



ASIA SOURCING UPDATE

SOUTHEAST ASIA | SOUTH AND WEST ASIA

JUNE 2015

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IN THE NEWS

BANGLADESH



EXPORTS RISE 2.8% YOY IN JULY 2014 - MAY 2015

The country's exports rose 2.8% yoy to reach US\$28.1 billion in the first eleven months of the current fiscal year (July 2014 - June 2015). In the period, exports of readymade garments rose 3.4% yoy to reach US\$22.9 billion.

Breaking down the garment exports figure, exports of woven products rose 4.4% yoy to reach US\$11.8 billion, while those of knitted products rose 2.3% yoy to reach US\$11.7 billion.

Other major export categories that witnessed growth in the period include footwear and leather products, which rose 26.9% yoy and 2.5% yoy, respectively. Export categories that saw negative growth include leather (-21.3% yoy), specialized textile (-4.3% yoy) and furniture (-8.9% yoy).

BANGLADESH

GARMENT EXPORTS TO THE US REBOUND IN JANUARY-APRIL

The country's garment exports to the US rebounded in the January-April period, as US buyers were reassured by Bangladesh's progress towards factory safety and began to increase the size of their orders.

Bangladesh's garment exports to the US grew by 7.0% yoy to US\$1.82 billion in the first four months of 2015, according to data released on 5 June by the US Department of Commerce's Office of Textiles and Apparel. This represents a major rebound, as the country's apparel exports to the US fell by 5.5% yoy in 2014.

The EU-led Accord on Fire and Building Safety in Bangladesh (the Accord) and the US-led Alliance

for Bangladesh Worker Safety (the Alliance) completed preliminary inspections of 1,700 factories in October last year, and the results were generally interpreted as supporting the claim that the country's garment factories are on track towards being safety compliant.

BANGLADESH

THE ACCORD AND THE ALLIANCE ACCUSED OF EXERTING UNDUE INTERFERENCES

Bangladesh's Finance Minister AMA Muhith has recently expressed his concerns over allegations of undue interferences surrounding inspections conducted by the EU-led Accord on Fire and Building Safety in Bangladesh (the Accord) and the US-led Alliance for Bangladesh Worker Safety (the Alliance).

"They (the Accord and the Alliance) were welcomed to help us regain our buyers' confidence, but their activities have now become a noose for the apparel industry. They are exercising extra sovereign power," Muhith said at a meeting with industry leaders on 15 June.

The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) has for a while been complaining about the Accord and the Alliance for imposing "impossible tasks" on the country's garment factories. Among other things, the BGMEA complains that the Accord has been issuing unaffordable corrective action plans and interfering with a factory's decision to suspend workers.

Muhith termed the actions taken by the two coalitions as moves to stunt Bangladesh's economic development, which is a serious

accusation. The BGMEA's complaints and Muhith's comments raise the international community's concerns about the commitment of the Bangladeshi government towards the two unprecedented and private sector-led and funded safety initiatives. ■



GDP GROWS FASTER THAN EXPECTED IN THE JANUARY-MARCH QUARTER

India's real GDP growth accelerated to 7.5% yoy in the January-March quarter, higher than the (revised) 6.6% yoy growth seen in the previous quarter, according to provisional estimates from the Central Statistics Office (CSO).

The growth in the January-March quarter was driven mainly by the manufacturing sector, which expanded significantly by 8.4% yoy, up from 3.6% yoy growth in the previous quarter. By the expenditure approach, while private consumption and fixed investment both recorded faster year-on-year growths in the period, government expenditure witnessed a contraction. Meanwhile, imports fell more than exports, leading to a positive contribution of net exports to overall GDP growth in the quarter.

Despite the cheering figures, scepticism arises on the new methodology adopted by the CSO in calculating economic growth. Some analysts claimed that the trend for economic growth is not consistent with other economic indicators.

The World Bank's *Global Economic Prospects 2015*, released in June, forecasts India's economic growth to reach 7.5% in the current 2015-16 fiscal year (April 2015 - March 2016), outpacing the growth of other major economies including China.

INDIA

FDI INFLOWS INCREASE BY 24% YOY IN LAST FISCAL YEAR

India's foreign direct investment (FDI) inflows, which comprise FDI equity, re-invested earnings and other capital, rose by 24% yoy to US\$44.9 billion in the 2014-15 fiscal year, according to India's Department of Industrial Policy and Promotion. FDI equity, which measures inflows of new capital invested by foreign shareholders, reached US\$30.9 billion, up 27% over the 2013-14 fiscal year.

By source of country, Mauritius replaced Singapore as the largest investor in India in the last fiscal year with US\$9.0 billion worth of FDI equity, while the latter invested US\$6.7 billion. Other major investor countries included the Netherlands, Japan, the US and Germany. The service sector, telecommunications and trading were the top three sectors that received the highest amount of FDI equity inflows, followed by the automotive industry and computer software & hardware.

To revitalize India's economic growth and attract foreign investment, the Modi-led government has launched a series of initiatives, including the "Make in India" campaign and the project to build 100 smart cities by 2022. With comprehensive reforms underway in labour law, land acquisition, taxation, and business registration and regulation, the country is expected to gain traction among foreign investors.

INDIA

MODI'S CHINA VISIT FUELS CHINESE INVESTMENT INTO THE COUNTRY

Indian Prime Minister Narendra Modi made a three-day visit to China in mid-May. During the visit, the two nations signed trade and economic cooperation deals worth over US\$22 billion. The agreements cover a wide range of industries, such as manufacturing, infrastructure, steel and telecommunications.

Modi's visit also witnessed the signing of 22 memorandum of understanding (MoUs) worth 300 billion rupees (US\$4.7 billion) between the Gujarat government and various companies and organizations in China. These MoUs cover investment in various sectors, including textiles, infrastructure, affordable housing, automotive, pharmaceuticals, electrical engineering and logistics.

Among the MoUs signed, the China Association of Small and Medium Enterprise (CASME) has pledged to set up a textile industrial park near the industrial town of Sanand, a city in Ahmedabad district in the state of Gujarat, and build another industrial park in the same state in the second phase. ■

PAKISTAN



TEXTILE AND GARMENT EXPORTS FALL 1.7% YOY IN JULY 2014 - MAY 2015

In the first eleven months of the current fiscal year (July 2014 - June 2015), Pakistan's textile and garment exports amounted to US\$12.4 billion, down 1.7% from the same period of the previous fiscal year. The latest monthly figure from the Pakistan Bureau of Statistics shows that textile and garment exports fell 5.9% yoy in May.

Over the eleven-month period, product categories leading the decline in textile exports included raw cotton, cotton yarn and cotton cloth, which saw year-on-year contractions in terms of export value of 28.2%, 7.5% and 11.5% respectively. It is also worth noting that exports of knitwear and woven garments, which together accounted for one-third of total textile and garment exports, posted 5.3% yoy and 10.6% yoy growths respectively, in the same period.

Industry insiders have expressed their concerns over the poor export performance, citing energy shortage and the high cost of doing business as problems that have long plagued the development of the textile and garment industry. According to

Muhammad Jawed Bilwani, chairman of the Pakistan Apparel Forum, the industry's exports could have fallen by 13.1% yoy in the period were it not for the EU's Generalised System of Preference Plus (GSP+) benefits.

PAKISTAN

INDUSTRY LEADER URGES THE REMOVAL OF IMPORT DUTIES ON MAN-MADE FIBRE

In order to diversify the textile and garment industry's product mix, the All Pakistan Textile Mills Association (APTMA) has requested the government to remove import duties on man-made fibre, such as polyester staple fibre and viscose staple fibre.

In a recent press release, APTMA acting chairman Mian Wisal A. Monnoo urged the government to reduce import duties on man-made fibre, of which local supply is insignificant or nonexistent, from the current 6% to zero. The current customs duties, together with other incidental costs, make imported man-made fibre in Pakistan around 20% more expensive than those available in other major sourcing countries.

At present, cotton-based products account for about 80% of the country's total textile and garment production, while the other 20% are made of man-made fibre. This goes against the global trend, where 70% of apparel products are made of man-made fibre and only 30% are made of cotton. The predominance of cotton-based products in Pakistan makes the local textile and garment industry less competitive in the global sourcing market, and further narrows the country's export opportunity to the EU market where it enjoys preferential access.

PAKISTAN

EU DELEGATION REVIEWS PROGRESS ON SOCIAL STANDARDS

A delegation from the European Commission's Trade Office visited the All Pakistan Textile Mills Association (APTMA) in May to review the benefits

of the GSP+ granted to Pakistan and the country's progress towards improving social compliance related to labour and environmental standards.

In terms of the progress made towards improving social and environmental compliance, the APTMA launched a number of initiatives in the industry to promote conservation of energy and water, use of renewable energy, implementation of social standards, and plantation of better cotton that consumes less water and pesticides.

The delegation appreciated the country's efforts made towards complying with the social standards required by the GSP+. A report will be presented to the European Parliament and the European Council in January 2016 on the status of Pakistan's implementation of relevant standards in human rights and environmental protection. ■

TURKEY

POLITICAL INSTABILITY LOOMS LARGE AFTER UNEXPECTED ELECTION RESULT

The Justice and Development Party (AKP), which for many years has been led by the incumbent president Recep Tayyip Erdoğan, faced a historic setback in the general election on 7 June. Having governed the country since 2002, the party now loses its majority in the parliament, but remains the largest party with a 41% vote share. The result also puts an end to Erdoğan's ambition to transform the country's parliamentary governance into a US style presidency.

The unexpected result raises the prospects of political instability in Turkey, as no clear scenarios have yet emerged for either a coalition or minority government. Opposition parties in the parliament have all pledged to curb the AKP's power and roll back some of its initiatives. As it is difficult for the AKP and the opposition parties to establish a stable coalition government, an AKP-led minority government will probably face strong backlash in policy making.

Underscoring the fears of political instability ahead, the Turkish lira plunged to a historic low of 2.81 against the US dollar on 8 June. After fluctuating within the range of 2.7-2.8, the lira closed at 2.74 on 15 June, representing a 2.65% depreciation since the end of May.

TURKEY

INFLATION ACCELERATES TO 8.1% YOY IN MAY

Turkey's inflation, as measured by the year-on-year changes in the consumer price index, rose from 7.9% in April to 8.1% in May, the highest in 2015, according to the Turkish Statistical Institute. The acceleration of inflation is attributable mainly to the sharp depreciation of the Turkish lira against the US dollar since the beginning of this year.

By major expenditure group, inflation of food and non-alcoholic beverages reached 12.8% yoy in May, while prices of 'transportation', 'clothing and footwear' and 'housing, water and fuels' increased by 1.8% yoy, 6.0% yoy and 8.3% yoy respectively in the month.

On 30 April, the Turkish central bank raised its year-end inflation forecast from 5.5% to 6.8%, citing a weak lira and higher-than-expected oil prices as reasons for the upward adjustment.

TURKEY

EU AND TURKEY TO MODERNISE CUSTOMS UNION

The EU's Trade Commissioner Cecilia Malmstroem and Turkey's Minister of Economy Nihat Zeybekci announced on 12 May a framework to upgrade the decade-old Customs Union, which allows manufactured products to be traded freely without any tariffs or quotas between Turkey and the EU since the end of 1995.

According to news reports, the revised Customs Union agreement will likely include service trade, most agricultural goods and government procurement. It is also hoped that the revision can

resolve Turkey's persistent concerns over the negative impact brought by the EU's trade agreements with other countries. Under the current Customs Union agreement, a third country having preferential trade terms with the EU can enjoy the same preferences in the Turkish market as EU's member countries does. However, the reverse is not true – Turkey does not automatically enjoy the same right that the EU has in the third country's market. As such, the Transatlantic Trade and Investment Partnership (TTIP) being negotiated between the EU and the US is considered detrimental to Turkey's economy if Turkey is left out of it and the Customs Union agreement is not revised.

Before the negotiations on revising the Customs Union begin, the EU and Turkey will need to undertake their respective internal assessments and seek the relevant mandates from corresponding authorities. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Quantum index of medium and large-scale manufacturing (yoy growth %)*	9.5	10.7	9.4	-	-	-
Consumer price index (yoy growth %)*	6.1	6.0	6.1	6.3	6.3	-
Exports (yoy growth %)	4.3	4.8	5.2	7.4	-0.6	4.4
Exports (FOB, US\$ mn)	2,844.1	2,885.2	2,512.4	2,593.0	2,398.5	2,841.1
<i>Of which:</i>						
Knitwear (US\$ mn)	1,063.8	1,116.1	960.6	930.6	938.9	1,159.7
Woven garments (US\$ mn)	1,269.2	1,303.8	1,146.7	1,144.2	1,000.5	1,199.3
Home textile (US\$ mn)	72.2	79.4	67.0	75.3	76.0	73.6
Footwear (US\$ mn)	66.9	61.8	40.4	45.9	43.6	64.4
Leather products (US\$ mn)	22.3	20.8	16.9	22.5	23.2	30.2
Imports (yoy growth %)	8.5	-9.8	1.9	-5.3	-	-
Imports (C&F, US\$ mn)	3,620.9	3,286.7	3,076.0	3,463.5	-	-

* 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

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Quarterly GDP (real yoy growth %)*	6.6 (3Q14)		7.5 (4Q14)		-	
Index of industrial production (yoy growth %)	3.6	2.8	4.9	2.5	4.1	-
Manufacturing PMI (HSBC)	54.5	52.9	51.2	52.1	51.3	52.6
Wholesale price index (yoy growth %)	-0.5	-0.9	-2.1	-2.3	-2.7	-2.4
Consumer price index (yoy growth %)	5.0	5.2	5.4	5.3	4.9	5.0
Exports (yoy growth %)	-3.8	-11.2	-15.0	-21.1	-14.0	-20.2
Exports (FOB, US\$ mn)	25,397.7	23,883.6	21,545.3	23,951.2	22,054.7	22,346.8
<i>Of which:</i>						
Readymade garments (US\$ mn)	1,370.5	1,586.2	1,538.3	1,570.1	1,444.2	-
Cotton yarn and fabrics (US\$ mn)	799.3	824.8	775.9	815.0	743.6	-
Imports (yoy growth %)	-4.8	-11.4	-15.7	-13.4	-7.5	-16.5
Imports (CIF, US\$ mn)	34,832.6	32,205.6	28,392.3	35,744.7	33,047.0	32,753.0
Trade balance (US\$ mn)	-9,434.8	-8,322.0	-6,847.0	-11,793.5	-10,992.3	-10,406.2

* 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

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Quantum index of large-scale manufacturing (yoy growth %)	0.8	1.1	0.9	4.5	5.0	-
Consumer price index (yoy growth %)	4.3	3.9	3.2	2.5	2.1	3.2
Exports (yoy growth %)	-4.6	0.2	-12.9	-13.4	4.6	-7.6
Exports (US\$ mn)	2,155.6	2,064.0	1,883.9	1,931.5	1,994.8	1,953.3
<i>Of which:</i>						
Garments (US\$ mn)	401.5	407.2	356.7	335.9	365.0	409.8
Bed linen (US\$ mn)	165.8	184.3	160.3	154.2	177.5	172.6
Towels (US\$ mn)	54.2	69.2	60.2	61.0	64.2	66.3
Leather products (US\$ mn)	50.0	46.0	45.0	42.8	43.1	44.2
Sporting goods (US\$ mn)	27.8	26.3	25.1	29.0	31.3	29.7
Imports (yoy growth %)	8.4	-26.0	-7.6	-3.8	-5.0	4.8
Imports (US\$ mn)	3,859.3	3,063.2	3,323.4	3,487.9	3,790.4	3,846.9
Balance of trade (US\$ mn)	-1,703.6	-999.3	-1,439.5	-1,556.3	-1,795.6	-1,893.6

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

TURKEY

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Quarterly GDP (real yoy growth %)	2.6 (4Q14)		2.3 (1Q15)			-
Industrial production index*, manufacturing (yoy growth %)	2.7	-2.2	0.9	5.0	4.6	-
Industrial turnover index*, manufacturing (yoy growth %)	9.0	-4.9	-0.2	6.7	9.3	-
Manufacturing PMI (HSBC)	51.4	49.8	49.6	48.0	48.5	50.2
Producer price index (yoy growth %)	6.4	3.3	3.1	3.4	4.8	6.5
Consumer price index (yoy growth %)	8.2	7.2	7.6	7.6	7.9	8.1
Exports (yoy growth %)	1.2	-0.8	-6.2	-14.6	0.2	-
Exports (US\$ mn)	13,270.4	12,306.8	12,241.2	12,536.5	13,392.3	-
<i>Of which:</i>						
Knitwear (US\$ mn)	726.4	722.8	655.2	675.4	716.0	-
Woven garments (US\$ mn)	460.3	492.1	447.8	490.6	494.0	-
Furniture (US\$ mn)	279.3	214.9	208.4	230.7	252.2	-
Imports (yoy growth %)	-5.6	-13.7	-7.2	-6.1	-11.1	-
Imports (US\$ mn)	21,833.9	16,636.3	16,933.3	18,723.4	18,357.8	-
Balance of trade (US\$ mn)	-8,563.5	-4,329.5	-4,692.1	-6,186.9	-4,965.5	-

* Since January 2013, the base year of industrial production index and industrial turnover index has changed to 2010.

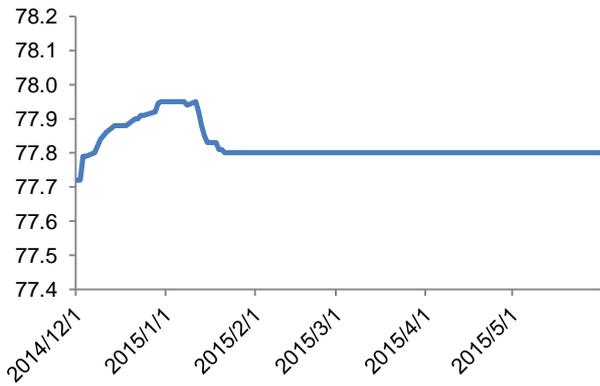
Source: Turkish Statistical Institute, HSBC PMI reports

DAILY EXCHANGE RATES

DECEMBER 2014 - MAY 2015

BANGLADESHI TAKA

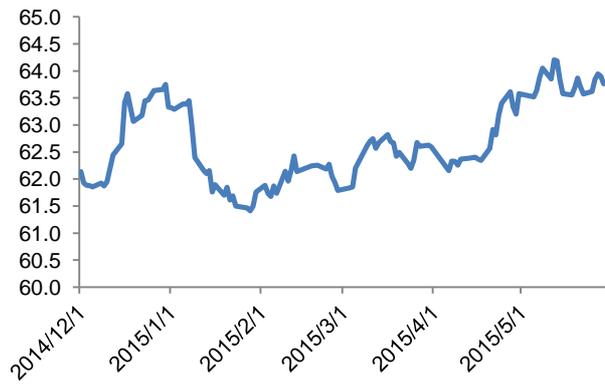
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

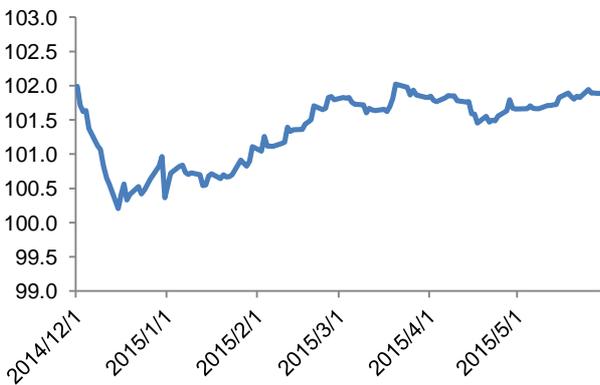
USD:INR RBI reference rate



Source: Reserve Bank of India (RBI)

PAKISTANI RUPEE

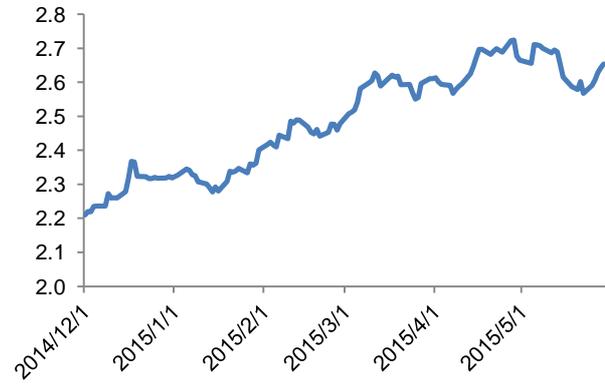
USD:PKR weighted average customer buy rate



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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ASIA
SOURCING
UPDATE