



ASIA SOURCING UPDATE

SOUTHEAST ASIA | SOUTH AND WEST ASIA

MARCH 2016

IN THIS ISSUE

In the news
Major economic indicators
Daily exchange rates

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HIGHLIGHTS

BANGLADESH » P.2

- Exports in first seven months of 2015-16 financial year grow by 8.3% yoy
- RMG corporate tax cut approved in principle
- H&M calls for speeding up safety remediation

INDIA » P.3

- FDI equity inflows jump 39.9% yoy in April-December 2015
- Garment exporters continue to enjoy GSP benefits to EU market till 2019
- Union Budget gets a broad welcome from textile and garment exporters

PAKISTAN » P.4

- Exports of textiles and garments drop 5.3% yoy in February
- New trade policy disappoints textile and garment sector
- Textile mills in Punjab start to get 24-hour gas supply

TURKEY » P.5

- Industrial production index expands 5.6% yoy in January
- Security concerns deal a blow to business activities
- Syrian refugees found working in Turkish garment factories



IN THE NEWS

BANGLADESH



EXPORTS IN FIRST SEVEN MONTHS OF 2015-16 FINANCIAL YEAR GROW BY 8.3% YOY

Exports in the first seven months of the 2015-16 financial year (July 2015 to January 2016) grew by 8.3% yoy to US\$19.3 billion, according to the provisional data released by the Export Promotion Bureau (EPB).

Exports of readymade garments (RMG), which contributed 82% of the total value of exports, reached US\$15.8 billion in the period, up by 9.1% from the same period last financial year. Within the RMG category, the woven sector earned US\$8.2 billion with a 12.3% yoy growth and the knitwear sector received US\$7.6 billion with a 5.9% yoy increase.

Leaders of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and the Exporters Association of Bangladesh attributed the strong export performance of the RMG category to development of new markets and value-added products, improvement of safety standards in the RMG sector and peaceful political situation.

The pharmaceutical sector saw an 18% yoy growth in exports during the seven-month period, while the ship-building industry recorded a 118% yoy surge in exports. However, export earnings in almost all other sectors declined during the period.

In January, Bangladesh's total exports amounted to US\$3.2 billion, recording a 10.4% yoy growth.

BANGLADESH

RMG CORPORATE TAX CUT APPROVED IN PRINCIPLE

Commerce Minister Tofail Ahmed said on 22 February that Finance Minister Abul Maal Abdul Muhith had 'in principle' agreed to cut corporate tax on the RMG sector. Muhith had accepted the demand put up by the RMG sector leaders at a recent meeting, said Ahmed.

The RMG sector was taxed at a reduced rate of 10% between the 2005-06 and 2013-14 financial year. Since the special provision expired on 1 July 2014, a 35% corporate tax has been levied on the RMG sector.

Ahmed added that the Bangladeshi government was a business-friendly government, who was cooperative with the business community so that they could contribute to the national economy.

BANGLADESH

H&M CALLS FOR SPEEDING UP SAFETY REMEDIATION

In a meeting with garment manufacturers on 22 March, H&M, the biggest buyer of Bangladeshi garments, expressed dissatisfaction over the slow progress of safety remediation works at its Bangladeshi suppliers.

So far, 62% of the corrective actions set out by the Accord on Fire and Building Safety in Bangladesh (Accord) has been completed, said BGMEA Vice-President Mahmud Hasan Khan Babu, who was present at the meeting with H&M officials. The corrective action plans were specified by the engineers of the Accord to improve structural, fire

and electrical safety in 1,600 factories in the aftermath of the Rana Plaza collapse.

Some of the suppliers blamed the poor progress on the Accord engineers, who kept changing the lists of corrective actions after the initial inspection. The factory owners said that they had been fixing the problems pointed out in the first round of factory inspections, but the Accord engineers gave them new problems upon subsequent inspections.

Babu added that H&M urged suppliers to complete remediation works as soon as possible, with some told to complete the process by May. ■



FDI EQUITY INFLOWS JUMP 39.9% YOY IN APRIL-DECEMBER 2015

Foreign direct investment (FDI) equity inflows, which exclude re-invested earnings and other capital from total FDI inflows, amounted to US\$29.4 billion in April-December 2015, the first three quarters of the 2015-16 financial year (April 2015 - March 2016), up sharply by 39.9% yoy, according to data from the Department of Industrial Policy and Promotion. In the calendar year 2015, FDI equity inflows saw a 36.6% yoy increase to US\$39.3 billion.

A breakdown of the FDI statistics shows that, in April-December 2015, Singapore took the lead among the top ten investing countries, with FDI equity inflows amounting to US\$11.0 billion, followed by Mauritius (US\$6.1 billion), the US (US\$3.5 billion), the Netherlands (US\$2.1 billion) and Japan (US\$1.1 billion). By sector, 'computer software and hardware' was the most popular sector among foreign investors during the nine-month period, followed by the service sector, retail and wholesale trade, automobiles and chemicals (other than fertilizers).

With liberalised investment policies and improved ease of doing business, it is expected that FDI

inflows into India will continue to increase in the next few years. According to the Ministry of Commerce and Industry, investment commitments worth US\$46.7 billion were made between October 2014 and December 2015, spurred by the launch of the "Make in India" initiative in September 2014.

INDIA

GARMENT EXPORTERS CONTINUE TO ENJOY GSP BENEFITS TO EU MARKET TILL 2019

The EU announced recently an extension of the Generalised Scheme of Preferences (GSP) benefits to India's readymade garment sector till 2019, according to the Apparel Export Promotion Council (AEPC).

Under the EU GSP arrangement, India's readymade garment exports to the 28-member EU market can enjoy a tariff reduction of 20% for the next three years. As China, the EU's largest source of garment imports for years, has lost the GSP status on all exports including garments since 1 January 2015, India's garment exporters are expected to gain a larger share of the EU market in the next few years.

In 2015, the EU imported 5.1 billion euros of garments from India, up by 11% yoy, making India the fourth largest apparel supplier to the region.

INDIA

UNION BUDGET GETS A BROAD WELCOME FROM TEXTILE AND GARMENT EXPORTERS

India's Finance Minister presented before the parliament on 29 February the Union Budget – the country's annual budget – for the 2016-17 financial year (April 2016 - March 2017), which focuses on reducing fiscal deficit, stepping up infrastructure investment, enhancing ease of doing business and promoting healthcare and education.

The textile and garment sector generally welcomed the initiatives and measures proposed in the

Budget. Shri Ashok G Rajani, Chairman of the Apparel Export Promotion Council (AEPC), said the Budget was balanced, growth-oriented and forward-looking. Rajani believed that the initiatives to boost manufacturing, promote employment and improve infrastructure will benefit the textile and garment sector.

In particular, the Budget proposes to reduce the basic customs duty on specified fibres and yarn from 5% to 2.5%. At the same time, imports of specified fabrics, which are used for the manufacturing of garment exports, are exempt from the basic customs duty of value equivalent to 1% of FOB (Free on Board) value of garments exported in the preceding financial year. The move will improve the competitiveness of India's manmade textiles and garments in the global market.

The Budget, however, may add burden to garment manufacturers oriented towards the domestic market. As proposed by the Budget, branded readymade garments with retail sales price of 1,000 rupees (US\$15) and above will be subject to excise duty of 2% (without central value-added tax, or CENVAT, credit) or 12.5% (with CENVAT credit). This could increase the cost of garments by 5-6% to consumers, and manufacturers may compromise on the quality to keep retail prices below the 1,000-rupee threshold, according to industry insiders. ■

PAKISTAN

EXPORTS OF TEXTILES AND GARMENTS DROP 5.3% YOY IN FEBRUARY

Pakistan's exports of textiles and garments amounted to US\$1.0 billion in February, down by 5.3% over the same month last year, according to data from the Pakistan Bureau of Statistics. This is the sixth consecutive month that recorded a year-on-year decline. However, the decline in February was an improvement from the double-digit year-on-

year contractions posted in the previous five months.

By category, exports of knitwear fell 2.5% yoy in February, while exports of woven garments rose 7.3% yoy. Exports of bed linen increased by 7.0% yoy; exports of raw cotton, cotton yarn and cotton cloth saw year-on-year declines of 89.3%, 38.1% and 16.8%, respectively, in the month.

In the first eight months of the current fiscal year (July 2015 - June 2016), exports of textiles and garments dropped 8.8% yoy to US\$8.4 billion. Weak demand in external markets, reduced cotton harvest, persistent power shortage and liquidity issues caused by pending sales tax refunds all contributed to the poor export performance.

PAKISTAN

NEW TRADE POLICY DISAPPOINTS TEXTILE AND GARMENT SECTOR

The Ministry of Commerce announced recently the long-awaited Strategic Trade Policy Framework (STPF) 2015-18, which was formulated after an extensive consultative process spanning almost a year.

With an ambitious target of achieving annual exports of US\$35 billion by 2018, the STPF identifies four main pillars to support export growth, which include product sophistication and diversification, market access, institutional development and strengthening, and trade facilitation. According to the STPF, the government will provide support in warehousing, brand building, technology upgradation, certification and accreditation services, new market development, and infrastructure improvement to selected sectors, including pharmaceutical, fishery, rice, surgical instruments, sports goods, leather and cutlery.

The textile and garment sector, however, complained that the STPF did not provide any support for the sector, which accounts for about 57% of the country's total exports. According to Tariq Saud, Chairman of the All Pakistan Textile Mills Association, the competitiveness issues of the sector are yet to be addressed, including

removal of incidental charges or taxes on exports, availability of export refinance facility, release of the pending sales tax refunds, and availability of all types of raw materials at internationally competitive prices. Saud also doubted the feasibility of achieving the US\$35 billion export target without addressing the issues confronting the textile and garment sector.

PAKISTAN

TEXTILE MILLS IN PUNJAB START TO GET 24-HOUR GAS SUPPLY

Over 300 textile mills in Punjab, the largest textile manufacturing centre in Pakistan, have started to get uninterrupted supply of gas from the Sui Northern Gas Pipelines Limited since early March. This has changed the energy situation in the province where textile mills could only get 4-6 hours of gas supply in the past five to six years.

The move came after the arrival of the first liquefied natural gas (LNG) shipment from Qatar, which signed a 15-year LNG supply agreement with Pakistan in February this year. Imported LNG is currently the cheapest and the only instant remedy for the energy-starved Pakistan, which has long been suffering from power outages and has a widening supply-demand gap in energy.

The improvement in gas supply is expected to reduce the cost of energy and boost the output of the textile sector in Punjab. With more and more LNG shipments from Qatar, other industries and other provinces will be supplied with imported LNG in the coming months. ■

TURKEY

INDUSTRIAL PRODUCTION INDEX EXPANDS 5.6% YOY IN JANUARY

Turkey's industrial production index increased by 5.6% in January, compared with the same month

ASIA SOURCING UPDATE

last year, the fastest growth since last September, according to data released by the Turkish Statistical Institute.

Among the three major industrial sub-sectors, 'mining and quarrying', 'manufacturing' and 'electricity, gas, steam and air conditioning supply' expanded by 4.1% yoy, 5.8% yoy and 5.2% yoy, respectively, in the month.

Within the manufacturing sub-sector, the textiles and the wearing apparel segments saw output growth of 11.5% yoy and 12.6% yoy, respectively, in February, while output of the leather and leather products segment contracted by 4.9% yoy. Output of the furniture segment expanded by 8.2% yoy in the month.

TURKEY

SECURITY CONCERNS DEAL A BLOW TO BUSINESS ACTIVITIES

Turkey's security issue has been put under international spotlight again since two suicide bombings happened in mid-March. On 19 March, a suicide bomb attack hit Istanbul's main shopping street, killing five people and injuring more than 30. This incident was just a week after the Ankara bombing, which took place close to the city's embassy area, leaving 37 people dead and more than 100 injured.

Since July 2015, Turkey has been suffering from a string of deadly terror attacks, with more than 200 people died in five major bombings. The terror attacks have dealt a heavy blow to business activities. It is reported that business visits by foreign investors and traders have been postponed due to security concerns. Fear has spread among residents who are unwilling to go out on the streets in these two major cities, affecting the business of shopping malls, restaurants, theatres and other entertainment services.

The tourism sector has also borne the brunt of repeated terrorist incidents. According to the Ministry of Culture and Tourism, the number of foreign arrivals in Turkey declined 8.5% yoy in the first two months of 2016. Economists forecast that

tourism revenue will drop by a quarter this year, costing the country around US\$8 billion.

TURKEY

SYRIAN REFUGEES FOUND WORKING IN TURKISH GARMENT FACTORIES

In recent months, there have been reports that Turkish garment factories are found abusing and exploiting Syrian refugees. The allegations include pitiful wages, child labour and sexual abuse. This calls for brands that source from Turkey to take a closer look at their apparel supply chains.

According to a recent investigation conducted by the Business and Human Rights Resource Centre (BHRRC), an international non-profit organisation, among the 28 brands being investigated, only four brands reported that they had identified Syrian refugees employed in their suppliers' factories during their auditing process in 2015, while six brands reported not identified and others remained silent on the question. Besides, two brands admitted that Syrian child labour were found in their suppliers' factories.

The investigation also found that most brands being investigated lacked specific policy regarding the treatment of refugees, and their auditing process only examined the first-tier suppliers without assessing the subcontractors. Nevertheless, BHRRC complimented the collective efforts made by the brands in convincing the Turkish government to issue work permits to Syrian refugees in mid-January. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Quantum index of medium and large-scale manufacturing (yoy growth %)*	3.8	18.4	13.3	-	-	-
Consumer price index (yoy growth %)*	6.2	6.2	6.1	6.1	6.1	-
Exports (yoy growth %)	-7.0	21.2	13.7	12.7	10.4	13.6
Exports (FOB, US\$ mn)	2,374.7	2,371.5	2,749.3	3,204.1	3,185.6	2,854.2
<i>Of which:</i>						
Knitwear (US\$ mn)	991.6	920.3	1,066.3	1,195.3	1,169.7	1,041.7
Woven garments (US\$ mn)	962.7	878.8	1,158.1	1,477.5	1,456.0	1,324.7
Home textile (US\$ mn)	57.2	59.6	56.7	71.7	-	-
Footwear (US\$ mn)	46.6	52.8	66.5	73.9	-	-
Leather products (US\$ mn)	21.4	34.7	37.3	31.2	-	-
Imports (yoy growth %)	-14.0	-1.2	3.2	0.8	-	-
Imports (C&F, US\$ mn)	3,081.8	3,422.6	3,399.9	3,651.5	-	-

* 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

	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Quarterly GDP (real yoy growth %)*	7.7 (2Q15)		7.3 (3Q15)		-	
Index of industrial production (yoy growth %)	3.7	9.9	-3.4	-1.2	-1.5	-
Manufacturing PMI (Nikkei)	51.2	50.7	50.3	49.1	51.1	51.1
Wholesale price index (yoy growth %)	-4.6	-3.7	-2.0	-1.1	-0.9	-0.9
Consumer price index (yoy growth %)	4.4	5.0	5.4	5.6	5.7	5.2
Exports (yoy growth %)	-24.3	-17.5	-24.4	-14.8	-13.6	-5.7
Exports (FOB, US\$ mn)	21,845.0	21,352.8	20,014.2	22,297.5	21,075.6	20,738.6
<i>Of which:</i>						
Readymade garments (US\$ mn)	1,139.2	1,231.7	1,184.5	1,458.3	1,490.7	1,527.5
Cotton yarn and fabrics (US\$ mn)	813.1	753.9	655.3	746.2	737.1	766.4
Imports (yoy growth %)	-25.4	-21.2	-30.3	-3.9	-11.0	-5.0
Imports (CIF, US\$ mn)	32,323.7	31,120.1	29,795.9	33,961.5	28,714.5	27,280.4
Trade balance (US\$ mn)	-10,478.7	-9,767.3	-9,781.7	-11,664.0	-7,638.9	-6,541.8

* 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

	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Quantum index of large-scale manufacturing (yoy growth %)	2.2	5.3	4.7	2.3	5.0	-
Consumer price index (yoy growth %)	1.3	1.6	2.7	3.2	3.3	4.0
Exports (yoy growth %)	-20.4	-11.4	-15.1	-16.8	-13.9	-4.7
Exports (US\$ mn)	1,732.0	1,729.1	1,661.9	1,787.6	1,771.8	1,791.0
<i>Of which:</i>						
Garments (US\$ mn)	357.4	363.3	350.4	394.9	418.5	363.9
Bed linen (US\$ mn)	173.3	163.4	161.1	152.2	170.1	171.8
Towels (US\$ mn)	70.0	59.0	61.8	60.6	64.4	60.9
Leather products (US\$ mn)	43.2	45.4	40.3	48.7	45.8	41.6
Sporting goods (US\$ mn)	24.0	25.6	23.0	27.9	22.4	26.4
Imports (yoy growth %)	-23.3	-7.4	7.5	0.2	14.6	0.2
Imports (US\$ mn)	3,484.7	3,925.9	3,866.0	3,843.4	3,483.9	3,303.6
Balance of trade (US\$ mn)	-1,752.7	-2,196.9	-2,204.1	-2,055.8	-1,712.1	-1,512.5

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

TURKEY

	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Quarterly GDP (real yoy growth %)	4.0 (3Q15)		-			
Industrial production index, manufacturing (yoy growth %)	3.1	5.0	4.4	4.5	5.8	-
Industrial turnover index, manufacturing (yoy growth %)	15.8	12.0	13.6	9.4	13.1	-
Manufacturing PMI (Istanbul Chamber of Industry)	48.8	49.5	50.9	52.2	50.9	50.3
Producer price index (yoy growth %)	6.9	5.7	5.3	5.7	5.9	4.5
Consumer price index (yoy growth %)	8.0	7.6	8.1	8.8	9.6	8.8
Exports (yoy growth %)	-14.7	2.8	-10.5	-11.1	-22.0	-
Exports (US\$ mn)	11,586.3	13,249.7	11,697.8	11,801.6	9,596.8	-
<i>Of which:</i>						
Knitwear (US\$ mn)	736.8	877.5	769.1	730.0	677.9	-
Woven garments (US\$ mn)	481.5	522.0	452.7	482.6	495.8	-
Furniture (US\$ mn)	211.4	246.9	237.8	241.3	185.0	-
Imports (yoy growth %)	-25.2	-11.9	-25.3	-17.5	-19.7	-
Imports (US\$ mn)	15,403.4	16,907.3	15,974.0	17,979.8	13,358.3	-
Balance of trade (US\$ mn)	-3,817.1	-3,657.7	-4,276.2	-6,178.2	-3,761.6	-

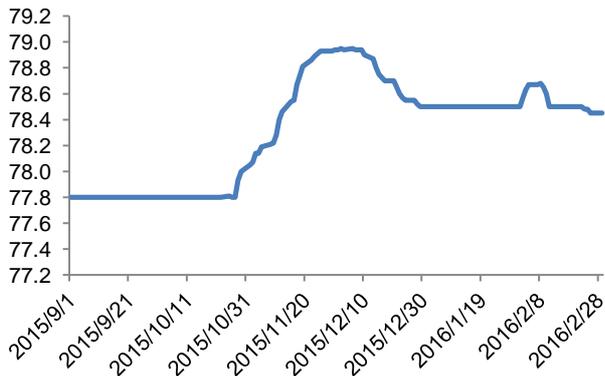
Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

DAILY EXCHANGE RATES

SEPTEMBER 2015 - FEBRUARY 2016

BANGLADESHI TAKA

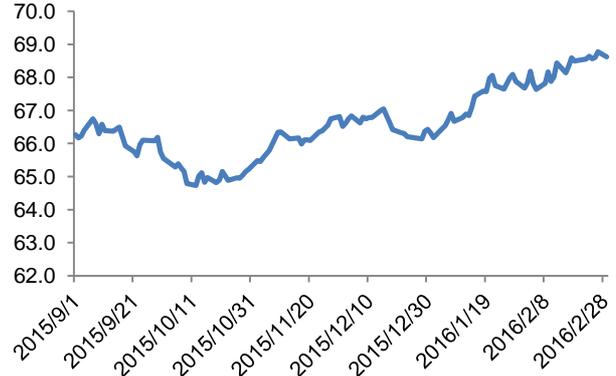
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

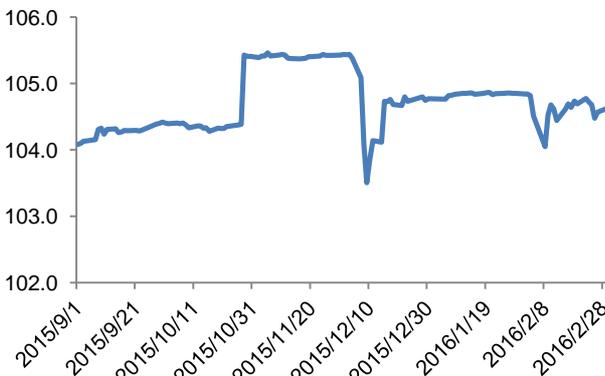
USD:INR RBI reference rate



Source: Reserve Bank of India (RBI)

PAKISTANI RUPEE

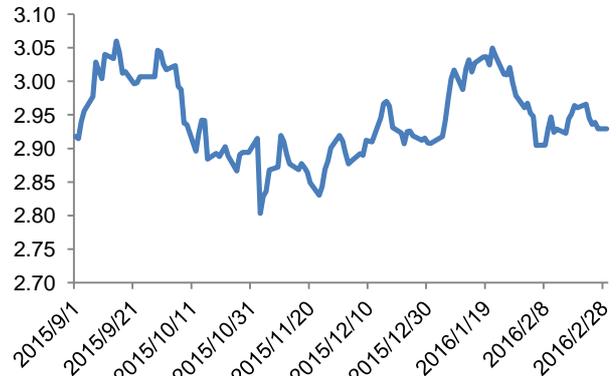
USD:PKR weighted average customer buy rate



Source: State Bank of Pakistan

TURKISH LIRA

USD:TRY buy rate



Source: Central Bank of the Republic of Turkey

THE FUNG BUSINESS INTELLIGENCE CENTRE

The Fung Group is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 46,800 people across 40 economies worldwide, generating total revenue of more than US\$24.65 billion in 2014. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

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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ASIA
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