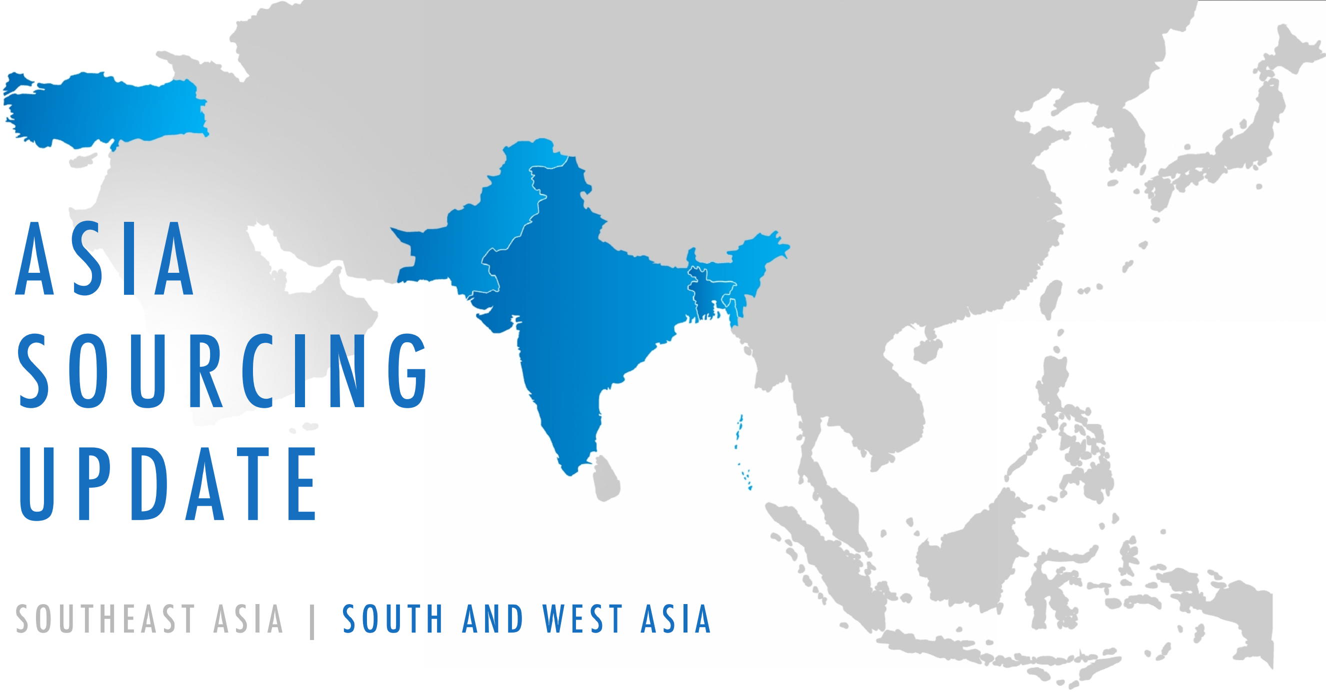

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

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IN THIS ISSUE

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- Rana Plaza factory disaster one year on
- IndustriAll Global Union outraged over non-compliance with new minimum wage
- Brands invest in vendor capacity

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- Exports contracted for the first time in eight months
- Textile industry welcomed measures announced in the Interim Budget
- Export subsidy for textile and apparel products may soon come to an end

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- Industrial output in the textile sector expanded by 1.6% yoy in July 2013 - January 2014
- Rupee saw a sharp appreciation against the US dollar
- Two industrial parks to be set up in Karachi and Lahore

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- Industrial production posted strong growth in January
- Dispute with Bulgaria over transit permits highlighted the need for route diversification
- Revision of Customs Union agreement with EU under discussion

IN THE NEWS

BANGLADESH

RANA PLAZA FACTORY DISASTER ONE YEAR ON

This year's 24 April will mark the one year anniversary of the Rana Plaza building collapse, where 1,129 garment workers died and 2,515 were injured. The world's most deadly industrial accident since the 1984 Bhopal disaster in India has prompted Western brands and retailers to cooperate to improve working and safety conditions within Bangladesh's readymade garment sector. Over the course of the past year, two key initiatives have taken shape: the European-led Accord on Fire and Building Safety in Bangladesh, which consists of more than 150 companies; and the Alliance for Bangladesh Worker Safety, consisting of 26 North American companies. Collectively, the members of both groups represent the overwhelming majority of buyers of Bangladeshi garments.

Both the Accord and the Alliance started inspections on their suppliers (1,600 for the former and 620 for the latter) in February, while at least 2,000 other garment factories in Bangladesh not covered by the Accord or the Alliance are being inspected by 30 teams of experts led by the Bangladesh University of Engineering and Technology (BUET) since November last year. As of 7 March, the Alliance has inspected over 240 factories while the Accord has inspected around 70 factories. Initial inspection results from the two platforms exposed safety problems including overloaded ceilings, lack of automatic sprinklers, cables with damaged coating, and locked fire escapes. Inspections are to be completed for the Accord by July and the Alliance within August.

While inspections continue, compensation is still being sorted out for the Rana Plaza victims. In December 2013, a compensation plan was signed by a broad range of stakeholders, including local and national trade unions, employer associations and the government of Bangladesh. An initial payment of 50,000 taka (US$650) will be made to identified victims and their families ahead of the 24 April anniversary. However, the fund has so far met only half of its target of raising US$40 million.

The Bangladesh garment sector is slowly transforming itself after the Rana Plaza tragedy. Factory safety inspections and compensation for the victims are in motion. With the commitment from global brands and retailers and support from Bangladesh factory owners, improvements in working conditions are expected to result in higher standards and a safer workplace environment for the 4 million workers in the industry.

BANGLADESH

INDUSTRIALL GLOBAL UNION OUTRAGED OVER NON-COMPLIANCE WITH NEW MINIMUM WAGE

The latest minimum wage level for entry-level garment workers, set at 5,300 taka (US$68.10) per month, came into effect on 1 December 2013. The rise represented an increase of 77% from the previous monthly minimum wage level of 3,000 taka (US$38.55) fixed in 2010. However, the extent of its implementation was under debate.

Jyrki Raina, General Secretary of IndustriAll Global Union, claimed in February during his two-day visit to the country that at least 40% of the readymade garment factories in Bangladesh did not meet the minimum wage requirement for their workers. In response to the accusation of widespread non-compliance with the minimum wage standard, the State Minister of Labour and Employment Mujibul Haque Chunnu told the press that more than 85% of the factories were paying the minimum wage and challenged IndustriAll Global Union to name the non-compliant factories.

As consumer concerns about social sustainability heighten, international brands are increasingly being held accountable for the welfare of the workers employed by their vendors. The extent of non-compliance with the minimum wage standard highlights the risk involved in managing fragmented apparel supply chains across borders.

BANGLADESH

BRANDS INVEST IN VENDOR CAPACITY

The garment industry in Bangladesh has long realized that its competitiveness depends upon technological innovation and the skills of its labour force. With prices of input factors on the rise, clothing brands and retailers are investing in supply chain capacity and capability building programs to increase productivity.

In March, Swedish clothing retailer H&M announced that it is going to create a "Skill Development Centre of Excellence" in Bangladesh to help raise the levels of vocational training and provide certificates to garment workers. The programme is designed to help increase productivity as well as the long-term employability of the workers. The company hopes the training will benefit around 5,000 individuals by 2016.

H&M's initiative highlighted the recent trend towards enhanced cooperation between brands and their vendors to provide worker training. Since 2011, consultancy firm Impactt has collaborated with Arcadia, Marks & Spencer, Mothercare, New Look, Ralph Lauren, Sainsbury's, Tesco and Varner in the "Benefits for Business and Workers" (BBW) programme to train garment workers across 73 factories in India and Bangladesh. The programme focuses on improving factory productivity, efficiency, quality and human resources management and delivering better jobs for workers. Key managers in participating factories are trained in problem-solving and decision-making techniques, along with skills in human resources management, communications, production and quality management.

Results of the BBW show that through investment in training, it is possible to do good business while providing good jobs to the workers. In its first two years in Bangladesh, BBW has improved participating factories' efficiency by 18.3% and cut-to-ship ratio by 1.14%. ■

INDIA

EXPORTS CONTRACTED FOR THE FIRST TIME IN EIGHT MONTHS

Following consecutive growths in the past seven months, India's exports declined by 3.7% yoy to US$25.7 billion in February. Major export categories, including petroleum products, engineering goods and pharmaceuticals, all witnessed a decline in the same month.

In the April 2013 - February 2014 period, exports grew by 4.8% yoy to reach US$282.8 billion, making it unlikely for the country to achieve the export target of US$325 billion for the current fiscal year (April 2013 - March 2014).

Apart from the sluggish recovery in major export markets, exporters also attributed the decline in exports to the liquidity problem they faced. It was reported that arrears of duty refund claims reached 200 billion rupees, resulting in a liquidity crunch that constrained exporters' output expansion. Weak manufacturing production was also held responsible for the disappointing export performance. The Index of Industrial Production for the manufacturing sector declined for four months in a row since October last year, with the latest figure in January recording a 0.7% yoy contraction.

It should also be noted that the country's export performance should be contextualized against the sharp depreciation of the Indian rupee since May last year. While exports declined in dollar terms, they gained 11.5% yoy in rupee terms in February.

INDIA

TEXTILE INDUSTRY WELCOMED MEASURES ANNOUNCED IN THE INTERIM BUDGET

The Interim Budget for the April 2014 - March 2015 fiscal year announced on 17 February provided some relief to the textile industry and other manufacturing sectors. The measures announced will be reviewed in the regular budget later this year after the new government takes office.

Among the measures announced, there is the reduction of the excise duty for capital goods from 12% to 10% for the period up to 30 June this year. At the same time, budget allocation for the Technology Upgradation Fund Scheme (TUFS), a scheme to provide interest subsidy for modernization of textile machinery, will increase from 19.6 billion to 23.0 billion rupees in the 2014-15 fiscal year. These measures are conducive to boosting investment in machinery.

The textile industry broadly welcomed the Interim Budget even though the incentives will only give a small push to the industry. Previously, the Textile Ministry sought to raise the duty drawback rate on garments exported to the EU so as to partially offset the tariff advantages enjoyed by Pakistan and Bangladesh under EU's Generalized System of Preferences. But the plan was not accepted as the country is facing a serious budget deficit.

INDIA

EXPORT SUBSIDY FOR TEXTILE AND APPAREL PRODUCTS MAY SOON COME TO AN END

India needs to phase out its export subsidy on textile and apparel products as the sector has reached the export competitiveness threshold, according to Secretary of the Department of Commerce Mr. Rajeev Kher in a speech delivered on 20 February.

India, along with other low-income countries (with a GNP per capita of less than US$1,000 in constant 1990 dollars), is currently exempted from the prohibition on export subsidies under the WTO's Agreement on Subsidies and Countervailing Measures (SCM Agreement). If any product in these low-income country members has reached the export competitiveness threshold, export subsidies on such products should be phased out gradually over a period of eight years. A product reaches the export competitiveness threshold when it accounts for over 3.25% of the world's exports of that product (at the section level of the Harmonized System) for two consecutive years.

According to data from the WTO, India's exports of textile and apparel products, which fall under Section XI of the Harmonized System, crossed the threshold in 2007. Thus, export subsidies to the textile and garment sector may violate WTO rules in as early as 2015.

India runs many export incentive schemes, such as Special Economic Zones, Export Oriented Units, Focus Market Schemes and interest subvention on export credit; some or all of them may be interpreted as export subsidies. A number of countries including the US and Turkey have already protested against what they see as unfair competition posed by these policies. ■

PAKISTAN

INDUSTRIAL OUTPUT IN THE TEXTILE SECTOR EXPANDED BY 1.6% YOY IN JULY 2013 - JANUARY 2014

Pakistan's industrial output, measured by the quantum index of large-scale manufacturing industries, witnessed a growth of 6.1% yoy in the first seven months of the current fiscal year (July 2013 - June 2014), according to data from the Pakistan Bureau of Statistics. In January, the index increased by 2.6% compared to the same month last year.

During the July 2013 - January 2014 period, sectors showing double-digit growth in industrial output included 'fertilizers' (+25.4% yoy), 'food, beverages and tobacco' (+15.8% yoy) and 'paper and board' (+13.3% yoy). In comparison, the textile sector, which composes one-fifth of the weight of the index, expanded only by 1.6% yoy in the same period.

On the other hand, industrial output in 'engineering products', 'wood manufacturing' and 'automobile' sectors witnessed contractions of 24.1% yoy, 9.1% yoy and 2.2% yoy respectively in that period.

PAKISTAN

RUPEE SAW A SHARP APPRECIATION AGAINST THE US DOLLAR

In March, the Pakistani rupee surged sharply by 6.5% against the US dollar within a week. According to Bloomberg, the USD-PKR spot exchange rate stood at 104.3 rupees per US dollar on 6 March, and fell all the way to 97.9 rupees per US dollar on 12 March. As of 24 March, the spot exchange rate closed at 97.8 rupees per US dollar, back to the level in last June before the rupee started an astonishing depreciation in the second half of 2013.

The recent appreciation of the rupee was largely attributable to the steady improvement of the country's foreign exchange reserves. According to the State Bank of Pakistan (SBP), total liquid foreign reserves held by the country reached US$9.6 billion as of 14 March, a 16.1% increase from US$8.3 billion at the end of last year. In addition, Pakistan is set to receive US$550 million worth of loans from the IMF by the end of March, which will further strengthen the country's foreign reserves position.

Buoyed investor confidence also contributed to a strong rupee. Net foreign direct investment in the country rose by 17.9% yoy to US$606.3 million in the first eight months of the current fiscal year (July 2013 - June 2014), according to the SBP.

Exporters are trying to expedite payments from overseas clients before a stronger rupee erodes their profits. It is also expected that the price of Pakistan's exports in US dollar terms will see a marked increase soon.

PAKISTAN

TWO INDUSTRIAL PARKS TO BE SET UP IN KARACHI AND LAHORE

The Pakistani government is planning to set up two industrial parks, one in Karachi and another in Lahore, to promote export of textiles and industrial equipment. The Korangi Creek Industrial Park in Karachi has a total saleable area of 103 acres, 18% of which will accommodate textile manufacturers in the weaving, garment and home textile sectors. The park also consists of a 26-acre cluster for manufacturers of auto parts, steel fabrication, lighting equipment, collapsible tubes and plastics. At the same time, the Rachna Industrial Park in Lahore is also under construction, with a total area of over 174 acres to accommodate small and medium-sized factories.

Previously, the government of Punjab initiated the establishment of the Punjab Garment City Industrial Estate, which will be granted the status of Special Economic Zone. In anticipation of Pakistan's huge opportunity under EU's GSP plus scheme, China's Shandong Ruyi Group has committed US$119 million investment to the park, along with technical assistance. ■

TURKEY

INDUSTRIAL PRODUCTION POSTED STRONG GROWTH IN JANUARY

According to the Turkish Statistical Institute, the country's industrial production index (after the adjustment on working days) rose by 7.3% yoy in January, the highest yoy growth rate since November 2011. On a month-on-month basis, industrial production gained 1.1% in January.

The growth was led by the 'mining and quarrying' sector and the manufacturing sector, which grew by 9.4% yoy and 7.8% yoy respectively. During the same month, the 'electricity, gas, steam and air conditioning supply' sector posed a relatively modest growth of 3.5% yoy.

Among the sub-sectors in the manufacturing sector, 'repair and installation of machinery and equipment' recorded the highest yoy growth of 28.3% in January, followed by 'manufacture of computer, electronic and optical products' and 'manufacture of basic pharmaceutical products and pharmaceutical preparations' with increases of 26.3% yoy and 21.3% yoy respectively. In the meantime, production of textiles grew by 5.9% yoy, and production of wearing apparel declined by 4.0% yoy.

TURKEY

DISPUTE WITH BULGARIA OVER TRANSIT PERMITS HIGHLIGHTED THE NEED FOR ROUTE DIVERSIFICATION

Due to a dispute over cross-border transit permits quota, truck traffic between Turkey and Bulgaria was blocked for almost two weeks between late January and mid-February.

According to the Turkish authorities, Bulgaria granted only 5,000 of the 125,000 transit permits promised to Turkish truckers in the beginning of this year. As a result, many Turkish trucks lined up at the Kapitan Andreevo-Kapikule border, forming a queue reaching over 10 kilometers. In retaliation, the Turkish government closed its customs gates to Bulgarian trucks on 31 January. On the following day, the Bulgarian government in turn forbade Turkish trucks to enter its country.

The deadlock ended only after Bulgaria granted 100,000 permits to Turkish truck drivers on 13 February. After the incident, call centres were set up on both sides on 1 March to enable truck drivers to report to and seek assistance from their respective authorities if required in the future.

As Bulgaria lies between Turkey and central Europe, it is part of a major route through which Turkish exports enter the EU. The recent transit permit row highlighted the need for Turkey to further diversify its logistics channels into the EU. During the two-week deadlock when trucks from Turkey could not enter Bulgaria, Turkish exporters moved the goods via Romania, Greece and Italy, but these alternatives remained expensive and slow.

TURKEY

REVISION OF CUSTOMS UNION AGREEMENT WITH EU UNDER DISCUSSION

According to the Customs Union agreement signed between Turkey and the EU in 1995, a third country having preferential trade terms with the EU can enjoy the same preferences in the Turkish market as in EU's member countries. However, the reverse is not true – Turkey does not automatically enjoy the same right that the EU has in the third country's market. The usual practice is for the EU to recommend the third country to sign a free trade agreement (FTA) with Turkey, which the third country can accept or decline.

The Economy Minister Nihat Zeybekci commented that the aforementioned arrangement would bring profound adverse impact on the Turkish economy if the EU reaches FTAs with major economies in the coming years. For instance, the Transatlantic Trade and Investment Partnership (TTIP) under negotiation between the US and the EU could significantly harm the competitiveness of Turkey's exports to the US because almost all tariffs on trade in industrial and agricultural products between EU member countries and the US are expected to be removed under TTIP. Harold McGraw, Chairman of the US President's Advisory Committee for Trade Policy and Negotiations, has recently said that the US would prefer Turkey's inclusion into the TTIP through negotiations with the EU even if a Turkey-US FTA might be possible.

During a meeting in late February with EU's Trade Commissioner Karel De Gucht, Nihat Zeybekci demanded that Turkey should also be entitled to the preferential trade terms that the EU enjoys under its FTAs with third countries; otherwise, Turkey should at least be permitted to restrict those FTA partners of the EU from gaining preferential rights in Turkey until they reach a parallel agreement with Turkey. The EU Trade Commissioner acceded that there might be a need to revise the Customs Union agreement, and will work with Turkey's Economy Minister to establish a committee to address the issue. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Quantum index of medium and large-scale manufacturing (yoy growth %)*	16.8	1.0	12.1	-	-	-
Consumer price index (yoy growth %)*	7.1	7.0	7.2	7.4	7.5	7.4
Exports (yoy growth %)	36.3	2.0	25.3	10.5	7.8	6.4
Exports (FOB, US$ mn)	2,590.2	2,119.2	2,212.4	2,726.2	2,753.8	2,389.4
Of which:						
Knitwear (US$ mn)	1,058.3	862.0	877.6	1,048.9	1,045.8	915.8
Woven garments (US$ mn)	985.3	820.5	889.4	1,230.0	1,195.2	1,049.6
Home textile (US$ mn)	62.4	64.1	54.4	52.4	92.2	57.8
Footwear (US$ mn)	51.4	44.6	44.9	47.8	52.9	37.8
Leather products (US$ mn)	19.1	14.0	17.6	17.0	28.1	15.0
Imports (yoy growth %)	10.1	15.3	10.6	29.9	-	-
Imports (C&F, US$ mn)	3,278.5	3,028.5	3,235.5	3,338.1	-	-

** 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-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Quarterly GDP (real yoy growth %)*	4.8(2Q13)		4.7(3Q13)		-	
Index of industrial production (yoy growth %)	2.7	-1.2	-1.3	-0.2	0.1	-
Manufacturing PMI (HSBC)	49.6	49.6	51.3	50.7	51.4	52.5
Wholesale price index (yoy growth %)	7.0	7.2	7.5	6.4	5.0	4.7
Consumer price index (yoy growth %)	9.8	10.2	11.2	9.9	8.8	8.1
Exports (yoy growth %)	11.2	13.5	5.9	3.5	3.8	-3.7
Exports (FOB, US$ mn)	27,679.3	27,271.0	24,613.0	26,346.1	26,752.0	25,688.9
Of which:						
Readymade garments (US$ mn)	1,113.7	1,188.8	1,023.6	1,244.6	1,453.8	-
Cotton, yarn and fabrics (US$ mn)	756.1	823.4	700.7	738.9	850.6	-
Imports (yoy growth %)	-18.1	-14.5	-16.4	-15.3	-18.1	-17.1
Imports (CIF, US$ mn)	34,439.5	37,827.0	33,833.0	36,486.3	36,666.0	33,819.1
Trade balance (US$ mn)	-6,760.2	-10,556.1	-9,220.0	-10,140.3	-9,914.0	-8,130.2

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

PAKISTAN

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Quantum index of large-scale manufacturing (yoy growth %)	11.2	4.5	2.2	13.2	2.6	-
Consumer price index (yoy growth %)	7.4	9.1	10.9	9.2	7.9	7.9
Exports (yoy growth %)	19.2	-7.5	-3.2	26.1	1.9	18.1
Exports (US$ mn)	2,622.0	1,864.0	1,804.0	2,275.0	2,061.0	2,167.0
Of which:						
Garments (US$ mn)	342.6	332.2	306.1	378.4	358.2	-
Cotton cloth (US$ mn)	243.6	235.3	194.1	248.9	210.8	-
Bed linen (US$ mn)	247.8	163.3	152.4	180.9	168.2	-
Towels (US$ mn)	63.8	60.4	54.5	71.2	55.5	-
Imports (yoy growth %)	8.1	-13.4	11.3	-2.5	9.9	6.4
Imports (US$ mn)	3,791.0	3,281.0	3,651.0	3,561.0	4,137.0	3,600.0
Balance of trade (US$ mn)	-1,169.0	-1,417.0	-1,847.0	-1,286.0	-2,076.0	-1,433.0

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

TURKEY

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14
Quarterly GDP (real yoy growth %)	4.4(3Q13)		-			
Industrial production index*, manufacturing (yoy growth %)	8.0	1.9	5.7	7.2	7.8	-
Industrial turnover index*, manufacturing (yoy growth %)	16.7	10.7	16.3	17.7	23.3	-
Manufacturing PMI (HSBC)	54.0	53.3	55.0	53.5	52.7	53.4
Producer price index (yoy growth %)	6.2	6.8	5.7	7.0	10.7	12.4
Consumer price index (yoy growth %)	7.9	7.7	7.3	7.4	7.8	7.9
Exports (yoy growth %)	0.8	-8.6	3.3	4.7	8.6	-
Exports (US$ mn)	13,056.9	12,056.2	14,200.3	13,191.8	12,472.5	-
Of which:						
Knitwear (US$ mn)	814.4	717.8	915.5	764.7	829.3	-
Woven garments (US$ mn)	480.6	413.1	509.6	455.0	524.7	-
Furniture (US$ mn)	241.7	225.0	278.4	278.7	232.6	-
Imports (yoy growth %)	3.5	3.7	2.2	16.7	2.6	-
Imports (US$ mn)	20,620.8	19,483.4	21,403.5	23,137.4	19,291.7	-
Balance of trade (US$ mn)	-7,563.8	-7,427.1	-7,203.2	-9,945.5	-6,819.2	-

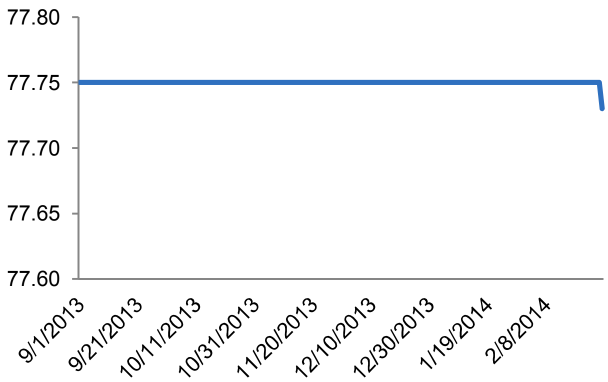
** Since January 2013, the base year of industrial production index and industrial turnover index has changed to 2010.*
Source: Turkish Statistical Institute, HSBC PMI reports

DAILY EXCHANGE RATES

SEPTEMBER 2013 - FEBRUARY 2014

BANGLADESHI TAKA

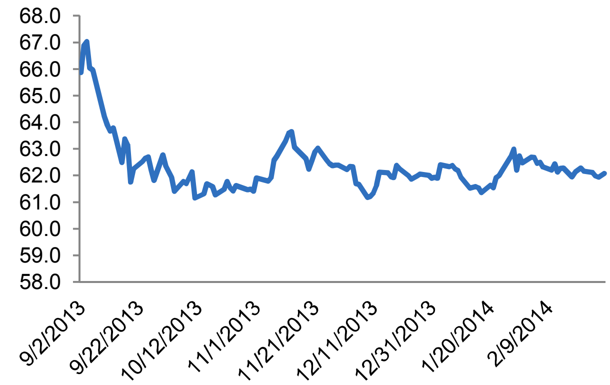
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

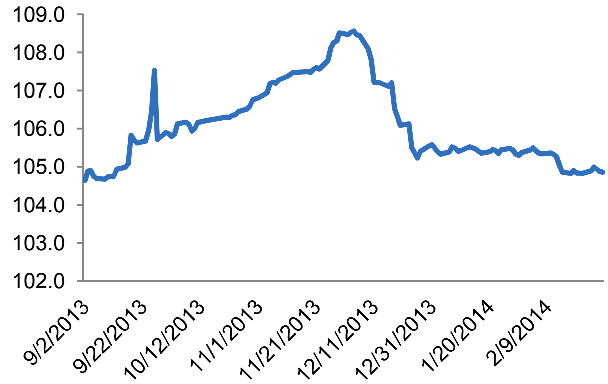
USD:INR RBI reference rate



Source: Reserve Bank of India (RBI)

PAKISTANI RUPEE

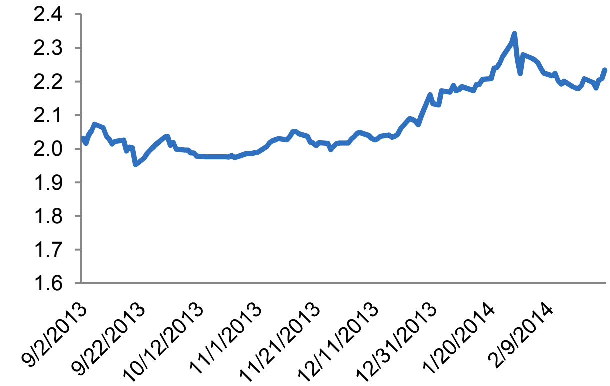
USD:PKR weighted average customer buy rate



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 43,000 people across 40 economies worldwide, generating total revenue of more than US$21.9 billion in 2012. 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, through its unique relationships, collects and analyses market data on China's economy, with special focus on sourcing, supply chains, distribution and retail.

It also produces reports on sourcing and trading in other Asian countries. More than a knowledge bank for the Fung Group, the Centre also makes its market data and analysis available to businesses, scholars and governments around the world.

It has become an impartial thought leader on issues shaping the future of manufacturing, distribution, logistics and retailing in China, and regularly provides advice and consultancy services to internal and external clients of the Fung Group.

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