



# ASIA SOURCING UPDATE

SOUTHEAST ASIA | SOUTH AND WEST ASIA

MARCH 2019

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# IN THE NEWS

## BANGLADESH



### GOVERNMENT REVISES WAGE STRUCTURE FOR RMG WORKERS AMID PROTESTS

The Bangladeshi government announced on 13 January a revised wage structure for readymade garment (RMG) workers after over a month of labour unrest.

Protests erupted on 9 December last year in the Ashulia industrial belt in Dhaka and later spread to Gazipur and Narayanganj. The worker unrest heated up further in early to mid-January. Thousands of RMG workers went on strike for eight days calling for wage increase, particularly for those on mid-range wage grades who had effectively received no wage rise. As a result, dozens of garment factories were shut down due to worker absence and fear of unrest.

In response, the government formed a tripartite committee, consisting of representatives from the government, RMG factory owners, and workers, to review the wage structure for the RMG sector. The committee agreed to modest wage increases for most worker grades. Under the revised wage structure, RMG workers on grade 6 to 1 would see their minimum wages increased by an extra 15 takas to 747 takas, but the minimum wage for entry-level workers (grade 7) would remain unchanged at 8,000 takas.

Worker protests died down after the adjustment of the wage structure, but many workers returned to work only to find that they had been laid off. At least 11,000 workers of 99 garment factories have been dismissed from their jobs for alleged involvement in the labour unrest and vandalism, claimed the IndustriALL Bangladesh Council.

### BANGLADESH

### THE ACCORD PROPOSES TRANSITION PLAN FOR DEPARTURE

Following repeated requests from the Bangladeshi government for submitting a time-bound transition plan for departure, the Accord on Fire and Building Safety in Bangladesh (the Accord), a platform of European fashion brands and buyers to improve safety standards in the apparel sector, proposed on 7 February a 281-working-day plan for handover of the Accord-monitored factories to the Remediation Coordination Cell set up by the government. However, the government was dissatisfied with the Accord's transition plan and requested it to complete the handover in 160 working days.

The Accord was originally allowed to operate in the country until 30 November last year, but it appealed to the Supreme Court of Bangladesh, seeking to extend its operations into 2021. However, on 18 February, the Supreme Court deferred for a sixth time the hearing of the Accord's appeal, which is now scheduled for 7 April.

As of end-2018, the Accord handed over responsibilities of 100 RMG factories, which had fully completed all the required remediation work, to the Bangladeshi government.

On a related note, the Alliance for Bangladesh Worker Safety (the Alliance), a platform of North American fashion brands and retailers, ended its operation in Bangladesh on 31 December last year. Earlier, the alliance announced that from the beginning of 2019 its member brands would engage a local company to monitor safety in the factories from which they source products.

## BANGLADESH

### BANGLADESH EYES US\$5 BILLION OF LEATHER EXPORTS BY 2021

The government has finalised the draft of the *Leather and Leather Products Development Policy 2019*, which aims to achieve an export target of US\$5 billion from the leather sector by 2021 and to increase the contribution of the sector to GDP to 2.5% from the current 0.5%.

Under the policy, the government would establish bonded warehouse facilities for the leather sector and support the sector to arrange regular exhibitions of leather and leather products in the country to attract foreign investors. The sector would also get cash incentives and other facilities including loan from the Export Development Fund.

The draft also emphasised the compliance with labour and environmental laws and safety standards in tanneries, in order to present a good image of the sector to global brands and retailers. The government would encourage the utilization of environment-friendly technology to ensure world-class production in the leather industry.

After further consultations and fine tuning, the draft would be sent to the cabinet for approval in a short time, government officials said. The gazette notification of the policy is expected to be issued in March this year. ■



### INFLATION EASES TO 19-MONTH LOW IN JANUARY

India's consumer price index (CPI) rose by 2.05% yoy in January, slower than the growth of 2.11% yoy and 2.33% yoy respectively in December and November last year. January's inflation rate was the lowest since June 2017.

The deceleration in inflation was mainly attributed to price falls in the 'food and beverages' segment,

which accounts for 45.9% of weight in the CPI basket and recorded a deflation of 1.29% yoy in January. Meanwhile, 'fuel and light' saw a moderation in price rises, from 4.54% yoy in December last year to 2.20% yoy in January, and so did 'transport and communication', from 4.30% yoy in December last year to 3.44% yoy in January.

India's CPI-based inflation is expected to stay benign in the coming months, thanks to continuing deflation across several food items and soft fuel prices. On 7 February, the Reserve Bank of India's Monetary Policy Committee revised down its inflation projection for the April – September period from 3.8%-4.2% to 3.2%-3.4%. And it cut the policy repo rate by 25 basis points to 6.25%, the first in 18 months, suggesting the central bank's change of monetary policy stance from calibrated tightening to neutral.

## INDIA

### COTTON OUTPUT TO DROP TO 9-YEAR LOW IN 2018/19 SEASON DUE TO WATER SHORTAGE

In its latest estimates released on 7 February, the Cotton Association of India (CAI) further trimmed the cotton crop size forecast to 33.0 million bales (1 Indian bale equals 170 kilogrammes) for the 2018/19 season ending on 30 September, the lowest level since the 2010/11 season, when India's cotton crop was 33.2 million bales. The decline in cotton output was attributed to low rainfall in key growing states, including Gujarat, Karnataka and Telangana.

Meanwhile, India's cotton imports are estimated to rise by 80% to 2.7 million bales in the 2018/19 season from a year ago, while cotton exports are likely to fall 27.5% from a year ago to 5 million bales, the lowest level in a decade, according to the CAI. 'The production is not sufficient to fulfil local consumption. From March onwards, imports will pick up,' said Atul Ganatra, president of the CAI. The US, Brazil and Egypt are India's major sources of cotton imports.

India's lower cotton output could see the country lose its position as the world's No.1 cotton producer to China. The drop in India's cotton supplies is likely to support global cotton prices, which are currently at the lowest level in a year, and help other cotton exporting countries such as the US, Brazil and Australia increase cotton shipments to key Asian cotton buyers such as China, Bangladesh and Pakistan.

## INDIA

### AMAZON AND WALMART HIT BY TIGHTENED E-COMMERCE RULES

Effective from 1 February, new e-commerce rules, which was announced by the Indian government in last December, ban e-commerce companies such as Amazon and Walmart-owned Flipkart, India's largest online retailer, from selling products distributed by companies in which they have an equity interest. The policy statement also said that e-commerce companies should not mandate any seller to sell any product exclusively on its e-commerce platform.

The new regulations are built on existing rules under which foreign investors can acquire 100% ownership of e-commerce marketplace companies that provide platforms for consumers and sellers, while foreign investment in inventory-based model of e-commerce — where goods and services owned by the e-commerce entity are sold directly to consumers — is not permitted.

Under the new rules, e-commerce companies must sell any stakes they hold in local suppliers. Among them is Cloudfair, the largest seller on Amazon India and owned by a joint venture between Amazon and an Indian company. According to *CNN*, Amazon and Walmart-owned Flipkart tried (but failed) to lobby the Indian government to extend the 1 February deadline for a few months. Flipkart said it was disappointed that the government decided to implement the regulation changes in such haste, but said it was committed to complying with the new rules, reported *CNN*.

The new e-commerce rules are seen as reassurance to India's small traders and farmers who fear that they could be squeezed out of the market after the US retail giants' entry into India's booming e-commerce sector. ■

## PAKISTAN



### FDI DROPS 17.6% YOY IN FIRST SEVEN MONTHS OF CURRENT FISCAL YEAR

According to data released by the State Bank of Pakistan, in the first seven months of the current fiscal year (July 2018 – June 2019), FDI fell 17.6% yoy to US\$1.45 billion.

By sector, construction attracted the largest amount of FDI in the 7-month period, with US\$288.9 million, followed by the power sector (US\$233.8 million), financial business (US\$216.7 million), oil and gas exploration (US\$145.2 million) and electrical machinery (US\$126.4 million). It is noteworthy that FDI in some sectors grew significantly in the 7-month period compared to a year ago, including electrical machinery, automobiles, beverages and chemicals.

By source of investment, China remained the largest investor in Pakistan in the first seven months of the 2018-19 fiscal year, with US\$825.5 million, followed by the UK (US\$127.4 million), South Korea (US\$68.3 million), Japan (US\$66.6 million) and the United Arab Emirates (US\$59.4 million). Chinese investment, however, slowed down substantially by 27.7% yoy in the period, as some of the major power projects under the China-Pakistan Economic Corridor (CPEC) were nearing completion.

The country received US\$132.2 million worth of foreign direct investment (FDI) in January, a mild increase of 2.5% compared to the same month last year.

## PAKISTAN

### GOVERNMENT EXEMPTS TAX AND DUTY ON COTTON IMPORT

The Economic Coordination Committee (ECC) of the Pakistani cabinet approved in mid-January the withdrawal of the 3% customs duty, 2% additional customs duty and 5% sales tax on import of cotton effective from 1 February to 30 June this year. The decision was aimed at ensuring sufficient cotton supply for the textile industry, particularly the export segment.

Pakistan is the fifth largest producer and the sixth largest importer of cotton in the world, according to the US Department of Agriculture (USDA). The country has been a net importer of cotton since 2001. As cotton grown domestically is of short-to-medium staple length, Pakistani textile manufacturers have to import long and extra-long staple cotton for finer yarn counts for manufacturing higher value-added products. The latest report *Cotton: World Markets and Trade* released by the USDA estimated that cotton production in Pakistan would fall 8.5% yoy in the 2018/19 season.

Apart from removing tax and duty on import of cotton, the Pakistani government has implemented some other measures to support the textile industry. Regulatory duty on the import of cotton yarn has been reduced from 10% to 5% since last September. Meanwhile, gas and electricity tariffs have been rationalised for the export-oriented textile industry in a bid to cut production costs and boost competitiveness of the industry.

Amid trade tensions between China and the US, Pakistan's textile industry is likely to get more orders from US importers. An official of the textile industry said the industry was receiving a large number of import enquiries from the US, reported *The Express Tribune*.

In July 2018 – January 2019, Pakistan exported textiles and garments worth US\$7.8 billion, up by 1.2% yoy, according to data released by the Pakistan Bureau of Statistics. In rupee terms, exports of textiles and garments rose sharply by 24.0% yoy. The huge difference in growth rates

reflects the substantial depreciation of the Pakistani rupee, which has weakened by 20% against the US dollar in the past 12 months.

## PAKISTAN

### US DELEGATION SHOWS KEEN INTEREST IN PAKISTAN'S HANDMADE FURNITURE

A US delegation of furniture manufacturers visited Pakistan in February and expressed keen interest in Pakistan's handmade furniture. The Pakistan Furniture Council (PFC) briefed the delegation about the potential of Pakistan's furniture sector.

Led by a US national Gurjatinder Singh Randhawa, the delegation hoped to further deepen collaboration with the PFC and promote bilateral trade in the furniture sector. The delegation leader said the aim of the visit was to explore new avenues in the furniture sector and their experience of the visit was excellent considering the investment opportunities and peaceful atmosphere in Pakistan's furniture sector. He also pointed out that the demand for furniture in the US is forecast to reach US\$59 billion in 2021, posing a great opportunity for Pakistani furniture manufacturers.

According to Mian Kashif Ashfaq, chief executive of the PFC, US buyers often visited the Interiors Pakistan exhibitions held by the PFC to source directly functional furniture of high quality to cater to US consumers' taste. At present, Pakistan is still a trivial furniture exporter, with furniture exports amounting to US\$2.44 million in the first seven months of the current fiscal year (July 2018 – June 2019), according to data released by the Pakistan Bureau of Statistics. ■

## TURKEY



### INDUSTRIAL PRODUCTION SHRINKS 9.8% YOY IN DECEMBER

According to data released by the Turkish Statistical Institute on 14 February, the country's calendar-adjusted industrial production index fell sharply by 9.8% yoy in December 2018, the largest contraction in over four years. A survey conducted by *Anadolu Agency*, an international news agency headquartered in Ankara, revealed that the median estimate for industrial production change in December was a decrease of 7.2% yoy.

Among the three major sub-indices, the manufacturing sector saw the largest year-on-year decline of 10.8% in December, while the mining and quarrying sector and the electricity, gas, steam and air conditioning supply sector fell by 2.1% yoy and 1.2% yoy, respectively.

In terms of month-on-month change, Turkey's industrial production shrank by 1.4% in the month. In the full year of 2018, industrial production posted an annual increase of 1.8%, much slower than the growth of 8.9% in 2017 and 3.4% in 2016, suggesting a moderation in the Turkish economy.

#### TURKEY

### TEXTILE AND GARMENT EXPORTS TO UK WOULD BE HIT HARD BY NO-DEAL BREXIT

In an interview with local media *Habertürk*, president of the Istanbul Textile and Apparel Exporters' Association (İHKİB) Mustafa Gültepe warned that Turkey's textile and garment exports to the UK would be dealt a heavy blow if the UK leaves the EU without a deal, reported *Just-Style* on 28 January.

The UK was Turkey's third largest export market of textiles and garments in 2018, after Germany and Spain. According to data released by the İHKİB, the UK imported textiles and garments worth US\$2.0 billion in 2018, accounting for 11.6% of all Turkey's textile and garment exports in the year.

According to Gültepe, in the event of a no-deal Brexit with the EU, Turkey's textile and garment exports would face a 12% duty to the UK market, while they currently enjoy duty-free access under the EU-Turkey Customs Union.

The UK's exiting the EU has been shrouded by uncertainty after UK prime minister, Theresa May, saw her Brexit plan, a withdrawal agreement between the UK government and the EU, shot down by members of Parliament in the House of Commons on 15 January.

The UK will leave the EU on 29 March, with a deal or not. The only way to change the date is to revoke *Article 50 of the Treaty on European Union*, which states procedures for a member country to withdraw voluntarily from the EU, or to request a delay from the EU — which should be approved by the bloc, according to *BBC*.

#### TURKEY

### GOVERNMENT PLANS US\$12.3 BILLION PUBLIC INVESTMENT IN 2019

The Turkish government announced in February its plan to spend 65.4 billion liras (US\$12.3 billion) on public investment in 2019, which was in line with the three-year Medium-Term programme (MTP) announced last September. As part of the government's investment programme, 2,964 new projects will be launched this year.

Of the total planned investment, 13.3 billion liras will be spent on new projects, 51.1 billion liras on ongoing projects and 980.6 million liras on project study.

By sector, transport and communication accounts for the largest share (31%, or equivalent to 20.3 billion liras) in total budget earmarked for 2019. Meanwhile, the government plans to spend 10.8 billion liras on education, 7.7 billion liras on energy projects, 5.0 billion liras on health care, 4.9 billion liras on agriculture, 2.1 billion liras on mining projects and 841.1 million liras on manufacturing projects. ■

# MAJOR ECONOMIC INDICATORS

## BANGLADESH

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Quantum index of medium and large-scale manufacturing (yoy growth %)	7.5	27.9	17.3	-	-	-
Consumer price index (yoy growth %)	5.5	5.4	5.4	5.4	5.4	-
Exports (yoy growth %)	-11.7	54.6	30.5	11.9	2.2	8.0
Exports (FOB, US\$ mn)	3,213.5	3,145.6	3,711.2	3,422.0	3,426.1	3,679.7
<i>Of which:</i>						
Knitwear (US\$ mn)	1,385.8	1,294.0	1,668.4	1,430.8	1,346.5	1,488.0
Woven garments (US\$ mn)	1,331.7	1,162.5	1,473.0	1,422.3	1,552.2	1,644.6
Home textile (US\$ mn)	68.3	68.6	66.6	71.1	68.2	81.3
Footwear* (US\$ mn)	86.3	67.4	56.4	69.2	84.9	81.8
Leather products (US\$ mn)	16.9	19.5	21.0	21.9	21.9	20.9
Imports (yoy growth %)	-2.0	23.3	15.6	0.3	-	-
Imports (C&F, US\$ mn)	3,963.4	4,745.1	5,085.6	4,460.8	-	-

\* Includes leather footwear.

Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Export Promotion Bureau

## INDIA

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Quarterly GDP (real yoy growth %)	7.0 (2Q18)			6.6 (3Q18)		
Index of industrial production (yoy growth %)	4.8	4.6	8.4	0.3	2.4	-
Manufacturing PMI (Nikkei)	51.7	52.2	53.1	54.0	53.2	53.9
Wholesale price index (yoy growth %)	4.6	5.2	5.5	4.5	3.8	2.8
Consumer price index (yoy growth %)	3.7	3.8	3.4	2.3	2.1	2.1
Exports (yoy growth %)	19.2	-2.2	17.9	0.8	0.3	3.7
Exports (FOB, US\$ mn)	27,841.1	27,952.2	26,976.6	26,502.2	27,927.7	26,360.2
<i>Of which:</i>						
Knitwear (US\$ mn)	685.8	602.1	619.6	588.5	698.9	-
Woven garments (US\$ mn)	607.6	502.5	512.5	542.3	677.8	-
Footwear (US\$ mn)	274.0	205.8	213.1	217.4	256.9	-
Furniture (US\$ mn)	147.2	137.1	144.6	133.1	148.0	-
Imports (yoy growth %)	25.4	10.5	17.6	4.3	-2.4	0.0
Imports (CIF, US\$ mn)	45,235.6	41,930.8	44,107.7	43,172.9	41,005.0	41,085.8
Trade balance (US\$ mn)	-17,394.5	-13,978.6	-17,131.1	-16,670.7	-13,077.3	-14,725.6

\* Financial year in India starts in April.

Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Nikkei PMI reports

## PAKISTAN

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Quantum index of large-scale manufacturing (yoy growth %)	-5.1	2.7	2.7	1.2	-10.2	-
Consumer price index (yoy growth %)	5.8	5.1	6.8	6.5	6.2	7.2
Exports (yoy growth %)	8.4	3.6	1.2	-6.4	5.5	4.0
Exports (US\$ mn)	2,016.8	1,727.6	1,903.1	1,842.8	2,079.6	2,043.1
<i>Of which:</i>						
Garments (US\$ mn)	504.1	385.2	472.4	464.5	498.5	504.9
Bed linen (US\$ mn)	230.2	188.7	187.4	194.7	193.1	193.3
Towels (US\$ mn)	73.5	59.0	65.4	64.7	63.7	68.4
Leather products (US\$ mn)	46.1	33.1	42.8	43.7	42.9	40.7
Sporting goods (US\$ mn)	25.1	22.1	25.9	23.1	23.9	25.0
Imports (yoy growth %)	1.4	-0.2	-1.0	-2.8	-8.9	-19.1
Imports (US\$ mn)	4,991.9	4,430.2	4,841.5	4,626.4	4,444.1	4,503.7
Balance of trade (US\$ mn)	-2,975.1	-2,702.6	-2,938.4	-2,783.7	-2,364.5	-2,460.6

Source: Pakistan Bureau of Statistics, State Bank of Pakistan

## TURKEY

	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Quarterly GDP (real yoy growth %)	1.6 (3Q18)			-		
Industrial production index, manufacturing (yoy growth %)	1.2	-3.0	-6.8	-7.2	-10.8	-
Industrial turnover index, manufacturing (yoy growth %)	44.5	49.9	37.9	22.8	16.6	-
Manufacturing PMI (Istanbul Chamber of Industry)	46.4	42.7	44.3	44.7	44.2	44.2
Producer price index (yoy growth %)	32.1	46.2	45.0	38.5	33.6	32.9
Consumer price index (yoy growth %)	17.9	24.5	25.2	21.6	20.3	20.4
Exports (yoy growth %)	-6.9	21.9	12.7	9.3	-0.1	5.9
Exports (US\$ mn)	12,336.1	14,399.8	15,682.1	15,502.4	13,831.9	13,170.0
<i>Of which:</i>						
Knitwear (US\$ mn)	714.8	781.7	830.1	807.7	667.4	720.3
Woven garments (US\$ mn)	488.2	499.3	527.5	501.6	459.3	525.7
Furniture (US\$ mn)	225.5	249.9	271.0	295.1	275.3	243.1
Imports (yoy growth %)	-22.7	-18.3	-23.8	-21.3	-28.3	-27.2
Imports (US\$ mn)	14,803.7	16,325.0	16,174.5	16,164.1	16,554.6	15,673.5
Balance of trade (US\$ mn)	-2,467.7	-1,925.2	-492.3	-661.7	-2,722.7	-2,503.5

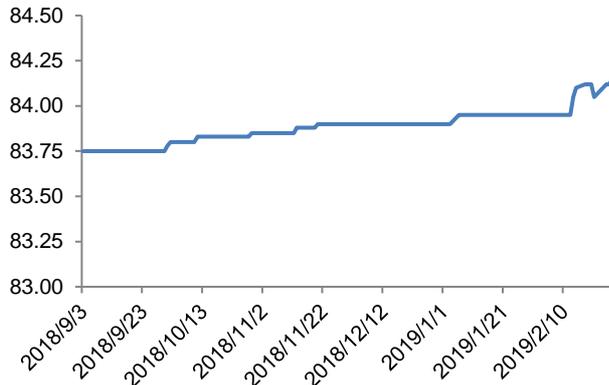
Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

# DAILY EXCHANGE RATES

## SEPTEMBER 2018 – FEBRUARY 2019

### BANGLADESHI TAKA

USD:BDT buy rate



Source: Bangladesh Bank

### INDIAN RUPEE

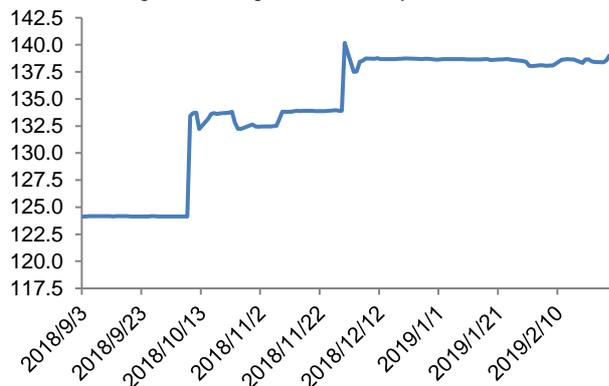
USD:INR spot rate



Source: Bloomberg

### 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

## FUNG BUSINESS INTELLIGENCE

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