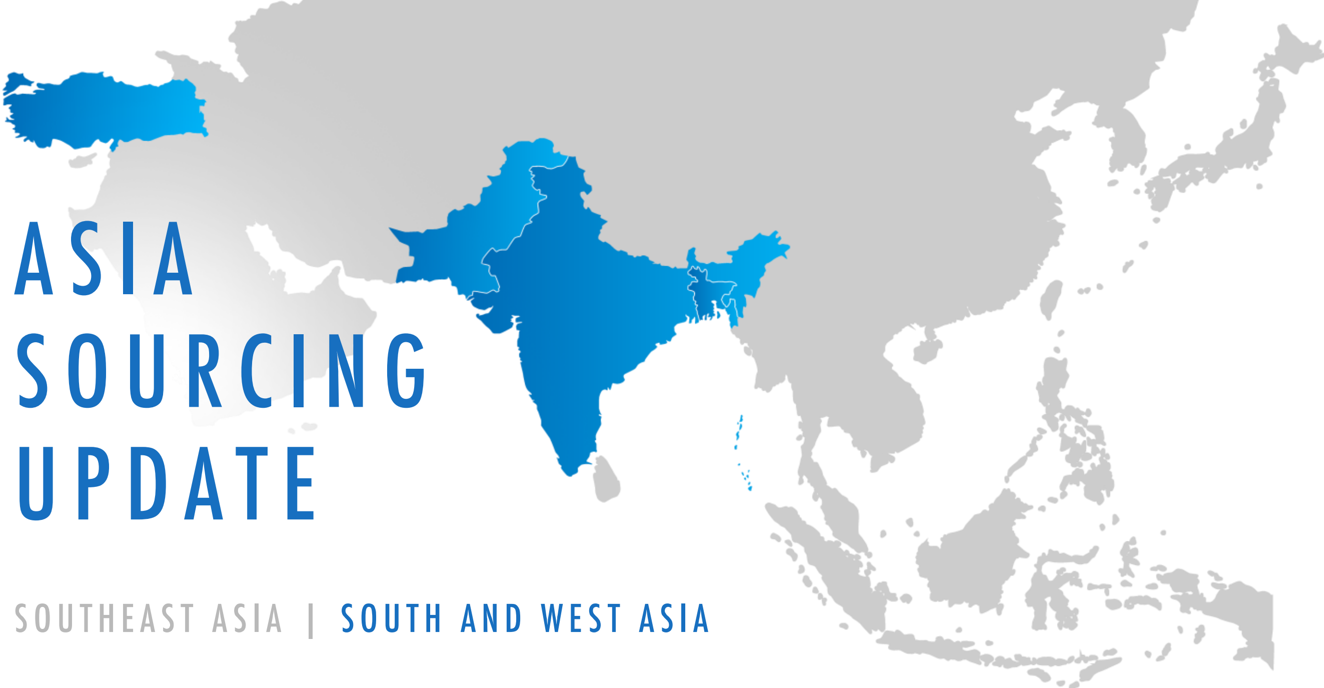

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

MARCH 2020

IN THIS ISSUE

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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IN THE NEWS

BANGLADESH

DOMESTIC YARN PRICES SOAR AMID COVID-19 OUTBREAK

Prices of yarn saw a sharp rise in the domestic market in February, according to industry insiders.

The readymade garment (RMG) industry alleged the local spinners of taking advantage of the COVID-19 outbreak. Local spinners had raised yarn prices by 10%-15% in February, wrote the Bangladesh Garment Buying House Association (BGBA) in a letter to the Ministry of Textiles and Jute on 29 February, seeking government intervention to keep the yarn prices stable.

Monsoor Ahmed, secretary of the Bangladesh Textile Mills Association (BTMA) denied such allegation when asked by local newspaper *The Financial Express*, saying that the price increase had been gradual and was a result of the government's drive against misuse of bonded warehouse facility.

Yarn prices had been showing an upward trend since last October due to higher demand from garment manufacturers, Ahmed said, adding that panic buying due to the outbreak fueled the prices further. The prices of yarn increased by 20 to 25 US cents per kg in two months.

The Bangladeshi textile sector has so far not been affected by the COVID-19 outbreak as the supply chain remains unscathed. It imports cotton mainly from African countries, India, Australia, the US and Brazil, according to the BTMA, who assured that the local textile sector will ensure uninterrupted supply of yarn and fabrics to the RMG industry.

However, production cost of the RMG industry is likely to be further impacted as disruptions of trade with the Chinese Mainland drags on. According to industry people, about 46% of the US$34 billion raw materials for the Bangladeshi RMG industry are sourced from China, reported *The Financial Express*.

BANGLADESH

TICFA MEETING GIVES NO PROMISE ON RESUMPTION OF US GSP BENEFITS

Bangladesh continued to request the US to reinstate its Generalized System of Preferences (GSP) status at the Fifth US–Bangladesh Trade and Investment Cooperation Forum Agreement Council (TICFA) meeting in Dhaka on 5 March, said Md Jafar Uddin, secretary to the Commerce Ministry. The US Trade Representative (USTR), however, gave no such assurance at the meeting.

The GSP status, a preferential tariff system which provides tariff reduction on various products, was suspended for Bangladesh following the nation's deadliest industrial accident, the collapse of Rana Plaza in 2013.

Currently, the US government does not provide GSP status to apparel items from any country but the duties imposed differ from nation to nation. Bangladeshi exporters face a 15.62% duty on the export of apparel items to the US.

Meanwhile, Bangladesh is still at risk of losing the EU's Generalised Scheme of Preferences (EU GSP) in case of failure to show sufficient improvement in labour rights, the EU warned in its third biennial report on the EU GSP covering the period 2018-19, which was published on 10 February. According to the report, the EU will decide on its next steps following the publication of the assessment report by the International Labour

Organisation (ILO) on Bangladesh's responses to the ILO's previous recommendations.

Separately, the Bangladeshi government would soon start negotiation in the World Trade Organisation (WTO) to retain the existing trade preferences granted by developed economies after the country's graduation from least developed country (LDC) status. Bangladesh hopes that the WTO would extend the trade benefits with a transition period of five to ten years, Mohammad Mahbubur Rahman Patwary, director of the WTO Cell under the Commerce Ministry, told a workshop on 23 February. Bangladesh would approach the WTO in collaboration with 10 other countries, which are also in the process of graduation.

BANGLADESH

SOUTH KOREAN COMPANY TO ESTABLISH POLYESTER STAPLE FIBER FACTORY

South Korean company Jong Hyun Hi-Tech Industries Co. Ltd. is going to establish a polyester staple fiber manufacturing facility with an investment of US$6.0 million in the Mongla Export Processing Zone (MEPZ).

The company signed an agreement with the Bangladesh Export Processing Zones Authority (BEPZA) on 4 March, announced the BEPZA in a press release.

The output of the factory will be used as inner lining of jackets and raw materials of polyester yarn. As such, the facility will enhance backward linkage of the export-oriented garment industry and reduce lead time.

The new facility is expected to produce 10,000 metric tonnes of polyester staple fiber annually and create employment opportunities for 313 Bangladeshi nationals.

The factory will give highest importance to avoid environmental pollution, according to the press release. ■

INDIA

INDIA'S ECONOMY STARTS TO FEEL THE PAIN OF COVID-19 OUTBREAK

As the coronavirus (COVID-19) outbreak has been unfolding globally and rapidly, infecting more than 30,000 people in over 100 countries outside China, the adverse impacts on confidence, financial markets, global supply chains and the tourism sector have started to sweep through the world.

India's economy expanded by 4.7% yoy in the October−December quarter, the slowest growth in almost six years. Due to concerns over COVID-19's impact on global economy, the Organisation for Economic Cooperation and Development (OECD) slashed India's growth forecast for the 2020−21 fiscal year (April 2020 − March 2021) from 6.2% to 5.1% in its latest projections published on 2 March. Another research conducted by the United Nations Conference on Trade and Development (UNCTAD) shows that the trade impact of the COVID-19 outbreak on India is estimated to be about US$348 million and the country is among the top 15 economies most affected by disruptions in China's supply chains.

India's companies that are dependent on inputs from China, such as those in the pharmaceutical, automotive and electronics sectors, are hit hard by the supply chain disruptions caused by the epidemic. For example, India sources more than 70% of raw pharmaceutical materials and active ingredients, around a quarter of auto parts and the bulk of supplies for electronics from China, reported by *The Financial Times*. Many businesses say their supplies are running low. It was reported that prices of electronic products, including refrigerators, air conditioners, microwave ovens and washing machines, increased by 3%−5% in March due to higher component prices amid short supplies from China.

Meanwhile, some Indian suppliers are likely to benefit temporarily from China's factory shutdown amid the COVID-19 outbreak. Indian exporters have received an increasing number of enquiries, mostly from the US and the EU, for sourcing ceramics, homeware, fashion and lifestyle goods, textiles, engineering goods and furniture from the country since late January.

For the textile and garment sector, however, the impacts of the epidemic could be mixed. While there is an increase in enquiries from foreign buyers to diversify their sourcing from China, capacity constraints make it difficult for Indian manufacturers to ramp up production quickly. Moreover, some garment factories, which depend on China for the supply of accessories such as buttons, metal buttons, zips, hangers and needles, may see their cost of finished goods increase as alternative sources of accessories are 40%−50% more expensive than sources from China, reported local newspaper *Business Standard*.

INDIA

TRUMP CONCLUDES FIRST OFFICIAL VISIT TO INDIA, WITH NO TRADE DEAL REACHED

US President Donald Trump concluded his two-day visit to India on 25 February. During President Trump's visit, both sides sealed some modest agreements on defence, energy and telecommunications, including India's purchase of US$3 billion worth of American military helicopters and other equipment. The long-awaited trade deal, however, was absent during Trump's visit.

The meeting between President Trump and Indian Prime Minister Narendra Modi has strengthened the strategic partnership between the two countries, according to a joint statement released by the White House on 25 February. The White House said both sides agreed to promptly conclude the ongoing negotiations, which they hope can become phase one of a comprehensive bilateral trade agreement. However, no details about the trade deal were given.

At a press conference in India during his visit, President Trump criticised India for its high tariffs. 'India is probably the highest tariff nation in the world…We have to stop it, at least as it pertains to the US,' he said. Trump also hinted that if both countries can reach a trade deal, it would be toward the end of this year.

Since 2018, negotiators from the two countries have been working on a trade deal that will enhance market access to each other. However, trade tensions between the two countries escalated in the middle of last year when the US decided to withdraw trade preferences granted to India under the US's Generalized System of Preferences (GSP) programme. As a retaliatory response, the Indian government imposed higher tariffs on 28 US products.

Prior to Trump's visit, the Office of the United States Trade Representative (USTR) removed 25 economies, including India, from its list of countries designated as developing or least-developed under its countervailing duty laws. The change is expected to put an end to all chances of India to regain its trade preferences under the US's GSP scheme.

INDIA

WITHDRAWAL OF MEIS INCENTIVES COULD HIT TEXTILE AND GARMENT EXPORTERS

The Indian government decided in January to withdraw incentives under the Merchandise Exports from India Scheme (MEIS) for the garment and textile made-up sector, with retrospective effect from 7 March 2019. Under the MEIS, firms exporting garments and textile made-ups, such as bed linen, blankets and curtains, were provided with incentives worth 4% of the free-on-board (FOB) value of exports.

The withdrawal of the MEIS incentives, which was opposed by many industry associations, is likely to erode the profit margins of Indian exporters in the sector. 'Withdrawal of the 4% MEIS with retrospective effect has caused an extremely serious situation for the exporters of textile made-ups and has indeed come as a shock to the industry,' said K V Srinivasan, chairman of the Cotton Textiles Export Promotion Council

(TEXPROCIL). Exporters have already factored in the availability of the MEIS incentives along with the Rebate of State and Central Taxes and Levies (RoSCTL) scheme — which was announced in March last year to rebate all state and central embedded taxes to apparel and textile made-up exporters — while quoting export prices to foreign buyers. Srinivasan added that exporters are facing serious shortage of working capital as the RoSCTL scheme remains non-operational.

The MEIS scheme was found in violation of rules of the World Trade Organisation (WTO). The US challenged India's subsidy programmes at the WTO in 2018. In October 2019, a WTO dispute panel agreed with the US's complaint and gave six months for India to withdraw those subsidy schemes that violate WTO rules, including the MEIS, the Export Oriented Units Scheme and related sector specific schemes (EOU), Special Economic Zones (SEZ), Export Promotion Capital Goods Scheme (EPCG), and a duty free imports for exporters programme (DFIS).

To offer some relief to the exporters affected by the retrospective move, the Ministry of Textiles announced a special ad hoc incentive up to 1% of FOB value for exports of apparel and textile made-ups for the period between 7 March and 31 December 2019, with a cap of 6 billion rupees. The incentive will help offset the difference between the RoSCTL scheme and the previous rebate on state levies and the MEIS. ■

PAKISTAN

TEXTILE AND GARMENT SECTOR SEES ORDERS INCREASE AMID COVID-19 OUTBREAK

As Chinese factories are slowly resuming operations due to harsh government-enforced quarantine measures triggered by the COVID-19 outbreak, Pakistan's textile and garment sector has been reportedly receiving a growing number of export orders.

Ijaz Khokhar, chief coordinator of the Pakistan Readymade Garments Manufacturers and Exporters Association (PRGMEA), spoke to *The Express Tribune* that Pakistan is receiving massive textile orders from Europe and the US, mainly for denim and home textile products, and that buyers are offering higher prices while demanding timely and quick delivery. He also mentioned that the sector is still reliant on China for all technical and functional fabrics, dyestuff, accessories including sewing thread and even packaging.

According to a comprehensive report on the epidemic's impacts on Pakistan's export sector released by the inter-ministerial Trade Advisory Committee recently, local garment manufacturers are now operating at full capacity to meet the increased orders that are diverted from China to the country due to the COVID-19 outbreak. Meanwhile, the outbreak in Iran can impact the leather sector as Pakistani manufacturers import raw skin of sheep and other animals in bulk quantity from there.

In the first seven months of the 2019–2020 fiscal year (July 2019 – June 2020), Pakistan's exports of textiles and garments, which accounted for around 60% of the country's total exports, saw an increase of 3.7% yoy to US$8.10 billion, according to data released by the Pakistan Bureau of Statistics. Among the textile and garment group, exports of knitwear, woven garments and bed linen all recorded year-on-year increases in US dollar terms in the period, with growth rates of 6.3%, 10.8% and 2.8%, respectively.

PAKISTAN

EU EXTENDS GSP PLUS BENEFITS TO PAKISTAN FOR TWO YEARS

The International Trade Committee of the EU Parliament has recently extended the Generalised Scheme of Preferences (GSP) Plus status to Pakistan till 2022, enabling the country's exports to continue to enjoy duty-free access to the EU market for around two-thirds of EU tariff lines.

'This would strengthen our resolve to continue to improve the social and economic conditions of our people. I urge the business community to diversify their exports to capitalise on this opportunity to the optimum,' said Razak Dawood, adviser to the Prime Minister, in a tweet on 6 March.

The GSP Plus programme is a special incentive arrangement provided by the EU for sustainable development and good governance. Eligible countries are required to implement 27 international conventions related to human rights, labour rights, protection of the environment and good governance.

Pakistan has enjoyed its eligibility for GSP Plus since January 2014. According to the third biennial report on GSP covering the period 2018−2019 published by the European Commission on 10 February, Pakistan was the No.1 beneficiary among the nine countries eligible for GSP Plus scheme in 2018, accounting for 62.2% of all GSP+ imports into the EU. In 2018, textiles and garments represented over 70% of the 5.89 billion euros worth of EU's GSP+ preferential imports from Pakistan.

PAKISTAN

SPECIAL ECONOMIC ZONE INAUGURATED TO FACILITATE INDUSTRIAL RELOCATION FROM CHINA UNDER CPEC

On 3 January, Pakistani Prime Minister Imran Khan inaugurated the Allama Iqbal Industrial City, a special economic zone (SEZ) under the China−Pakistan Economic Corridor (CPEC) mega project in Faisalabad in Punjab province. It is one of the nine SEZs planned to be built under the CPEC across Pakistan.

According to official figures, the SEZ is expected to attract investment worth up to 400 billion Pakistan rupees (around US$2.58 billion) and create direct employment of 300,000 and indirect employment of 1 million. As of January, committed investment in the SEZ exceeded US$1 billion, inclusive of US$204 million from local investors. The SEZ is expected to house more than 557 production units in various sectors, including textiles, food processing, construction material, pharmaceutical, automobiles, and steel.

Addressing the groundbreaking ceremony, the Prime Minister termed the CPEC as a golden opportunity for Pakistan's industrial development and the SEZ as the first step towards this end. 'There are many industries that wish to relocate from China. We had yet to provide them the environment for them to relocate to Pakistan. This special economic zone is the environment that China seeks…They will not only invest in Pakistan, but transfer technology and increase our productivity', said the Prime Minister.

The CPEC mega programme, which was launched in 2013, has been entered its second phase with a focus on industrialisation, agriculture and socio-economic development. ■

TURKEY

COVID-19 OUTBREAK PUSHES GLOBAL RETAILERS TOWARDS TURKEY

While the highly transmissible COVID-19 continues to spread further, Turkey announced its first confirmed case of the virus on 11 March. The country has been ramping up preventive measures ranging from flight bans to border closures as more confirmed cases have been reported in neighbouring countries including Iran, Iraq and Greece.

Although the epidemic is causing disruptions and uncertainties to supply chains, it has also led to the diversion of export orders of textile and apparel products from China to Turkey. Global brands such as Superdry, Inditex, H&M, Hermes-Otto, Debenhams and Ralph Lauran have turned to Turkey due to the COVID-19 outbreak, reported local media *The Daily Sabah.* Mustafa Gültepe, head of the Istanbul Apparel Exporters Association

(İHKİB), said the sector is currently running at a capacity of 85%. He expected that the sector would work at full capacity for the increased orders, particularly for the upcoming summer collections.

Rising costs in China, the sharp depreciation of the Turkish lira and the geographical proximity to the EU have made Turkey an affordable option for European brands and retailers, Hadi Karasu, head of Turkish Clothing Manufacturers' Association (TGSD), told the state-run news agency *Anadolu Agency*. Karasu added that the China–US trade war had prompted US companies to source from Turkey as well. In 2019, the lira weakened by around 8.9% against the euro and by 10.4% against the US dollar, according to exchange rates provided by *Bloomberg*.

In 2019, Turkey exported US$17.7 billion worth of apparel to the world. İHKİB expected the COVID-19 outbreak may lead to a 10% increase in the country's apparel exports this year, while warning that the sector could be hit if global markets shrink due to a prolonged outbreak.

TURKEY

MINIMUM WAGE RISES BY 15% STARTING JANUARY

Net minimum wage for 2020 stands at 2,324.7 liras (approximately US$381) per month effective from 1 January 2020, an increase of 15.0% from the previous level. Before deductions such as social security premiums and income taxes, the new gross minimum wage is set at 2,943 liras (approximately US$482) per month.

Turkey's minimum wage was determined last December by majority vote by the 15-member Minimum Wage Determination Commission, which was made up of representatives from the Ministry of Labour and Social Security and other government agencies, and worker and employer unions.

The 15% wage increase is three percentage points higher than the 11.84% inflation rate recorded at the end of 2019. The 15% wage hike is much more moderate than last year's increase, which was set at 26.1% in response to soaring inflation.

Turkey's central bank projected in late January this year that the country's inflation will stand at 8.2% at the end of 2020 and fall to 5.4% at the end of 2021. In February, Turkey's inflation rate stood at 12.37% yoy, a sharp moderation from 19.67% yoy a year ago.

TURKEY

JOINT TURKISH–BELARUSIAN TOY FACTORY OPENS IN NORTHERN TURKEY

A toy factory Polesie TR was officially inaugurated on 19 January. With investment of US$5.5 million, the new production facility is located on an area of 16,000 square meters in the northern Turkish city of Sinop. The factory targets both the domestic and overseas markets.

Technical launch of the factory took place last October, with modern equipment assembled and warehouses organised. The first batch of toys were certified and shipped to customers in mid-December last year. Currently, the factory employs 157 workers and it is expected to provide up to 1,200 jobs in the future.

Established in 1998 and headquartered in Belarus, the children's toy brand Polesie is among the largest toymakers in the world with 2,800 employees and exports to more than 70 countries worldwide, mainly Russia, Kazakhstan and European countries. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Quantum index of medium and large-scale manufacturing (yoy growth %)	14.5	2.8	–	–	–	–
Consumer price index (yoy growth %)	5.5	5.5	6.1	5.8	5.6	5.5
Exports (yoy growth %)	-7.3	-17.2	-10.7	2.9	-1.7	-1.8
Exports (US$ mn)	2,915.9	3,073.2	3,055.9	3,525.1	3,617.3	3,322.4
Of which:						
Knitwear (US$ mn)	1,249.4	1,368.1	1,271.3	1,396.2	1,414.2	1,278.7
Woven garments (US$ mn)	1,091.7	1,151.7	1,240.0	1,539.2	1,625.0	1,505.6
Home textile (US$ mn)	62.5	60.3	59.1	71.5	72.6	83.4
Footwear* (US$ mn)	64.6	52.5	67.9	79.3	80.5	74.2
Leather products (US$ mn)	20.3	19.7	20.4	21.1	22.4	23.0
Imports (yoy growth %)	-11.2	-1.1	-10.6	3.1	–	–
Imports (US$ mn)	4,220.9	5,030.1	3,986.6	4,647.0	–	–

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

INDIA

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Quarterly GDP* (real yoy growth %)	5.1 (2Q19)		4.7 (3Q19)		–	
Index of industrial production (yoy growth %)	-4.6	-6.6	1.8	0.1	2.0	–
Manufacturing PMI (IHS Markit)	51.4	50.6	51.2	52.7	55.3	54.5
Wholesale price index (yoy growth %)	0.3	0.0	0.6	2.6	3.1	–
Consumer price index (yoy growth %)	4.0	4.6	5.5	7.4	7.6	6.6
Exports (yoy growth %)	-6.6	-1.1	-0.3	-1.8	-1.7	2.9
Exports (US$ mn)	26,034.1	26,377.2	25,981.9	27,357.4	25,970.3	27,647.3
Of which:						
Knitwear (US$ mn)	591.8	592.7	528.5	717.4	639.5	–
Woven garments (US$ mn)	488.8	516.0	530.1	692.0	813.4	–
Footwear (US$ mn)	196.3	200.4	197.7	234.7	239.0	–
Furniture (US$ mn)	149.1	170.1	140.7	171.3	179.7	–
Imports (yoy growth %)	-13.9	-16.3	-12.7	-8.8	-0.8	2.5
Imports (US$ mn)	36,891.2	37,391.7	38,106.1	38,611.3	41,144.7	37,497.5
Trade balance (US$ mn)	-10,857.1	-11,014.5	-12,124.2	-11,253.8	-15,174.4	-9,850.2

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

PAKISTAN

	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Quantum index of large-scale manufacturing (yoy growth %)	-5.7	-6.8	-4.8	9.7	–	–
Consumer price index* (yoy growth %)	11.4	11.0	12.7	12.6	14.6	12.4
Exports (yoy growth %)	2.7	6.8	9.4	-3.9	-2.8	13.8
Exports (US$ mn)	1,769.0	2,024.4	2,010.8	1,992.6	1,978.5	2,141.0
Of which:						
Garments (US$ mn)	437.9	514.0	517.5	522.7	514.0	–
Bed linen (US$ mn)	200.6	217.1	195.5	184.4	194.1	–
Towels (US$ mn)	55.1	71.5	65.4	61.4	65.3	–
Leather products (US$ mn)	40.9	50.1	45.8	47.6	44.0	–
Sporting goods (US$ mn)	22.4	24.9	24.0	24.7	23.7	–
Imports (yoy growth %)	-13.9	-15.2	-14.0	-8.3	-7.4	-1.7
Imports (US$ mn)	3,784.9	4,073.7	3,940.4	4,037.3	4,135.4	4,073.0
Balance of trade (US$ mn)	-2,015.9	-2,049.3	-1,929.6	-2,044.7	-2,157.0	-1,932.0

** Consumer price index has been rebased from the 2007-08 fiscal year to the 2015-16 fiscal year.*
Source: Pakistan Bureau of Statistics, State Bank of Pakistan

TURKEY

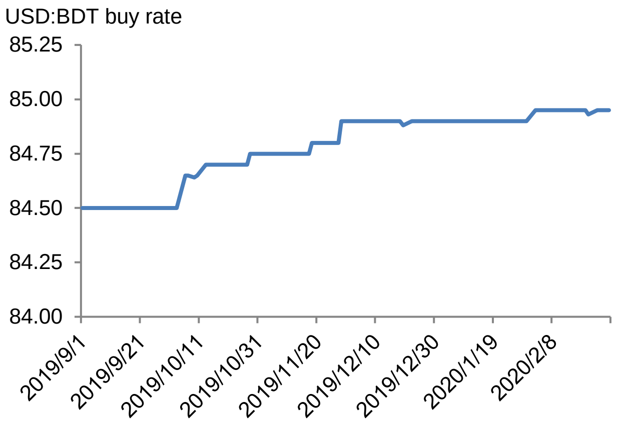
	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Quarterly GDP (real yoy growth %)	1.0 (3Q19)		6.0 (4Q19)		–	
Industrial production index, manufacturing (yoy growth %)	3.4	3.7	5.1	9.5	8.2	–
Industrial turnover index, manufacturing (yoy growth %)	-2.1	2.6	9.8	16.6	19.7	–
Manufacturing PMI (Istanbul Chamber of Industry)	50.0	49.0	49.5	49.5	51.3	52.4
Producer price index (yoy growth %)	2.5	1.7	4.3	7.4	8.8	9.3
Consumer price index (yoy growth %)	9.3	8.6	10.6	11.8	12.2	12.4
Exports (yoy growth %)	0.2	-1.1	-0.8	5.2	6.4	–
Exports (US$ mn)	15,275.3	16,414.3	16,249.0	15,409.0	14,759.1	–
Of which:						
Knitwear (US$ mn)	792.3	847.5	838.3	700.2	761.9	–
Woven garments (US$ mn)	568.2	557.3	542.0	482.4	605.4	–
Furniture (US$ mn)	317.1	344.6	376.0	381.0	329.9	–
Imports (yoy growth %)	0.1	10.8	11.9	19.8	18.8	–
Imports (US$ mn)	16,940.6	18,176.4	18,228.6	20,056.7	19,207.1	–
Balance of trade (US$ mn)	-1,665.3	-1,762.0	-1,979.5	-4,647.8	-4,448.0	–

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

DAILY EXCHANGE RATES

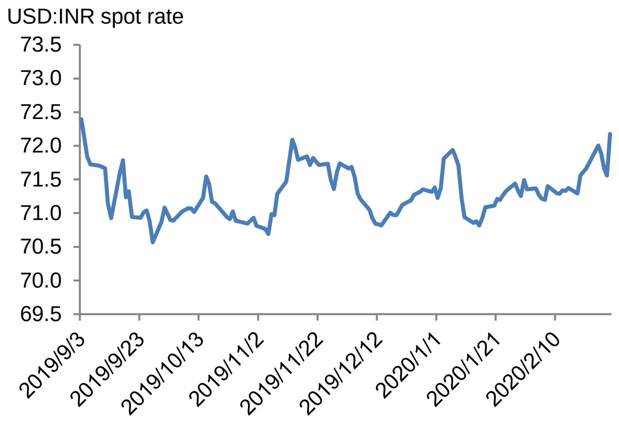
SEPTEMBER 2019 – FEBRUARY 2020

BANGLADESHI TAKA



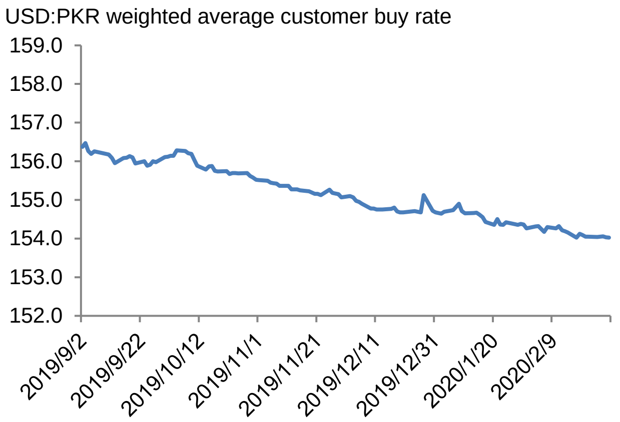
Source: Bangladesh Bank

INDIAN RUPEE



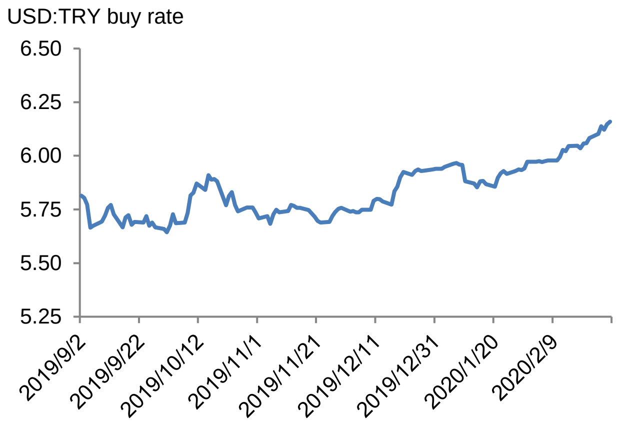
Source: Bloomberg

PAKISTANI RUPEE



Source: State Bank of Pakistan

TURKISH LIRA



Source: Central Bank of the Republic of Turkey

FUNG BUSINESS INTELLIGENCE

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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.

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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