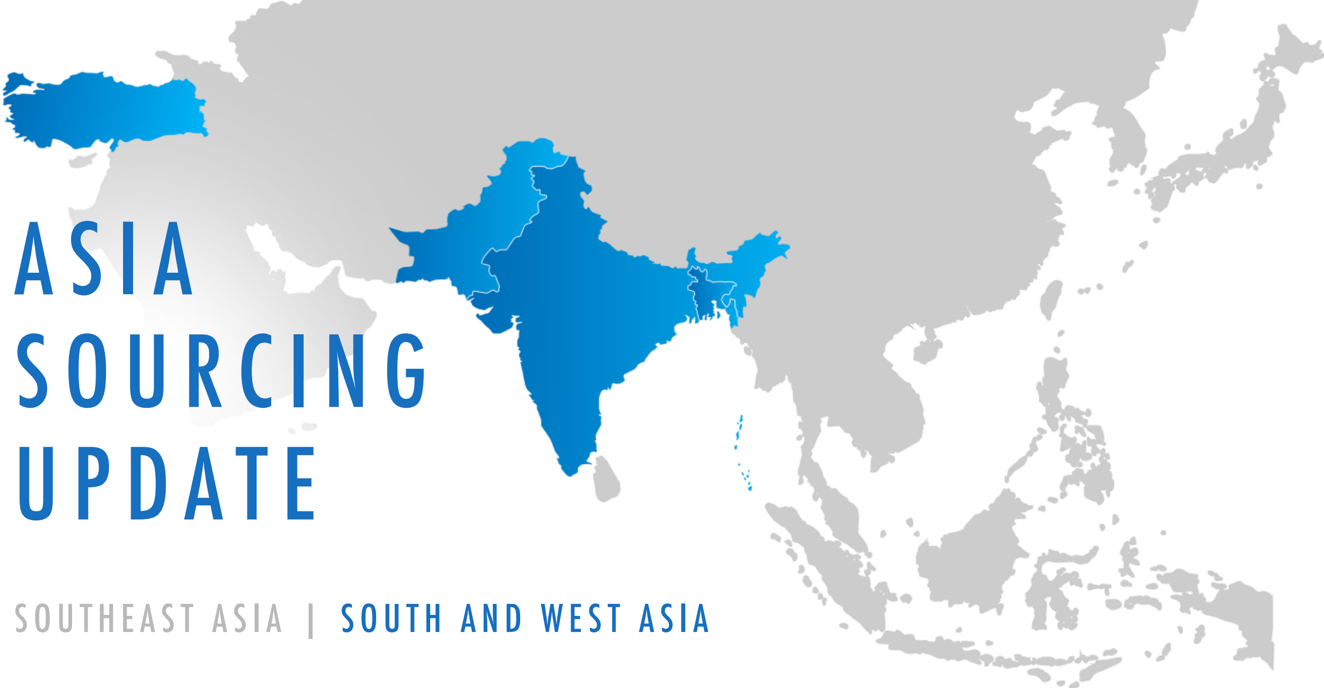


ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

SEPTEMBER 2018

IN THIS ISSUE

Global Sourcing
Fung Business Intelligence
10/F LiFung Tower,
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: http://www.fbicgroup.com

HIGHLIGHTS

BANGLADESH » P.2

- Exports surge by 19.88% yoy in July
- RMG minimum wage board urges factory owners and workers to revise proposals
- Taxes on RMG sector to be reduced

INDIA » P.3

- Exports increase by 14.3% yoy in July
- EU and 11 other economies support US's complaint against India's export subsidies
- Government doubles import duties on textile and apparel products

PAKISTAN » P.4

- Inflation nears four-year high in July
- FDI plummets by 45.2% yoy in July
- First weaving city of Pakistan to be established in Faisalabad

TURKEY » P.5

- Manufacturing activity shrinks for fifth month
- US-Turkey relations deteriorate further after Trump's sanctions
- Weak lira makes sourcing from Turkey attractive

IN THE NEWS

BANGLADESH

EXPORTS SURGE BY 19.88% YOY IN JULY

Exports surged by 19.88% yoy to US$3.58 billion in July. In the last fiscal year (July 2017 - June 2018), exports grew by 5.81% yoy to US$36.67 billion, 2.22% short of the government's export target for the fiscal year, according to Export Promotion Bureau data.

In July, readymade garment (RMG) exports jumped 21.72% yoy to US$3.02 billion, the highest monthly growth rate since August 2015. A further breakdown of the statistics of RMG exports shows that knitwear exports grew 20.88% yoy to US$1.53 billion, while exports of woven garments increased 22.59% yoy to US$1.49 billion. In the last fiscal year, RMG exports grew by 8.76% yoy to US$30.61 billion, with exports of knitwear growing by 10.40% yoy to US$15.19 billion and exports of woven garments increasing 7.18% yoy to US$15.43 billion.

RMG exports in July were boosted in part by the Eid-ul-Fitr holidays in June, which put production and shipment on hold until July, according to Bangladesh Garment Manufacturers and Exporters Association (BGMEA) senior vice president Faruque Hassan. He added that improvements in safety standards and workers' rights, which had raised buyers' confidence, also contributed to the growth.

Looking ahead, Hassan believed that while the looming US-China trade war may bring opportunities to Bangladesh, the upcoming revision of the minimum wage and rising gas prices may pose challenges to the country's export growth.

BANGLADESH

RMG MINIMUM WAGE BOARD URGES FACTORY OWNERS AND WORKERS TO REVISE PROPOSALS

The fourth meeting of the minimum wage board for the RMG sector was held on 2 September with no concrete decision, BGMEA president Siddiqur Rahma told the media.

RMG factory owners, represented by the BGMEA, offered 6,360 takas as the new minimum wage, while the workers, represented by the Jatiya Sramik League, proposed raising the minimum wage to 12,020 takas.

Chairman of the minimum wage board Syed Aminul Islam said the board discussed both proposals, as well as another one submitted by the Centre for Policy Dialogue (CPD), at the meeting and requested both the workers and factory owners to reconsider their proposals. Both sides undertook to consult with their forums and reconsider their respective proposals ahead of the next meeting on 12 September.

The wage board was formed on 31 January, comprising representatives of factory owners, workers, the government and independent members. After receiving recommendations from the wage board, the government will set the minimum monthly wage for RMG sector workers.

The current minimum wage of 5,300 takas has been effective since December 2013.

BANGLADESH

TAXES ON RMG SECTOR TO BE REDUCED

The source tax on RMG exports for the current fiscal year (July 2018 - June 2019) will be cut to 0.6% from the previously announced 1%, while the corporate income tax rate for RMG manufacturers and exporters is likely to be cut to 12% from the previously announced 15%, amidst intense lobbying from the sector.

The National Board of Revenue has already sent a summary to the Ministry of Law for vetting, Ministry of Finance officials told the local newspaper *New Age* in mid-August. According to the unnamed officials, the reduced rates would take retrospective effect from 1 July.

In his national budget speech on 7 June, Finance Minister AMA Muhith announced that the source tax on RMG exports would be increased to 1% in the 2018-19 fiscal year, up from the 0.7% in last fiscal year. He also proposed that the corporate tax rate for RMG exporters and manufacturers be increased to 15% from 12% in the 2017-18 fiscal year, and that for RMG companies holding green building certificates be increased to 12% from the previous 10%. ■

INDIA

EXPORTS INCREASE BY 14.3% YOY IN JULY

India's exports rose by 14.3% yoy to US$25.77 billion in July, according to the Ministry of Commerce and Industry. In the first four months of the current fiscal year (April 2018 – March 2019), exports grew by 14.2% to US$108.24 billion compared to the same period of the last fiscal year.

Export growth in July was driven mainly by better export performance of petroleum products and gems and jewellery, which were the second and third largest export categories of the country, respectively. In July, exports of petroleum products surged by 30.1% yoy to US$3.91 billion, and exports of gems and jewellery rose by 24.6% yoy to US$3.19 billion. Exports of readymade garments, however, fell 0.6% yoy to US$1.27 billion in July, the only export category in the top ten list that registered a year-on-year decline in the month.

Meanwhile, India's imports jumped 28.8% yoy to US$43.79 billion in July, leading to a five-year high trade deficit of US$18.02 billion. The widening trade deficit in July was due mainly to large imports of crude oil and petroleum products, which soared by 57.4% yoy to US$12.35 billion in the month.

INDIA

EU AND 11 OTHER ECONOMIES SUPPORT US'S COMPLAINT AGAINST INDIA'S EXPORT SUBSIDIES

On 28 May, the WTO's Dispute Settlement Body established a dispute panel to examine India's export subsidy measures at the request of the US, which launched a trade dispute against India in mid-March. According to the latest document released by the Dispute Settlement Body on 24 July, the EU and 11 other economies have reserved their rights to participate in the panel proceedings as third parties.

In addition to the EU, the economies showing support for the US's complaint against India include Canada, Russia, Japan, Sri Lanka, the Chinese Mainland, Thailand, Taiwan, Egypt, Kazakhstan, Brazil and South Korea. According to a Delhi-based trade expert, these economies either have market access issues with India or have problems related to the Regional Comprehensive Economic Partnership (RCEP) under negotiation.

India is set to have a tough time defending its export subsidy schemes at the WTO. 'There is a real possibility that India will lose the trade dispute with the US at the WTO over subsidising exports because India has crossed the income threshold to be able to give direct export-linked subsidies,' Commerce and Industry Secretary Rita Teaotia said at an interactive session organised by the Indian Chamber of Commerce on 19 July.

In March, the US filed a trade dispute at the WTO against India's export subsidy programmes, which the US claims are inconsistent with WTO's Agreement on Subsidies and Countervailing Measures. The Indian government has set up an expert group to look into WTO-compliant incentives to exports as alternatives to the current direct subsidy schemes, and a draft set of schemes will be announced for discussion in the coming months.

INDIA

GOVERNMENT DOUBLES IMPORT DUTIES ON TEXTILE AND APPAREL PRODUCTS

In a notification issued by the Central Board of Indirect Taxes and Customs on 16 July, the government decided to double import tariffs on 50 textile products from 10% to 20%. A wide range of textile products – from fibre to apparel – are affected, including woven fabrics, knitted garments, dresses, trousers, suits, carpets, and baby clothes.

Less than a month later, the Indian government announced on 7 August to double the import tariffs on another 328 textile and apparel products to 20%. Although the government did not announce any effective date of the new tariff rates, it is believed that higher import tariffs on those textile and apparel products have come into effect from the date of notification as changes in indirect taxes are usually effective immediately unless specified.

The tariff hikes are aimed at providing relief to the domestic textile industry and encouraging domestic manufacturing, as textile and apparel imports from China, Bangladesh, Vietnam and Cambodia have increased significantly. Given that imports from Bangladesh, Vietnam and Cambodia are not subject to any duty under free trade agreements with India in effect, textile and apparel imports from China may be hit hardest by the tariff hikes.

According to M.S. Mani, Partner of Deloitte India, tariff hikes on certain finished textile products would lead to a cost advantage for India's textile manufacturing. 'Many foreign companies may now consider manufacturing in India to cater for domestic demand as well,' he added. ■

PAKISTAN

INFLATION NEARS FOUR-YEAR HIGH IN JULY

Pakistan's inflation, as measured by the consumer price index (CPI), accelerated from 5.2% yoy in June to 5.8% yoy in July, the highest level since October 2014, according to data released by the Pakistan Bureau of Statistics. Higher inflation in July was driven mainly by sharp depreciation of the rupee and increases in global oil prices.

A breakdown of the CPI shows that prices of 'food and non-alcoholic beverages', accounting for 34.8% of weight in the CPI basket, increased by 3.5% yoy in July, while prices of 'housing, water, electricity, gas & fuels', weighing 29.4% in the CPI basket, went up by 6.0% yoy. Other major groups of commodities and services that recorded sharp price increases included 'clothing & footwear' (+6.5% yoy), 'transport' (+15.7% yoy), 'furnishing and household equipment maintenance' (+5.9% yoy) and 'education' (+13.0% yoy).

The Pakistani rupee weakened to a record low in July after the State Bank of Pakistan (SBP) devalued the currency for the fourth time since December last year, with an aim to slow the depletion of the country's foreign-exchange reserves. On 23 July, the rupee closed at 129.25 against the US dollar, depreciating by 14.4% year to date, based on spot exchange rates provided by Bloomberg. Since then, the rupee has rebounded slightly, closing at 123.05 on 29 August.

In its *Monetary Policy Statement* released in mid-July, the SBP projected that the average inflation for the 2018-19 fiscal year (July 2018 – June 2019) will fall between 6% and 7%, exceeding the 6% inflation target set earlier, due mainly to a higher fiscal deficit, food inflation reverting to normal, unfavourable trend in global oil prices, lagged pass-through of rupee's depreciation and high survey-based inflation expectations. The SBP decided to raise the policy rate by 100 basis points to 7.5% effective from 16 July.

PAKISTAN

FDI PLUMMETS BY 45.2% YOY IN JULY

Net inflows of foreign direct investment (FDI) in Pakistan fell sharply to US$128.1 million in July from US$233.8 million a year ago, representing a year-on-year decline of 45.2%, according to the State Bank of Pakistan. The slowdown in FDI net inflows has persisted for the past few months, as foreign investors seem to have taken a wait-and-see approach in making investments in the country amid the mounting political uncertainty ahead of this year's general election held on 25 July.

FDI net inflows in July were concentrated in the construction sector, with FDI net inflows amounting to US$54.6 million, followed by oil and gas explorations (US$12.9 million), trading (US$10.9 million), transport (US$10.2 million) and the power sector (US$8.6 million). It was noteworthy that FDI net inflows into the textile sector reached US$4.5 million in July, a 194.4% yoy increase from the US$1.5 million recorded in the same month last year.

In July, the bulk of foreign investment came mainly from China, the UK, the US and Singapore, with FDI net inflows of US$74.5 million, US$21.8 million, US$16.5 million and US$12.1 million, respectively.

According to M. Abdul Aleem, secretary general of the Overseas Investors Chamber of Commerce and Industry, FDI has remained sluggish recently as foreign investors have put projects for Pakistan on hold amid the political transition. He anticipated the inflows of foreign investment to accelerate from September or October this year after the new government announces its economic team.

PAKISTAN

FIRST WEAVING CITY OF PAKISTAN TO BE ESTABLISHED IN FAISALABAD

In July, a memorandum of understanding (MoU) was signed between the Faisalabad Industrial Estate Development and Management Company (FIEDMC) and All Pakistan Cotton Power Looms Association (APCPA) to set up Pakistan's first weaving city at the M3 Industrial City in the textile city of Faisalabad. The weaving city will bring the entire cluster of weaving units into a 100-acre zone, reported local media *The Express Tribune*.

According to the MoU, FIEDMC will lease prefabricated buildings to the power looms sector, which allows power loom firms to focus on technology improvement and modernisation instead of infrastructure development.

Shabbir Hussain Chawla, president of the Faisalabad Chamber of Commerce and Industry, said better technology would help the power looms sector come out of its funding crisis and produce clothes of high quality, which would attract international buyers and boost Pakistan's exports.

■

TURKEY

MANUFACTURING ACTIVITY SHRINKS FOR FIFTH MONTH

The Istanbul Chamber of Industry Turkey Manufacturing Purchasing Managers' Index (PMI), which provides a snapshot of the country's manufacturing sector, slipped from 49.0 in July to 46.4 in August, the fifth consecutive month that registered a reading below the 50 threshold. An index reading above 50 indicates an expansion in the manufacturing sector, while an index reading below 50 points to an overall contraction.

The press release from the Istanbul Chamber of Industry reveals that both output and new orders in August slowed down at more marked rates than in

July, and employment decreased in August amid easing workloads. Meanwhile, both input costs and output prices rose at the fastest rates since the PMI survey began in June 2005. The weakness of the lira was the major reason for the contraction in overall demand conditions and the pick-up in inflationary pressures.

On the other hand, new export orders increased for the second straight month in August, a key positive development revealed by the PMI survey.

TURKEY

US-TURKEY RELATIONS DETERIORATE FURTHER AFTER TRUMP'S SANCTIONS

The tense US-Turkey relations were further imperilled after the US imposed sanctions on 1 August against two top Turkish government officials over the detention of an American pastor being held on espionage and terror-related charges. On 10 August, the Trump administration ramped up their sanctions on Turkey by doubling US tariffs on Turkish aluminium and steel imports to 20% and 50%, respectively.

In a retaliatory move against the US sanctions, Turkey announced on 15 August import tariffs worth US$533 million on US products, including 120% tariff on passenger cars, 140% on alcoholic drinks and 60% on leaf tobacco and cosmetic products. The tariffs came a day after Turkish President Recep Tayyip Erdoğan initiated a boycott campaign against US electronic products. On 16 August, US Treasury Secretary Steven Mnuchin threatened more sanctions on Turkey if the detained US pastor is not released.

The intensifying tension between the two countries has led to a worsening crisis of the Turkish lira, which nosedived to a historic low of 7.2362 against the US dollar on 13 August – losing 47.6% of its value since the start of this year. Following measures taken by the monetary and the banking authorities, the lira has bounced back since then, closing at 6.54 against the US dollar on 31 August. Investors remain concerned about Turkey's economy, which is facing huge foreign debts, a widening current account deficit and a historically high inflation rate hovering around 16%. They are also concerned about the central bank's independence and unpredictable policy making of the Erdoğan administration.

TURKEY

WEAK LIRA MAKES SOURCING FROM TURKEY ATTRACTIVE

According to statistics released by the Turkish Statistical Institute, Turkey exported US$9.06 billion worth of garments in the first seven months of 2018, an increase of 7.4% compared to the same period last year. Specifically, exports of knitwear amounted to US$5.26 billion, up by 6.1% yoy, and exports of woven garments grew by 9.3% yoy to US$3.80 billion in the seven-month period.

The plunge of the lira, which has lost almost 40% of its value against the US dollar year to date, is generally creating a favourable climate for apparel sourcing. 'In the short term, it does reduce the labour component of our costs,' said Arkun Durmaz, president of Mavi North America, a Turkish brand's North American subsidiary. However, he added that such advantage would be neutralized by inflation in the long term. For export-oriented garment manufacturers who rely on raw material imports, the benefit of a weak lira may be moderate, as most of the imported raw materials are priced in euros and US dollars. Meanwhile, as Turkey imports about three quarters of energy to meet domestic demand, energy costs have already been adjusted upward given the recent changes in lira's exchange rate.

Industry insiders reported that several brands and retailers had shown positive interest in starting or increasing their business in Turkey for speed, quality, innovation, sustainability and cost. It is expected that once the lira is stabilised, it will be attractive for both US and European buyers to source from Turkey as the buying power of the US dollar or euro has increased against the lira. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Quantum index of medium and large-scale manufacturing (yoy growth %)	17.0	13.7	-	-	-	-
Consumer price index (yoy growth %)	5.7	5.7	5.6	5.6	5.5	5.5
Exports (yoy growth %)	13.5	-1.4	7.1	9.0	-3.1	19.9
Exports (FOB, US$ mn)	3,072.2	3,054.5	2,954.9	3,322.4	2,939.4	3,581.5
Of which:						
Knitwear (US$ mn)	1,219.3	1,195.5	1,219.2	1,399.8	1,248.5	1,527.1
Woven garments (US$ mn)	1,381.6	1,382.9	1,252.0	1,423.2	1,237.8	1,490.6
Home textile (US$ mn)	89.1	86.7	81.8	71.3	55.7	66.1
Footwear* (US$ mn)	56.3	48.0	53.0	71.9	72.3	88.7
Leather products (US$ mn)	26.8	19.0	16.2	17.8	18.4	14.8
Imports (yoy growth %)	26.7	11.9	25.9	37.8	16.5	-
Imports (C&F, US$ mn)	4,369.4	4,395.1	4,870.1	5,434.5	3,838.7	-

** Includes leather footwear.*
Source: Bangladesh Bureau of Statistics, Bangladesh Bank, Export Promotion Bureau

INDIA

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Quarterly GDP (real yoy growth %)	7.7 (4Q17)			8.2 (1Q18)		
Index of industrial production (yoy growth %)	7.0	4.6	4.8	3.9	7.0	-
Manufacturing PMI (Nikkei)	52.1	51.0	51.6	51.2	53.1	52.3
Wholesale price index (yoy growth %)	2.7	2.7	3.6	4.8	5.8	5.1
Consumer price index (yoy growth %)	4.4	4.3	4.6	4.9	4.9	4.2
Exports (yoy growth %)	4.5	-0.7	5.2	20.2	17.6	14.3
Exports (FOB, US$ mn)	25,834.4	29,109.1	25,908.4	28,861.4	27,702.0	25,772.7
Of which:						
Knitwear (US$ mn)	602.6	631.1	564.3	614.4	678.0	-
Woven garments (US$ mn)	839.8	861.7	787.6	725.1	680.9	-
Footwear (US$ mn)	238.0	239.8	209.5	226.5	247.9	-
Furniture (US$ mn)	137.5	133.5	125.3	137.4	141.8	-
Imports (yoy growth %)	10.4	7.2	4.6	14.9	21.3	28.8
Imports (CIF, US$ mn)	37,813.6	42,800.9	39,625.1	43,479.9	44,304.2	43,786.6
Trade balance (US$ mn)	-11,979.2	-13,691.8	-13,716.8	-14,618.4	-16,602.2	-18,013.9

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

PAKISTAN

	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Quantum index of large-scale manufacturing (yoy growth %)	5.8	2.1	9.7	2.2	0.5	-
Consumer price index (yoy growth %)	3.8	3.2	3.7	4.2	5.2	5.8
Exports (yoy growth %)	16.5	24.4	18.6	32.4	-1.0	1.2
Exports (US$ mn)	1,901.5	2,231.4	2,132.8	2,144.1	1,886.6	1,646.0
Of which:						
Garments (US$ mn)	413.8	453.2	433.6	482.2	493.1	420.1
Bed linen (US$ mn)	171.7	196.3	181.4	200.0	205.5	164.8
Towels (US$ mn)	64.4	75.6	68.9	69.1	60.0	51.7
Leather products (US$ mn)	40.5	39.4	43.3	43.8	44.0	39.7
Sporting goods (US$ mn)	25.1	31.2	30.8	27.9	29.3	21.9
Imports (yoy growth %)	9.7	6.1	2.9	14.8	26.2	0.6
Imports (US$ mn)	4,797.2	5,280.2	5,109.4	5,814.0	5,693.5	4,837.7
Balance of trade (US$ mn)	-2,895.7	-3,048.8	-2,976.7	-3,669.9	-3,807.0	-3,191.7

Source: Pakistan Bureau of Statistics, State Bank of Pakistan

TURKEY

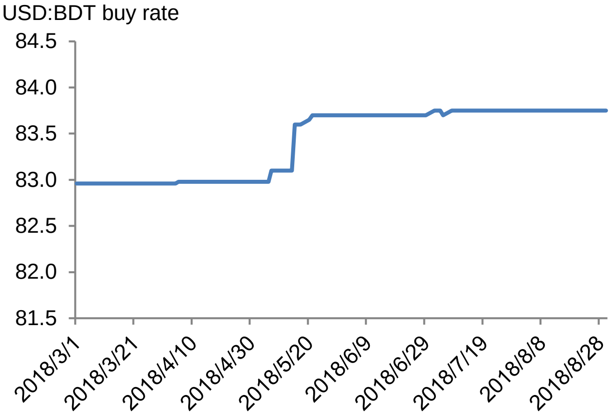
	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Quarterly GDP (real yoy growth %)	7.3 (1Q18)			5.2 (2Q18)		
Industrial production index, manufacturing (yoy growth %)	10.7	8.0	6.4	6.7	2.9	-
Industrial turnover index, manufacturing (yoy growth %)	28.1	24.6	26.4	26.7	25.9	-
Manufacturing PMI (Istanbul Chamber of Industry)	55.6	51.8	48.9	46.4	46.8	49.0
Producer price index (yoy growth %)	13.7	14.3	16.4	20.2	23.7	25.0
Consumer price index (yoy growth %)	10.3	10.2	10.9	12.2	15.4	15.9
Exports (yoy growth %)	8.8	7.5	7.7	5.0	-1.4	11.6
Exports (US$ mn)	13,149.6	15,556.5	13,850.8	14,264.7	12,937.9	14,077.3
Of which:						
Knitwear (US$ mn)	706.6	840.2	729.3	731.3	712.8	814.3
Woven garments (US$ mn)	516.7	635.9	549.5	541.3	468.0	573.8
Furniture (US$ mn)	239.7	294.0	265.9	279.3	241.7	262.8
Imports (yoy growth %)	19.7	12.7	15.6	5.4	-3.8	-6.7
Imports (US$ mn)	18,936.9	21,434.0	20,555.4	22,063.5	18,450.7	20,059.0
Balance of trade (US$ mn)	-5,787.3	-5,877.5	-6,704.6	-7,798.8	-5,512.8	-5,981.6

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

DAILY EXCHANGE RATES

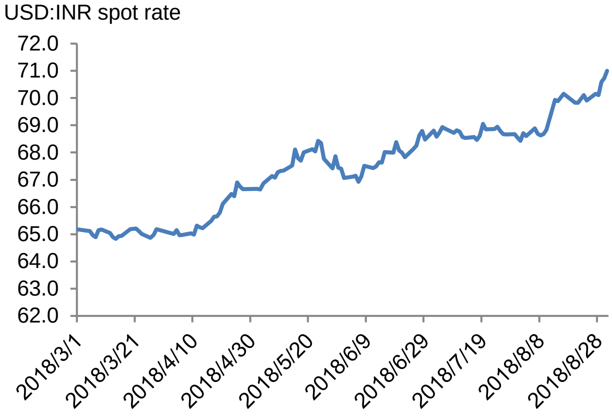
MARCH - AUGUST 2018

BANGLADESHI TAKA



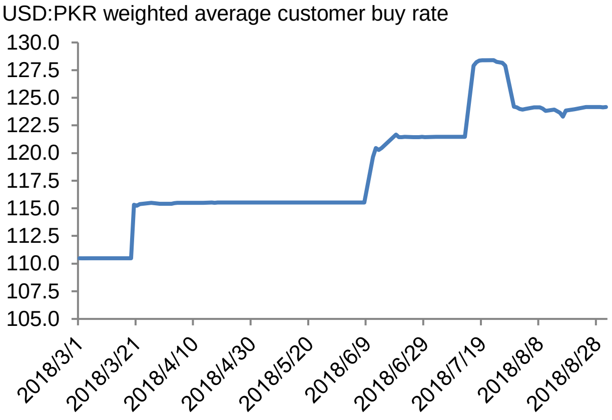
Source: Bangladesh Bank

INDIAN RUPEE



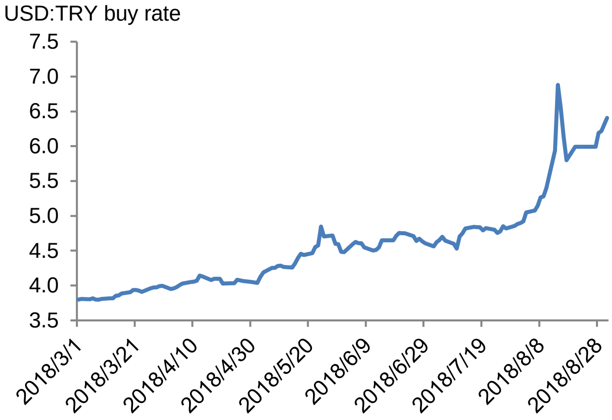
Source: Bloomberg

PAKISTANI RUPEE



Source: State Bank of Pakistan

TURKISH LIRA



Source: Central Bank of the Republic of Turkey

FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

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 39,900 people across 40 economies worldwide, generating total revenue of more than US$22.5 billion in 2016. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

CONTACT

Helen Chin
Vice President
helenchin@fung1937.com
(852) 2300 2471

Denise Cheung
Senior Research Manager
denisecheungwy@fung1937.com
(852)2300 2463

Winnie He
Research Manager
winniehe@fung1937.com

Global Sourcing
Fung Business Intelligence
10/F LiFung Tower,
888 Cheung Sha Wan Road
Kowloon, Hong Kong

T: (852) 2300 2470
F: (852) 2635 1598
E: fbicgroup@fung1937.com
W: http://www.fbicgroup.com

Fung Biz Intel Fung Biz Intel Fung Biz Intel Fung Biz Intel Fung Biz Intel