



ASIA SOURCING UPDATE

SOUTHEAST ASIA | SOUTH AND WEST ASIA

SEPTEMBER 2015

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COUNTRY HIGHLIGHTS

BANGLADESH



GARMENT EXPORTS TO US REBOUND IN 1H15

Bangladesh's apparel exports to the US bounced back in the first half of the year, as the political situation began to stabilize and safety compliance in factories was showing progress, drawing US buyers back to the country.

In the first six months of this year, Bangladesh's garment exports to the US rose 9.5% yoy to US\$2.68 billion, according to the Office of Textiles and Apparel (OTEXA) under the US Department of Commerce. In 2014, Bangladesh's garment exports to the US fell 2.2% yoy.

Although the country's garment exports to the US registered a significant rebound, the growth is still lower than those of other regional contenders. In the same period, garment exports to the US from Vietnam, India and Sri Lanka grew 15.4% yoy, 10.0% yoy and 16.5% yoy, respectively. At the same time, FOB prices of Bangladeshi garments did not increase in line with the rising production cost (particularly due to wage hike and rising electricity prices), raising concerns over the industry's long-term development.

BANGLADESH

CLUSTER RELOCATION DELAY POSES RISKS TO LEATHER SECTOR

In the fiscal year 2014-15 (1 July 2014 – 30 June 2015), Bangladesh exported US\$1.13 billion worth of leather and leather goods, making the leather sector the second largest contributor to national exports after the garment sector. Key export categories in the sector include leather shoes, travel bags, wallets, belts and finished leather.

ASIA SOURCING UPDATE

For decades, pollution from Dhaka's tanneries has poured into the Buriganga River, wiping out aquatic life and forcing the city to rely heavily on groundwater for washing and drinking. In response, the country's high court has ordered tanneries in the city's Hazaribagh subdivision, which process over 90% of the country's leather, to relocate to the outskirts of the city at the Savar subdivision, where there will be a modern industrial campus with a central effluent treatment plant (CETP).

On 19 August, the government decided to extend the relocation again from December this year to possibly July 2016, as the installation of the CETP is delayed. The deadline was originally set at June this year. If the relocation cannot be carried out swiftly, polluting activities in Hazaribagh may once again come under scrutiny by environmental groups.

BANGLADESH

BGMEA PROMISES TO EMPLOY PEOPLE WITH AUTISM

In a unique event on 20 August spearheaded by Saima Wazed Hossain Putul, US-licensed school psychologist and chairperson of the National Committee on Autism and Neurodevelopment Disorders, the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) announced that the garment industry is going to recruit people with autism in a move to create job opportunities for them.

Workers with autism are focused and enjoy repetitive tasks that other workers tend to dislike. They follow routine strictly and are suitable for tasks such as quality control, numbering, placing

stickers, collar pressing, button matching, poly packing and cleaning. They can also work as security guard and liftman.

During the event, Putul stressed on the need to create a model for employing people with autism. Autistic children's training must be started at a very early stage to identify their area of interest, as they will work only on what interest them, and those interests have to be matched with manufacturers' needs. ■



RUPEE PLUNGES TO TWO-YEAR LOW

Soon after the Chinese yuan's one-off depreciation on 11 August, the Indian rupee started to depreciate. On 24 August, the rupee dipped to a two-year low of 66.65 against the US dollar, representing a 3.9% depreciation since the beginning of this month. On 27 August, the rupee closed at 66.05 against the US dollar.

While a small fraction of exporters, who have not hedged their risk and receive their payments in US dollar, will gain from a weak rupee, most exporters are not celebrating the sharp depreciation of the currency. The devaluation of the rupee comes too sudden for exporters to plan ahead. A highly volatile currency will even lead to higher hedging cost and make pricing more difficult.

In fact, the yuan's depreciation has sparked fears across emerging markets, and many countries have seen their currencies devalue recently, such as the Indonesian rupiah, the Philippine peso and the Vietnamese dong. Thus, a weak rupee does not generate a unique competitive advantage for Indian exporters.

Meanwhile, according to industry insiders, the sharp depreciation of the rupee has prompted foreign buyers to renegotiate contract prices with Indian exporters. New contract orders are being postponed until the rupee stabilizes.

INDIA

AMENDMENTS ON THE MINIMUM WAGE ACT IN THE WORKS

India's Ministry of Labour and Employment is working on a proposal to increase the minimum wages for workers across the country, with an ultimate goal to set a standard minimum wage rate for all occupations. This will become part of the amendments made to the country's Minimum Wage Act (1948).

Apart from setting a uniform wage structure across all occupations, the amendments will likely include a mandatory requirement for employers to pay salaries through banking channels and the promotion of the role of the Indian Staffing Federation (ISF) in hiring employees.

At present, minimum wages are set at regional, sectoral and skill levels by the state governments based on local conditions, while the central government only sets the National Floor Level Minimum Wage (NFLMW), a wage floor for state governments to set their minimum wages.

The NFLMW has just been raised from 137 rupees to 160 rupees per day with effect from 1 July 2015. But this move does not make any sense, as many states are already paying a much higher amount, according to India's trade unions.

INDIA

TRADE UNIONS CALL FOR A NATIONWIDE STRIKE ON 2 SEPTEMBER

Trade unions in India have scheduled a countrywide strike on 2 September to protest against changes in the labour laws and the land acquisition bill. All major trade unions, including Centre of Indian Trade Unions, All India United Trade Union Centre and All India Central Council of Trade Unions, are in support of the strike. Talks between the government and trade union leaders remained inconclusive as of 26 August.

Aiming at boosting India's manufacturing sector and improving the business environment, reforms in the labour laws and the land acquisition law are

key priorities for the Modi-led government. According to trade union leaders, the proposed amendments in the labour laws, however, will empower employers with more freedom to hire and fire workers and will thus weaken the workers' and trade unions' rights. Meanwhile, the land acquisition reform, from trade unions' point of view, will hurt the livelihood of farmers and agricultural workers. ■

PAKISTAN



TEXTILE AND GARMENT EXPORTS FALL 11.7% YOY IN JULY

According to the latest release of the Pakistan Bureau of Statistics, the country's exports of textiles and garments dropped 11.7% from a year ago to US\$1.03 billion in July, the third consecutive month registering a year-on-year decline. Sluggish demand from the EU and acute power shortage in the country are the major reasons for the poor export performance of the sector.

By category, exports of bed wear (-21.0% yoy), cotton cloth (-20.5% yoy) and cotton yarn (-12.5% yoy) took the lead in the decline in July. Exports of woven garments and knitwear also fell 0.7% yoy and 8.2% yoy, respectively, in the same month. Meanwhile, exports of raw cotton and carded or combed cotton rebounded in July, posting positive growths of 67.7% yoy and 100.0% yoy, respectively.

The Pakistani government has already constituted a committee to work out a policy action plan to address the problems confronted by the textile and garment sector, the backbone of the country's exports. The committee will present its recommendations to the government by August.

In a fact sheet released recently by the Institute for Policy Reforms (IPR), the Pakistani think tank warned that insufficient investment in upgrading technology and replacing old machinery in recent

years will make production of textiles and apparels in Pakistan less competitive in the global market.

PAKISTAN

TEXTILE FACTORIES DEFER STRIKE

On 4 August, the All Pakistan Textile Mills Association (APTMA) chairman S.M. Tanveer called off a nationwide strike planned on 7 August. The decision was made after the Federal Finance Minister Ishaq Dar assured that challenges facing the textile industry can be resolved by the end of August. APTMA will hold a general meeting on 4 September to decide on their strike strategy, if the government fails to meet their demands.

In late June, APTMA called for its members across the country to voluntarily close their factories in protest of the continuing crisis faced by the industry. Factories owners claim that the rising cost of doing business and unfavourable government policies make it unviable to operate mills in Pakistan. According to Tanveer, incidental taxes, provincial cess, the punitive withholding tax regime and surcharge recently imposed on power tariff are all adding to the burden of factory owners.

From our understanding, the strike plan was a lobbying tactic adopted by the industry to regain tax reliefs and other preferential policies from the government. Meanwhile, due to the plunge of global yarn prices, many textile mills are running at a loss.

PAKISTAN

ILO AND THE DUTCH GOVERNMENT PARTNER TO STRENGTHEN LABOUR INSPECTION SYSTEMS

The International Labour Organization (ILO) and the Dutch government signed in early July a three-year partnership agreement to support the Pakistani government in improving the country's labour inspection systems.

Through training labour inspectors and institutionalizing effective inspection mechanisms,

the partnership will help promote international labour standards in Pakistan and ensure their compliance by the private sector, which is a crucial condition for maintaining the country's GSP+ status granted by the EU.

According to a study undertaken by the Sustainable Trade Initiative (IDH), a Dutch NGO, smaller manufacturers in Pakistan's textile and apparel sector have no compliance monitoring mechanisms in place or the capacity to maximize the potential benefits of the EU's GSP+. Particularly, ineffective labour inspection and the absence of building safety and fire codes pose challenges to the local industry.

In June, at the third meeting of the Buyers' Forum for the Textile Sector, major fashion brands and trading companies, such as H&M, C&A, V&D, Gap India and Li & Fung, reaffirmed their commitments to improving labour and environmental compliance in Pakistan's textile and apparel sector. They also agreed to set up a working committee to tackle three key issues – improving the labour inspection regime, dealing with contractual employment issues and supporting smaller manufacturers to improve compliance with international standards. ■

TURKEY



FDI FALLS 9.6% YOY IN 1H15

According to Turkey's Ministry of Economy, foreign direct investment (FDI) in the country dropped 9.6% yoy to US\$6.3 billion in 1H15. Of the total FDI inflows, US\$4.4 billion was equity investment.

By sector, the energy sector, with US\$1.3 billion equity investment, became the largest recipient of FDI in the period, while the manufacturing sector came the second with FDI equity worth just over US\$1.0 billion. Specifically, the textile sector received US\$396 million worth of FDI equity in 1H15, more than six times that of 1H14.

The geographic breakdown of the figure shows that the EU accounted for 40% of the FDI equity in 1H15, followed by Asia (including the Gulf countries), which accounted for 38% of the FDI equity in the period.

TURKEY

LIRA SLIDES TO HISTORIC LOW AS HOPE FOR FORMING A COALITION GOVERNMENT FADES

The Turkish lira closed at a new low of 2.94 against the US dollar on 24 August, representing an over 20% year-to-date depreciation. According to Bloomberg, the spot USD/TRY exchange rate even dipped to as low as 3.00 recently.

The sharp devaluation of the lira since mid-August was triggered by the failure of the Justice and Development Party (AKP) and the Nationalist Movement Party (MHP) to form a coalition government after the general election was held on 7 June. Turkey will re-run the election on 1 November, as announced by the Supreme Electoral Council, exacerbating the political uncertainty in the country.

The lira fell further after the Turkish central bank decided on 18 August to keep rates on hold, raising investors' concerns on the authority's unwillingness to defend the weak lira. The monetary authority also signals that it will not raise interest rates until the US Federal Reserve Bank takes its rate hike move.

TURKEY

EURO CRISIS WEIGHS ON TURKEY'S GARMENT EXPORTS

Even though the eurozone debt crisis seems to have relieved temporarily after Greece compromised on the debt restructure plan, the lingering depreciation of the euro against the US dollar has dampened Turkey's exports of readymade garments to the European countries. The euro has devaluated by around 17% against the US dollar since last September.

According to a press release in July by the president of the İstanbul Apparel Exporters Association (İHKİB), the country's garment exports declined by 13.3% yoy to US\$8.2 billion in the first half of this year. The major reason for the sharp decline is attributable to the fluctuations in the euro-dollar exchange rate, which has raised uncertainty among European clothing brands and importers.

By major export destination, garment exports to seven countries in the top ten list (i.e. except Iraq, Romania and the US) recorded declines in 1H15 in US dollar terms, leading by Germany (-23.6% yoy), France (-28.2% yoy), Netherlands (-21.5% yoy) and Italy (-18.6% yoy).

In 1H15, T-shirts, sweaters, sweatshirts, socks, suits, blouses, men's shirts and pants were among the top ten export items of Turkey's garment industry. ■

OTHER HIGHLIGHTS

VIETNAM: EU-VIETNAM FTA CONCLUDED

On 4 August, the EU and Vietnam agreed in principle on a "comprehensive and ambitious" trade and investment agreement. While it may take some time before the respective national organs ratify the final legal text, the substance of the deal is now clear.

This Free Trade Agreement (FTA), for which the negotiations started in October 2012, is the second FTA that the EU has concluded with an ASEAN country after Singapore, and gives important insights as to what may be the outcomes of the FTA negotiations now undergoing between the EU and other ASEAN countries (Indonesia, Malaysia, Philippines and Thailand). It also serves as a key building block towards the EU's ultimate objective of an overarching region-to-region EU-ASEAN FTA.

Under the EU-Vietnam FTA, customs duties will be reduced to zero, eventually, for virtually all products. Vietnam will liberalize duties for 65% of imports from the EU once the FTA enters into force, with the remainder to be liberalized over a 10-year period, while the EU duties will be liberalized over a 7-year period.

The EU will also eliminate duties for some sensitive products, especially in the textile, apparel and footwear sectors. However, to avoid non-Vietnamese products from taking advantage of the FTA, rules of origin for these categories will be strict. To benefit from preferential access to the EU, for example, Vietnamese garments must use fabrics produced locally – the only exception being fabrics produced in South Korea, another FTA partner of the EU.

In addition to the liberalization of trade, the EU-Vietnam FTA also addresses non-tariff barriers, government procurement, state-owned enterprises competition and transparency requirements, intellectual property protection, services sectors liberalization, investment liberalization, dispute resolution, human rights and corporate social responsibility.

The conclusion of the EU-Vietnam FTA will put pressure on other ASEAN members to conclude their own FTA talks with the EU, particularly on Malaysia and Thailand, whose tariff preferences under the EU's Generalized System of Preferences (GSP) have already expired. At the same time, the EU-Vietnam FTA underlines EU's influence in the region, which may have an impact on the negotiations of the Trans Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Quantum index of medium and large-scale manufacturing (yoy growth %)*	9.4	-	-	-	-	-
Consumer price index (yoy growth %)*	6.1	6.3	6.3	6.2	6.3	6.4
Exports (yoy growth %)	5.2	7.4	-0.6	4.4	9.1	-12.0
Exports (FOB, US\$ mn)	2,512.4	2,593.0	2,398.5	2,841.1	3,064.6	2,625.9
<i>Of which:</i>						
Knitwear (US\$ mn)	960.6	930.6	938.9	1,159.7	1,259.3	1,127.4
Woven garments (US\$ mn)	1,146.7	1,144.2	1,000.5	1,199.3	1,307.4	1,087.8
Home textile (US\$ mn)	67.0	75.3	76.0	73.6	62.3	48.6
Footwear (US\$ mn)	40.4	45.9	43.6	64.4	75.4	66.8
Leather products (US\$ mn)	16.9	22.5	23.2	30.2	25.5	20.5
Imports (yoy growth %)	1.9	-5.3	-12.1	-4.9	3.9	-
Imports (C&F, US\$ mn)	3,076.0	3,463.5	3,206.5	3,341.0	3,374.9	-

* 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

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Quarterly GDP (real yoy growth %)*	7.5 (4Q14)		7.0 (1Q15)			
Index of industrial production (yoy growth %)	4.9	2.5	3.4	2.5	3.8	-
Manufacturing PMI (Nikkei)	51.2	52.1	51.3	52.6	51.3	52.7
Wholesale price index (yoy growth %)	-2.2	-2.3	-2.4	-2.2	-2.4	-4.1
Consumer price index (yoy growth %)	5.4	5.3	4.9	5.0	5.4	3.8
Exports (yoy growth %)	-15.0	-21.1	-14.0	-20.2	-15.8	-10.3
Exports (FOB, US\$ mn)	21,545.3	23,951.2	22,054.7	22,346.8	22,289.4	23,137.3
<i>Of which:</i>						
Readymade garments (US\$ mn)	1,538.3	1,570.1	1,444.2	1,568.3	1,564.1	1,547.1
Cotton yarn and fabrics (US\$ mn)	775.9	815.0	743.6	730.6	725.6	780.5
Imports (yoy growth %)	-15.7	-13.4	-7.5	-16.5	-13.4	-10.3
Imports (CIF, US\$ mn)	28,392.3	35,744.7	33,047.0	32,753.0	33,116.6	35,949.7
Trade balance (US\$ mn)	-6,847.0	-11,793.5	-10,992.3	-10,406.2	-10,827.1	-12,812.5

* 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, Nikkei PMI reports

PAKISTAN

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Quantum index of large-scale manufacturing (yoy growth %)	0.9	4.5	5.0	5.9	3.8	-
Consumer price index (yoy growth %)	3.2	2.5	2.1	3.2	3.2	1.8
Exports (yoy growth %)	-12.9	-13.4	4.6	-7.6	-0.1	-16.9
Exports (US\$ mn)	1,883.9	1,931.5	1,994.8	1,953.3	2,016.1	1,597.8
<i>Of which:</i>						
Garments (US\$ mn)	356.7	335.9	365.0	409.8	411.3	398.0
Bed linen (US\$ mn)	160.3	154.2	177.5	172.6	175.0	157.1
Towels (US\$ mn)	60.2	61.0	64.2	66.3	60.1	58.5
Leather products (US\$ mn)	45.0	42.8	43.1	44.2	47.3	50.1
Sporting goods (US\$ mn)	25.1	29.0	31.3	29.7	27.5	25.9
Imports (yoy growth %)	-7.6	-3.8	-5.0	4.8	5.2	4.0
Imports (US\$ mn)	3,323.4	3,487.9	3,790.4	3,846.9	4,394.3	3,370.8
Balance of trade (US\$ mn)	-1,439.5	-1,556.3	-1,795.6	-1,893.6	-2,378.1	-1,773.0

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

TURKEY

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Quarterly GDP (real yoy growth %)	2.3 (1Q15)			-		
Industrial production index*, manufacturing (yoy growth %)	0.9	5.2	4.7	0.7	9.2	-
Industrial turnover index*, manufacturing (yoy growth %)	-0.2	6.7	9.2	8.8	11.6	-
Manufacturing PMI (Istanbul Chamber of Industry)	49.6	48.0	48.5	50.2	49.0	50.1
Producer price index (yoy growth %)	3.1	3.4	4.8	6.5	6.7	5.6
Consumer price index (yoy growth %)	7.5	7.6	7.9	8.1	7.2	6.8
Exports (yoy growth %)	-6.3	-14.7	-0.1	-19.0	-7.1	-16.2
Exports (US\$ mn)	12,233.4	12,524.2	13,356.4	11,086.5	11,967.3	11,181.3
<i>Of which:</i>						
Knitwear (US\$ mn)	654.7	673.0	712.5	697.4	765.6	780.6
Woven garments (US\$ mn)	447.7	490.0	493.4	481.5	514.7	496.7
Furniture (US\$ mn)	208.4	230.5	251.6	229.9	231.1	221.5
Imports (yoy growth %)	-7.1	-6.0	-11.1	-14.4	-12.5	-8.7
Imports (US\$ mn)	16,940.1	18,726.2	18,367.3	17,868.1	18,200.0	18,208.9
Balance of trade (US\$ mn)	-4,706.7	-6,202.1	-5,010.9	-6,781.6	-6,232.7	-7,027.6

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

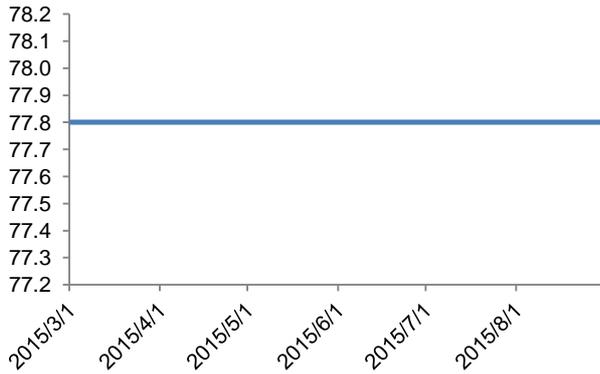
Source: Turkish Statistical Institute, Istanbul Chamber of Industry PMI reports

DAILY EXCHANGE RATES

MARCH - AUGUST 2015

BANGLADESHI TAKA

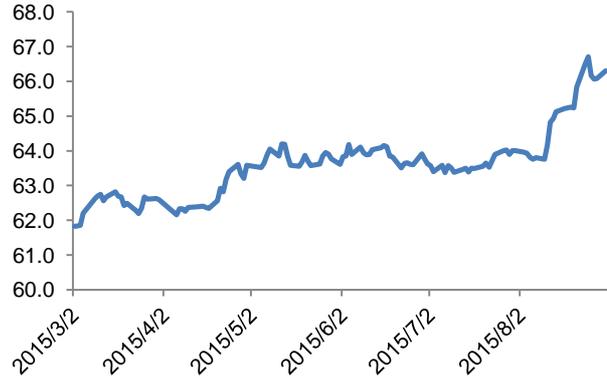
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

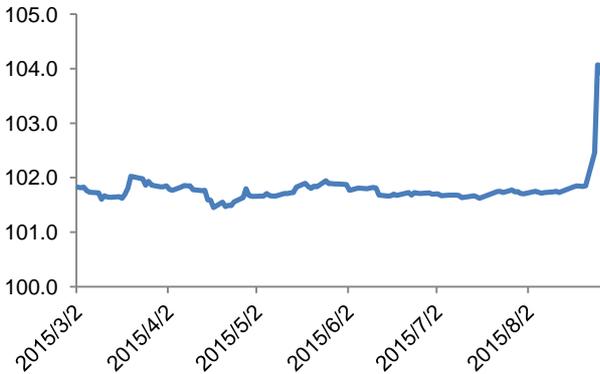
USD:INR RBI reference rate



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
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UPDATE