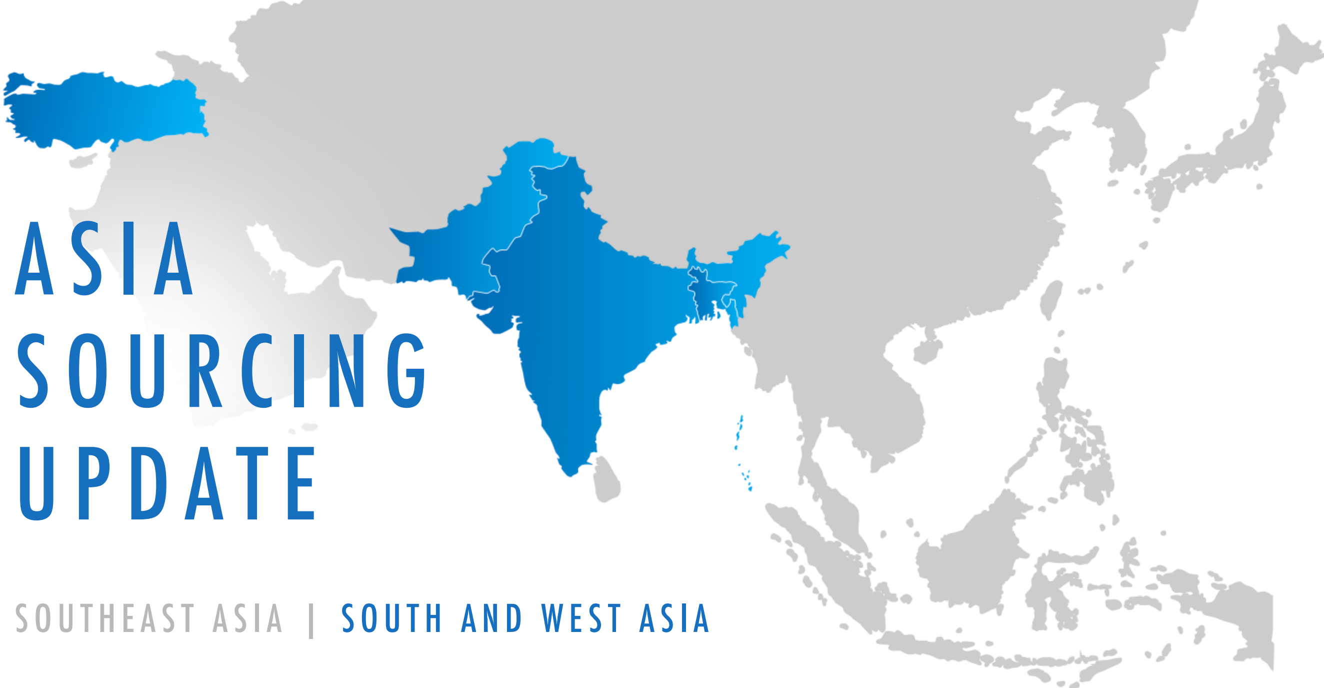

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

APRIL 2015

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IN THE NEWS

BANGLADESH

ADB CUTS GROWTH FORECAST DUE TO PROLONGED UNREST

On 24 March, the Asian Development Bank (ADB) revised downwards its growth forecast for Bangladesh for the current fiscal year (July 2014 - June 2015), saying the economy will grow by 6.1% instead of 6.4% as predicted earlier, due to the dragging political disturbances.

In response to alleged political oppression, a countrywide blockade was enforced by the 20-party opposition alliance led by the Bangladesh National Party (BNP) on 6 January. It was not until more than three months later on 13 April that BNP hinted at the end of the agitation.

More than 150 people have died during the blockade, many of them from burns caused by arson, firebombing and vandalism. According to the World Bank, the turmoil in the first three months of 2015 cost Bangladesh 1% of its annual GDP, or US$2.2 billion.

The country's exports grew 8.0% yoy, 7.2% yoy and 8.4% yoy in January, February and March, respectively, according to data from the Export Promotion Bureau. It is widely believed that the growth could have been much higher without the political unrest, and that the impact of the blockade on exports might be more fully reflected in later months.

BANGLADESH

TRADE AGREEMENT WITH INDIA RENEWED WITH NEW PROVISIONS

In early April, the Bangladeshi government endorsed the renewal of a trade agreement with India with amendments that will allow the country to import from and export to a third country by using India's land, water and rail routes. Likewise, India will be allowed to trade with a third country through Bangladesh.

Under the previous agreement, which has recently expired, Bangladesh and India can conduct trading activities between themselves using each other's land, water and rail routes. Following the amendment, the two countries will also be able to use each other's routes to trade with any third country.

Transit arrangements have been a thorny issue in Bangladesh-India relations for a long time, especially as the Northeast India is separated from the rest of India by Bangladesh, except for a very narrow transport corridor known as the "chicken neck". It is expected that the revised trade agreement will significantly reduce inter-regional logistics cost.

BANGLADESH

CHANGING FASHION TRENDS DRIVE EXPORTS OF LEGGINGS

Leggings, the knitted products available in a variety of materials, have become fashionable in recent years. They are popular not only among women, but also men, who are increasingly including leggings as part of their sports outfits.

The growing preference for leggings has opened up new opportunities for Bangladeshi exporters. According to the country's industry insiders, orders for these close-fitting knit pants have boomed in the last two years, driven largely by demand from the US and the EU. According to the President of the Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), Bangladesh is now the second largest exporter of leggings in the global market after China, with more than 600 factories in Dhaka and Chittagong engaging in the production of leggings. In the July-February period, the country exported US$1.62 billion worth of leggings.

According to the BKMEA, international brands from more than 90 countries source leggings from Bangladesh. They include Charles Vögele, G-Star RAW, Jack & Jones, s.Oliver, River Island, H&M, C&A, PVH and Gap. ■

INDIA

MANUFACTURING SECTOR CONTINUES TO EXPAND

India's Manufacturing Purchasing Managers' Index (PMI) – a composite indicator designed to provide a snapshot of the performance of the manufacturing sector – posted at 52.1 in March, up from 51.2 in February. It was the 17th consecutive month that the PMI reading remained in the expansionary zone (above 50), pointing to solid momentum of India's manufacturing sector.

According to the press release of the Manufacturing PMI, stronger expansions of output, new orders and stocks of purchases all contributed to a higher PMI reading in March. While purchase costs rose at the fastest rate since August last year, the constant level of manufacturing employment over the past 14 months indicates that firms still hesitated to expand their operations.

A recent stock market poll by Reuters reveals that, among the reforms underway, the land acquisition reform and the introduction of a comprehensive goods and service tax (GST) are considered by analysts as the most beneficial to Indian manufacturers.

INDIA

NEW FOREIGN TRADE POLICY UNVEILED TO BOOST EXPORTS AND FACILITATE TRADE

On 1 April, the Ministry of Commerce and Industry unveiled the Foreign Trade Policy (2015-2020), the latest five-year framework for promoting the country's exports of goods and services, improving the ease of doing business, and generating employment.

The new Foreign Trade Policy introduces two new schemes. The "Merchandise Exports from India Scheme" (MEIS) consolidates and replaces the five existing reward schemes for exports of specified goods to specified markets. The "Service Exports from India Scheme" (SEIS) promotes India's exports of specific services.

According to the MEIS, exporters will be rewarded 2-5% of the value of their realized FOB orders in the form of Duty Credit Scrips, which can be used to offset the payments of customs duty, excise duty or service tax related to the procurement of inputs. Eligible categories covered by the MEIS include readymade garments, textiles, footwear, sports goods and furniture.

Besides, trade facilitation and the digitization of government services are among the key focus areas in the new Foreign Trade Policy. One of the major objectives is to move towards the provision of paperless service 24 hours a day, 7 days a week.

The new Foreign Trade Policy aims at doubling India's annual exports to US$900 billion and increasing the country's share in world exports from the current 2% to 3.5% by 2020. Together with the "Make in India" and "Digital India" initiatives, it lays down a road map for making India a larger player in global trade.

INDIA

WEAK EURO ADDS TO EXPORTERS' WOES

While the US dollar has remained relatively stable against the Indian rupee in recent months, the euro has weakened sharply against the rupee since September last year. After hitting a three-year low of 66.37 on 11 March, the euro-rupee exchange rate closed at 67.04 on 9 April, posting a 12.4% year-to-date depreciation.

The EU accounts for about 18% of India's total exports, and industries with high exposure to that market have seen their export earnings eroded by the euro's recent plunge. Exporters in industries such as software, textiles, apparel, auto components, organic chemicals, iron and steel have borne the brunt of the impact. On the other hand, due to the fierce competition globally, Indian exporters do not have the bargaining power to renegotiate the contract for higher prices to cover the exchange rate loss.

Some exporters have turned to currency hedging to manage the risks. According to Raja M. Shanmugam, chairman of the Confederation of Indian Industry (Tirupur District Council), hedging by making use of pre-shipment credit in foreign currency had become popular in the past two to three years, as interest rates in US dollar or euro were much lower than interest rate in rupee. ■

PAKISTAN

NEW TEXTILE POLICY WILL GIVE A BIG PUSH TO THE INDUSTRY

In February, the Ministry of Textile Industry of Pakistan announced the long-awaited Textile Policy (2014-2019). With a vision to make Pakistan a leading country in value-added textile exports, the policy sets ambitious targets of doubling the country's annual textile exports to US$26 billion, doubling value addition in exports to US$2 billion per million bales, increasing non-cotton fibres in the fibre mix to 30% from the current 14%, and increasing the share of readymade garments in total textile exports to 45% from the current 28% – all to be achieved within the next five years.

With subsidies worth 64 billion Pakistani rupees (US$635 million), the policy features five schemes to support the textile industry, including the provision of local taxes and levies drawbacks, easy finance, fast-track scheme for sales tax refunds, duty-free imports of machinery and vocational training. Besides, to tackle the persistent energy shortage, the government plans to set up a joint committee comprising senior officers from different ministries to ensure uninterrupted energy supply for the industry.

The policy has ignited optimism in the textile industry, but there remain criticisms. Chairman of the All Pakistan Textile Mills Association (APTMA) S. M. Tanveer said the US$26-billion export target is unrealistic as serious energy shortage has plagued the country and particularly the Punjab province, where about 70% of the country's textile production capacity is located. Meanwhile, Chairman of the Pakistan Readymade Garments Manufacturers & Exporters Association (PRGMEA) Ijaz Khokhar complained that insufficient attention had been given to small and medium-sized enterprises (SMEs), which account for 97% of the entire industry.

PAKISTAN

CHINESE INVESTORS KEEN TO INVEST IN PAKISTAN ALONG THE CHINA-PAKISTAN ECONOMIC CORRIDOR

Ever since the announcement of the construction of the China-Pakistan Economic Corridor (CPEC) in 2013, Chinese investors have shown keen interest in Pakistan's industrial sectors, particularly cement, steel and textiles. It was reported that the Industrial and Commercial Bank of China had carried out studies in Gwadar, Pind Daden Khan and Bahawalpur (areas along the CPEC) for the establishment of a 5,000-acre textile industrial zone in Pakistan.

The CPEC, on which the Chinese government committed in 2014 to spend US$45.6 billion over the next six years, aims at creating a 3,000-kilometre road and rail link from China's north-western city of Kashgar to Pakistan's Gwadar Port, a deep-sea port situated on the Arabian Sea. The mega plan not only covers the construction of highways and railways, but also oil and gas pipelines.

The CPEC is expected to spur investments, boost bilateral trade flows between the two countries, improve infrastructure, and help ease energy shortage in Pakistan. According to Reuters, under the CPEC agreement, US$15.5 billion worth of coal, wind, solar and hydro energy projects will be built by 2017, which will add 10,400 megawatts of power to Pakistan's national grid. By 2021, another additional 6,120 megawatts will be added to the country's national grid at a cost of US$18.2 billion.

PAKISTAN

PARTNERSHIP FORGED TO PROMOTE DECENT WORK IN TEXTILES AND GARMENT INDUSTRY

In mid-February, the International Labour Organization (ILO) and the Pakistan Textile Exporters Association (PTEA) signed a three-year partnership agreement to promote decent work in the textiles and garment industry in Faisalabad, a city in the Punjab province that constitutes more than 65% of the country's textiles and garment exports.

According to the press release, the agreement includes a comprehensive framework on improving productivity through training, enhancing compliance with international labour standards, and strengthening employers' and workers' bilateral arrangements. At the first stage, more than 200 export-oriented textile and garment enterprises of various sizes will be involved. If this pilot programme is successful, it will be replicated across the country.

The partnership will help improve labour compliance in Pakistan's textiles and garment industry, and place the country in a better position to reap the trade benefits under the EU's Generalised Scheme of Preferences Plus (GSP+), of which the duty-free privileges are contingent on the implementation of international conventions related to human and labour rights, environment and good governance. ■

TURKEY

2014 GDP GROWTH FALLS BELOW GOVERNMENT'S TARGET

The Turkish economy expanded by 2.9% yoy in constant prices in 2014, slower than the 4.2% yoy growth in 2013. The growth fell short of the government's target of 3.3% yoy. By quarter, real GDP grew 4.9% yoy, 2.3% yoy, 1.9% yoy and 2.6% yoy in 1Q14, 2Q14, 3Q14 and 4Q14, respectively.

By the expenditure approach, the slowdown stemmed mainly from weak household spending, which increased by a mere 1.3% yoy in 2014 compared to 5.1% yoy in 2013. Besides, private investment remained stagnant at a yoy growth rate of 0.5% in 2014, for the second consecutive year, according to data provided by the Turkish Statistical Institute. On a more optimistic note, GDP growth in 2014 was mainly supported by exports of goods and services, which increased by 6.8% yoy.

By the production approach, while the worst drought in 13 years led to a 1.9% yoy contraction in the agricultural sector, the industrial and service sectors both also registered slower growths in 2014 than in 2013.

The Turkish government targeted GDP growth of 4% for 2015. Major downside risks come from subdued global economic growth prospects, the weakening Turkish lira and the political instability triggered by the upcoming general election. President Recep Tayyip Erdoğan seeks to transform the country's parliamentary governance into a US style presidency if a landslide victory of his party is achieved in June.

TURKEY

EXPORTS CONTINUE TO DECLINE IN FEBRUARY

Turkey's exports dropped by 6.0% yoy to US$12.3 billion in February, pointing to a further contraction from the 0.7% yoy decline registered in January, according to data released by the Turkish Statistical Institute.

Continuing fragilities in Turkey's major trading partners have led to the poor export performance. In February, the country's exports registered year-on-year declines in six of the top ten markets, including Germany (-11.9%), Iraq (-25.8%), Italy (-17.7%), the United Arab Emirates (-6.1%), France (-11.8%) and Russia (-39.8%). The most dramatic increases in this month's exports were achieved in the United Kingdom (+53.7%) and Switzerland (+69.0%) markets.

All of the major export categories, except precious stones and metals, recorded year-on-year contractions in February, including auto and auto parts (-2.3%), machinery (-12.4%), iron and steel (-21.2%), knitwear (-13.7%) and woven garments (-14.0%).

TURKEY

MASSIVE POWER OUTAGE HITS ACROSS THE COUNTRY

On 31 March, many parts of the country were left without electricity due to a massive power outage. Starting in the morning, the blackout hit 49 of the country's 81 provinces, from the Greek border to those in the southeast neighbouring Iran and Iraq, including Istanbul and Ankara, the capital. Electricity was not restored until 9pm local time in some areas.

The massive blackout, affecting around 70 million people, was the most widespread in Turkey in almost 15 years. It halted public transport and factory production, and plunged offices and shopping malls into darkness. According to Taner Yıldız, the Minister of Energy and Natural Resources, the outage occurred when the maintenance work on some transmission lines connected with the same grid were conducted simultaneously in several cities.

Almost ten days later at midnight, another blackout hit about 20 provinces, most of which restored electricity in 20 minutes. Officials attributed this outage to a malfunction in the main transformer.

Large-scale power outages are rare in Turkey. With additional electricity production capacity of 4,000 megawatts this year, the country will have installed electricity capacity of 73,600 megawatts in 2015. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Quantum index of medium and large-scale manufacturing (yoy growth %)*	3.5	4.4	-	-	-	-
Consumer price index (yoy growth %)*	6.6	6.2	6.1	6.0	6.1	-
Exports (yoy growth %)	-7.6	9.3	4.3	4.8	5.2	7.4
Exports (FOB, US$ mn)	1,957.6	2,417.4	2,844.1	2,885.2	2,512.4	2,593.0
Of which:						
Knitwear (US$ mn)	788.0	939.4	1,063.8	1,116.1	960.6	930.6
Woven garments (US$ mn)	731.5	999.2	1,269.2	1,303.8	1,146.7	1,144.2
Home textile (US$ mn)	50.8	62.9	72.2	79.4	67.0	75.3
Footwear (US$ mn)	41.0	46.9	66.9	61.8	40.4	45.9
Leather products (US$ mn)	12.4	17.0	22.3	20.8	16.9	22.5
Imports (yoy growth %)	14.4	1.8	8.5	-9.8	-	-
Imports (C&F, US$ mn)	3,463.4	3,294.7	3,620.9	3,286.7	-	-

** 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

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Quarterly GDP (real yoy growth %)*		7.5(3Q14)			-	
Index of industrial production (yoy growth %)	-4.2	3.8	3.2	2.8	5.0	-
Manufacturing PMI (HSBC)	51.6	53.3	54.5	52.9	51.2	52.1
Wholesale price index (yoy growth %)	1.7	-0.2	-0.5	-0.9	-2.1	-2.3
Consumer price index (yoy growth %)	5.5	4.4	5.0	5.2	5.4	5.2
Exports (yoy growth %)	-5.0	7.3	-3.8	-11.2	-15.0	-21.1
Exports (FOB, US$ mn)	26,094.1	25,960.6	25,397.7	23,883.6	21,545.3	23,951.2
Of which:						
Readymade garments (US$ mn)	1,194.6	1,202.3	1,370.5	1,586.22	1,538.3	-
Cotton yarn and fabrics (US$ mn)	788.7	818.8	799.3	825.0	775.9	-
Imports (yoy growth %)	3.6	26.8	-4.8	-11.4	-15.7	-13.4
Imports (CIF, US$ mn)	39,451.5	42,821.6	34,832.6	32,205.6	28,392.3	35,744.7
Trade balance (US$ mn)	-13,357.5	-16,861.1	-9,434.8	-8,322.0	-6,847.0	-11,793.5

** 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, HSBC PMI reports

PAKISTAN

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Quantum index of large-scale manufacturing (yoy growth %)	2.1	5.2	0.8	1.1	0.9	-
Consumer price index (yoy growth %)	5.8	4.0	4.3	3.9	3.2	2.5
Exports (yoy growth %)	5.0	9.5	-4.6	-0.2	-12.9	-13.4
Exports (US$ mn)	1,956.9	1,966.0	2,155.6	2,064.0	1,883.9	1,931.5
Of which:						
Garments (US$ mn)	389.0	354.1	401.5	407.2	356.7	335.9
Bed linen (US$ mn)	175.3	170.5	165.8	184.3	160.3	154.2
Towels (US$ mn)	69.1	59.3	54.2	69.2	60.2	61.0
Leather products (US$ mn)	52.3	48.0	50.0	46.0	45.0	42.8
Sporting goods (US$ mn)	24.6	25.0	27.8	26.3	25.1	29.0
Imports (yoy growth %)	30.0	-0.6	8.4	-26.0	-7.6	-3.8
Imports (US$ mn)	4,266.0	3,630.0	3,859.3	3,063.21	3,323.41	3,487.9
Balance of trade (US$ mn)	-2,309.1	-1,664.0	-1,703.6	-999.3	-1,439.5	-1,556.3

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

TURKEY

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Quarterly GDP (real yoy growth %)		2.6(4Q14)			-	
Industrial production index*, manufacturing (yoy growth %)	2.0	-0.3	2.7	-2.2	0.7	-
Industrial turnover index*, manufacturing (yoy growth %)	9.3	4.4	9.0	-4.9	-0.2	-
Manufacturing PMI (HSBC)	51.5	52.2	51.4	49.8	49.6	48.0
Producer price index (yoy growth %)	10.1	8.4	6.4	3.3	3.1	3.4
Consumer price index (yoy growth %)	9.0	9.2	8.2	7.2	7.6	7.6
Exports (yoy growth %)	7.0	-7.9	1.2	-0.7	-6.0	-
Exports (US$ mn)	12,900.1	13,080.3	13,328.3	12,315.7	12,271.5	-
Of which:						
Knitwear (US$ mn)	824.4	827.6	726.4	725.0	658.4	-
Woven garments (US$ mn)	460.0	483.5	460.3	492.9	448.8	-
Furniture (US$ mn)	230.4	258.7	279.7	215.0	208.8	-
Imports (yoy growth %)	-1.5	-0.1	-5.6	-13.7	-7.2	-
Imports (US$ mn)	19,184.4	21,386.7	21,833.9	16,635.9	16,927.2	-
Balance of trade (US$ mn)	-6,284.3	-8,306.5	-8,505.6	-4,320.3	-4,655.6	-

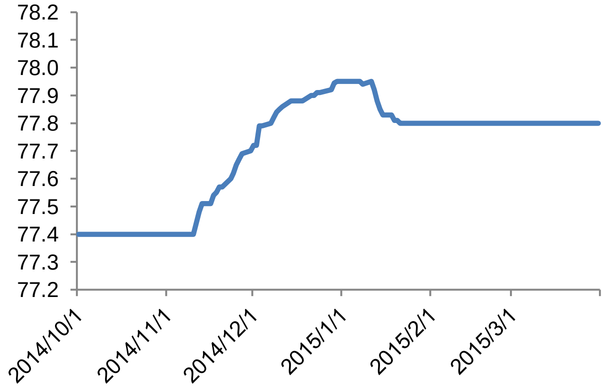
** Since January 2013, the base year of industrial production index and industrial turnover index has changed to 2010.*
Source: Turkish Statistical Institute, HSBC PMI reports

DAILY EXCHANGE RATES

OCTOBER 2014 - MARCH 2015

BANGLADESHI TAKA

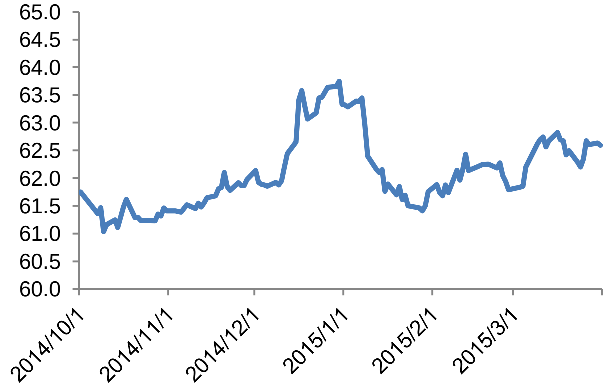
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

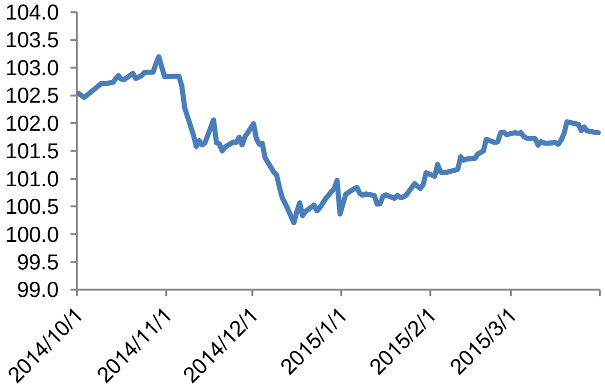
USD:INR RBI reference rate



Source: Reserve Bank of India (RBI)

PAKISTANI RUPEE

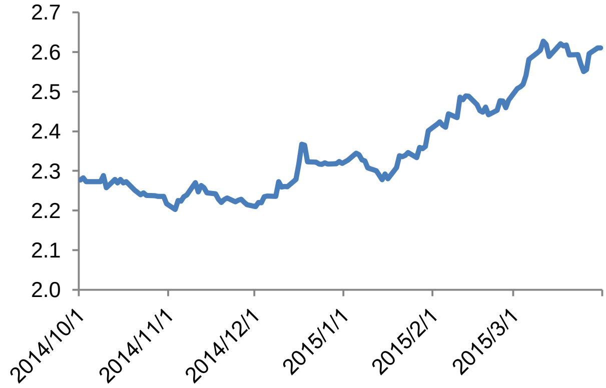
USD:PKR weighted average customer buy rate



Source: State Bank of Pakistan

TURKISH LIRA

USD:TRY buy rate



Source: Central Bank of the Republic of Turkey

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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