5 May after a public rift with President Recep Tayyip Erdoğan, and stepped down as the leader of the ruling Justice and Development Party (AKP) at the same time.

It has been reported that Davutoğlu and President Erdoğan disagree over a number of issues, including economic policies, an accord with the EU on refugees and Turkey's peace process with the Kurdish militants. And Davutoğlu's little enthusiasm for President Erdoğan's ambition to transform the country's parliamentary governance into a presidential system has enlarged the divide between the two.

In the extraordinary party congress on 22 May, the AKP appointed the Transport Minister Binali Yıldırım – a long-time political ally of President Erdoğan and co-founder of the AKP – as its party leader, meaning that Yıldırım automatically became the new Prime Minister. In contrast to Davutoğlu, Yıldırım is in support of a change to a presidential system of government. To reassure investors and European partners, Yıldırım retained Mehmet Şimşek as the Deputy Prime Minister, who is regarded by market as an advocate for far-reaching economic reforms.

The unexpected change at the helm of the government will definitely transfer more executive power to President Erdoğan, heightening investors' concerns about the quality of economic policy making and the risk of hollowing out of all government institutions.

## TURKEY

### 3% ANTI-DUMPING DUTY PLACED ON US COTTON IMPORTS

The Turkish government announced on 17 April a 3% anti-dumping duty on US cotton imports, with immediate effect. Turkey is the second largest

buyer of US cotton, with shipments ranging from 1.5 million to 2 million bales per year.

Although the decision to introduce the duty has been widely expected as it was hinted by Turkey's Ministry of Economy in February this year, Turkey's textile and garment exporters have shown opposition against the government decision. It is expected that the anti-dumping duty will increase raw material costs of domestic textile producers by 2-3%, eroding the competitiveness of Turkish textile and garment exports, according to İsmail Gülle, head of the Istanbul Textile and Raw Materials Exporters Union. He added that US cotton has special use for the industry, which cannot be easily substituted.

The anti-dumping investigation into US cotton began in October 2014 amid assertions that US cotton was dumped into Turkey, hurting domestic cotton production. However, Shane Stephens, Chairman of the National Cotton Council of America, doubted that the investigation itself lacked transparency, and the investigation was conducted clearly in response to several US trade investigations into Turkish steel imports. ■

# MAJOR ECONOMIC INDICATORS

## BANGLADESH

	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
Quantum index of medium and large-scale manufacturing (yoy growth %)*	13.3	17.2	13.3	20.0	-	-
Consumer price index (yoy growth %)*	6.1	6.1	6.1	5.6	5.7	5.6
Exports (yoy growth %)	13.7	12.7	10.4	13.6	9.2	11.8
Exports (FOB, US\$ mn)	2,749.3	3,204.1	3,185.6	2,854.2	2,831.4	2,682.1
<i>Of which:</i>						
Knitwear (US\$ mn)	1,066.3	1,195.3	1,169.7	1,041.7	1,030.9	1,063.1
Woven garments (US\$ mn)	1,158.1	1,477.5	1,456.0	1,324.7	1,281.5	1,133.6
Home textile (US\$ mn)	56.7	71.7	-	-	71.2	67.7
Footwear (US\$ mn)	66.5	73.9	-	-	46.0	37.0
Leather products (US\$ mn)	37.3	31.2	-	-	44.6	27.4
Imports (yoy growth %)	3.2	0.8	4.0	1.1	6.7	-
Imports (C&F, US\$ mn)	3,399.9	3,651.5	3,437.5	3,070.1	3,361.0	-

\* 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

	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
Quarterly GDP (real yoy growth %)*	7.2 (3Q15)			7.9 (4Q15)		
Index of industrial production (yoy growth %)	-3.4	-1.2	-1.5	2.0	0.1	-
Manufacturing PMI (Nikkei)	50.3	49.1	51.1	51.1	52.4	50.5
Wholesale price index (yoy growth %)	-2.0	-1.1	-0.9	-0.9	-0.9	0.3
Consumer price index (yoy growth %)	5.4	5.6	5.7	5.3	4.8	5.4
Exports (yoy growth %)	-24.4	-14.8	-13.6	-5.7	-5.5	-6.7
Exports (FOB, US\$ mn)	20,014.2	22,297.5	21,075.6	20,738.6	22,718.7	20,568.9
<i>Of which:</i>						
Readymade garments (US\$ mn)	1,184.5	1,458.3	1,490.8	1,527.8	1,506.6	1,326.6
Cotton yarn and fabrics (US\$ mn)	655.3	746.2	739.1	766.4	839.4	691.4
Imports (yoy growth %)	-30.3	-3.9	-11.0	-5.0	-21.6	-23.1
Imports (CIF, US\$ mn)	29,795.9	33,961.5	28,714.5	27,280.4	27,789.6	25,413.7
Trade balance (US\$ mn)	-9,781.7	-11,664.0	-7,638.9	-6,541.8	-5,070.9	-4,844.9

\* 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

	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
Quantum index of large-scale manufacturing (yoy growth %)	4.7	2.3	5.0	2.8	6.8	-
Consumer price index (yoy growth %)	2.7	3.2	3.3	4.0	3.9	4.2
Exports (yoy growth %)	-15.1	-16.8	-13.9	-4.7	-9.6	-13.4
Exports (US\$ mn)	1,661.9	1,787.6	1,771.8	1,791.0	1,741.9	1,721.6
<i>Of which:</i>						
Garments (US\$ mn)	350.4	394.9	418.5	363.9	347.5	375.7
Bed linen (US\$ mn)	161.1	152.2	170.1	171.8	167.1	169.9
Towels (US\$ mn)	61.8	60.6	64.4	60.9	61.3	68.0
Leather products (US\$ mn)	40.3	48.7	45.8	41.6	35.6	41.7
Sporting goods (US\$ mn)	23.0	27.9	22.4	26.4	27.0	32.4
Imports (yoy growth %)	7.5	0.2	14.6	0.2	3.1	1.6
Imports (US\$ mn)	3,866.0	3,843.4	3,483.9	3,303.6	3,569.1	3,846.5
Balance of trade (US\$ mn)	-2,204.1	-2,055.8	-1,712.1	-1,512.5	-1,827.2	-2,124.9

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

## TURKEY

	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
Quarterly GDP (real yoy growth %)	5.7 (4Q15)			-		
Industrial production index, manufacturing (yoy growth %)	4.4	4.5	5.6	6.3	3.4	-
Industrial turnover index, manufacturing (yoy growth %)	13.6	9.4	13.2	13.7	7.4	-
Manufacturing PMI (Istanbul Chamber of Industry)	50.9	52.2	50.9	50.3	49.2	48.9
Producer price index (yoy growth %)	5.3	5.7	5.9	4.5	3.8	2.9
Consumer price index (yoy growth %)	8.1	8.8	9.6	8.8	7.5	6.6
Exports (yoy growth %)	-10.5	-11.1	-22.4	1.2	2.0	-10.2
Exports (US\$ mn)	11,682.6	11,752.6	9,551.0	12,374.8	12,772.1	11,983.4
<i>Of which:</i>						
Knitwear (US\$ mn)	768.0	728.3	669.9	712.5	768.9	788.7
Woven garments (US\$ mn)	452.5	481.8	486.7	534.9	562.0	560.9
Furniture (US\$ mn)	237.8	241.1	184.5	232.4	249.4	237.5
Imports (yoy growth %)	-25.3	-17.5	-19.2	-8.1	-5.2	-11.9
Imports (US\$ mn)	15,972.8	17,978.7	13,453.1	15,574.7	17,756.9	16,190.4
Balance of trade (US\$ mn)	-4,290.1	-6,226.1	-3,902.2	-3,199.9	-4,984.9	-4,207.0

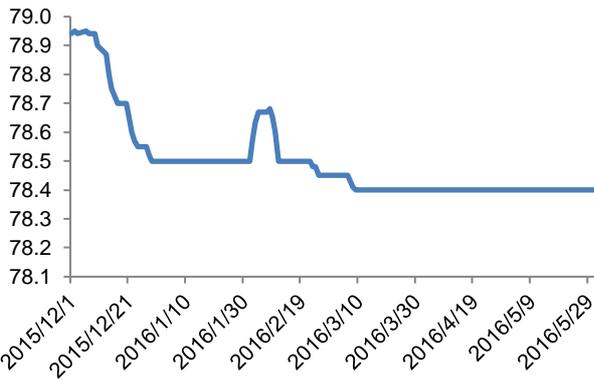
Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

# DAILY EXCHANGE RATES

## DECEMBER 2015 - MAY 2016

### BANGLADESHI TAKA

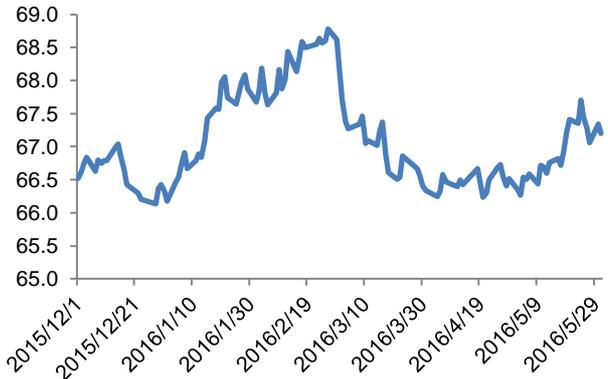
USD:BDT buy rate



Source: Bangladesh Bank

### INDIAN RUPEE

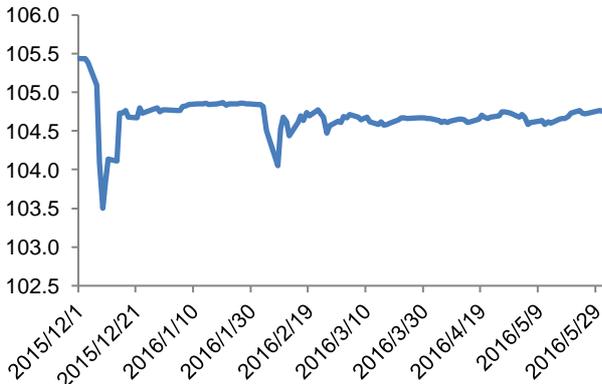
USD:INR RBI reference rate



Source: Reserve Bank of India (RBI)

### PAKISTANI RUPEE

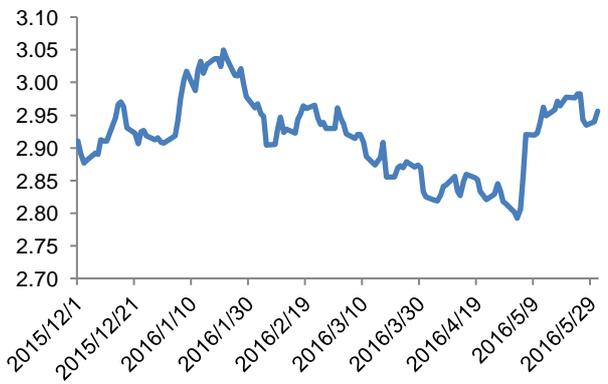
USD:PKR weighted average customer buy rate



Source: State Bank of Pakistan

### TURKISH LIRA

USD:TRY buy rate



Source: Central Bank of the Republic of Turkey

## THE FUNG BUSINESS INTELLIGENCE

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