ASIA SOURCING UPDATE

SOUTHEAST ASIA | SOUTH AND WEST ASIA

MARCH 2015

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HIGHLIGHTS

- Growth of garment exports slows in 2014
- New industrial policy aims at diversifying the economy
- New schemes launched to lower the cost of living for tenants

- Economy grows by 5.02% in 2014, the slowest in 5 years
- Gasoline subsides fully eliminated since January
- Japanese investors eager to invest in infrastructure projects in West Java

- FDI hits historic high in 2014
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- Mass transport system in the works to ease traffic in Metro Manila

- Real GDP growth slows to three-year low in 2014
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- Vietnam becomes second largest footwear exporter to the US market
- Electricity prices rise 7.5% starting mid-March
- Garment projects less welcomed in more affluent provinces

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IN THE NEWS

CAMBODIA

GROWTH OF GARMENT EXPORTS SLOWS IN 2014

According to figures released by the Ministry of Commerce in early February, Cambodia's garment exports increased by about 4% yoy to US$5.75 billion in 2014. The growth rate marked a significant slowdown compared with the previous year's 20% yoy increase.

Quarterly figures show that garment export growth was relatively strong in the first few months of 2014, but was then losing steam in the second half of the year as foreign buyers started to reduce orders. Persistent labour strikes over wages and alleged labour abuses also dented foreign buyers' confidence in Cambodia's garment sector. The unrest turned deadly in January 2014 when five people were shot dead in a violent crackdown by the government.

Many factories have cut down overnight shifts due to falling orders, according to Mr. Ken Loo, Secretary-General of the Garment Manufacturers Association in Cambodia (GMAC). He predicts that a wave of factory closures and worker layoffs may come by May this year and the country's garment exports are likely to see negative year-on-year growth in 2015.

CAMBODIA

NEW INDUSTRIAL POLICY AIMS AT DIVERSIFYING THE ECONOMY

The Cambodia's cabinet passed on 6 March the *Industrial Development Policy (IDP) 2015-2025*, with an aim of modernizing the country's economy and diversifying away from labour-intensive industries to higher valued-added industries.

The IDP aims at increasing the industrial sector's contribution to GDP from 24% in 2013 to 30% by 2025. To achieve this target, the country will attract more investment and production in light manufacturing sectors with higher value-added, such as electronics and food processing. Besides, to diversify away from garment exports, which currently constitute almost 80% of the country's total exports, the government has set a target of raising the share of non-textile manufacturing products and processed agricultural products in total exports to 15% and 12%, respectively, by 2025.

The new industrial policy also envisages the transformation of the Sihanoukville province into the country's prime destination for foreign investment. The southwestern province, where Cambodia's largest deep-water port is situated in, plans to apply a 'Multi-purpose Special Economic Zone' model and become an industrial and tourism hub.

CAMBODIA

NEW SCHEMES LAUNCHED TO LOWER THE COST OF LIVING FOR TENANTS

In mid-January, Cambodia's state energy provider Electricité du Cambodge (EDC) announced a new scheme for setting a lower electricity price for tenants residing in Phnom Penh, in response to the Prime Minister's directive for reducing high electricity costs for workers and students living in rented rooms.

Many of the city's rented rooms are occupied by garment workers. Currently, many landlords install their own meters in their buildings and charge tenants an electricity rate between 850 riels (US$0.21) and 2,500 riels (US$0.62) per kWh – well above the rates set by the city's energy provider.

Under the new scheme, new meters will be installed in rented rooms and tenants will be charged directly by the EDC. For electricity consumption less than 50 kWhs per month, tenants can enjoy a preferential rate – only 610 riels (US$0.15) per kWh. For consumption over 50 kWhs per month, they will be charged a normal rate between 610 riels and 820 riels (US$0.20) per kWh.

Other favourable schemes for tenants living in Phnom Penh, including the reduction of water rates and rent control, are in the works. Together, these new schemes are expected to control inflation in the city and lower the cost of living for workers, particularly garment workers, who often complain that rising rents and high utility charges are eroding their wages.■

INDONESIA

ECONOMY GROWS BY 5.02% IN 2014, THE SLOWEST IN 5 YEARS

The country's GDP rose 5.02% yoy to 8,354 trillion rupiah (US$663 million) in 2014, the Central Statistics Agency (BPS) reported on 5 February. That represents the slowest growth since 2009, when the economy grew 4.63% yoy. The disappointing figure underlines the challenge facing the country's president, Joko Widodo, who aims at attaining an average annual growth of 7% in his five-year tenure.

By sector, manufacturing, which makes up one-fifth of the Indonesian economy, grew 4.63% yoy in 2014. The information and communication sector, which accounts for 9% of the country's GDP, grew by an impressive 10.02% yoy. By the expenditure approach, household consumption, which accounts for 56% of the country's GDP, rose 5.14% yoy, compared with the growth of 5.38% yoy in 2013. Growth in fixed capital formation, which consists mainly of corporate investment, slowed to 4.12% yoy from 5.28% yoy in 2013. The weak commodity exports also dealt a blow to the Indonesian economy. Exports increased by only 1.02% yoy in 2014, compared with the 4.17% yoy growth seen in 2013, due in part to a ban on exports of unrefined mineral ores introduced in January last year.

In calculating the real GDP growth for 2014, the Indonesian statistics agency switched the base year from 2000 to 2010. With the old base year, the real GDP growth for 2014 would have been 5.06%, still on a declining trend.

INDONESIA

GASOLINE SUBSIDES FULLY ELIMINATED SINCE JANUARY

On 1 January, the Indonesian government implemented a new subsidy system as part of a move to fully eliminate subsidies for 'premium' gasoline (only the 'premium' gasoline was subsided) and cap subsidies allocated for diesel fuel. Although subsidies for 'premium' gasoline were removed, its price still saw a decrease from 8,500 rupiah (US$0.64) to 7,600 rupiah (US$0.58) per litre, as under the new system the price of 'premium' gasoline becomes linked to global oil prices, which had plunged since the latter half of 2014. For the same reason, the price of subsidized diesel fuel was reduced from 7,500 rupiah (US$0.57) per litre to 7,250 rupiah (US$0.55), with the subsidy fixed at 1,000 rupiah per litre.

A few days after the new system's implementation, the Indonesian government shortened the fuel price review cycle from monthly, as originally planned, to bi-weekly. On 19 January, the price of 'premium' gasoline was reduced by another 13% to 6,600 rupiah (US$0.50) per litre, while the price of subsidized diesel fuel was reduced by another 15% to 6,400 rupiah (US$0.49) per litre. Afterwards, on 1 March, the price of 'premium' gasoline was adjusted upward by 200 rupiah per litre to 6,800 rupiah (US$0.52) per litre.

In February, state-owned electricity company Perusahaan Listrik Negara (PLN) also lowered non-subsidized electricity tariff rates by 1.86%.

The reduction in fuel subsidy spending will help ease the country's long-standing budget and current account deficits, which will in turn allow the government to invest more in infrastructure and education, and boost investor confidence in the country's economic prospects.

INDONESIA

JAPANESE INVESTORS EAGER TO INVEST IN INFRASTRUCTURE PROJECTS IN WEST JAVA

Japanese investors are ardently investing in several infrastructure projects in West Java, a strategic location because of its population size – West Java is the country's most populous and most densely populated province. With the Jakarta-Bandung Shinkansen bullet train now being constructed, connectivity between West Java and the country's capital is going to be greatly enhanced.

According to Yasuaki Tanizaki, Japanese Ambassador to Indonesia, Japanese investors are interested in projects related to highways, railroads, power plants and seaports in the province.

In January, Indonesia's Minister of Trade Rachmat Gobel visited Japan. One of the key missions of his visit was to draw more Japanese investments into Indonesia. Gobel met with Japan's Prime Minister Shinzo Abe in Tokyo, and the discussion revolved around the strengthening of economic, trade and investment ties between the two countries. ■

PHILIPPINES

FDI HITS HISTORIC HIGH IN 2014

Net foreign direct investment (FDI) inflows into the Philippines reached an all-time high of US$6.2 billion in 2014, up by 65.9% yoy, according to the country's central bank Bangko Sentral ng Pilipinas (BSP). Net FDI, which consists of net equity capital, reinvestment of earnings and net debt instruments, measures the difference between investment and disinvestment by foreigners.

Net equity capital tripled to US$2.0 billion in 2014 from US$664 million in 2013. The financial and insurance industry received the biggest investment (US$1.3 billion), followed by manufacturing (US$209 million) and mining and quarrying (US$159 million). Among the top investing countries, the US contributed 57.7% of the net equity capital inflows in 2014, followed by Hong Kong, the United Kingdom and Japan.

Robust FDI in the country was buoyed by strong investor confidence in the country's solid macroeconomic fundamentals. Philippines' real GDP grew by 6.1% yoy in 2014, making it one of the growth leaders in the region.

PHILIPPINES

GARMENT INDUSTRY EXPECTED TO EXPERIENCE A REVIVAL

As tariffs on garment exports to the EU are now slashed to zero under the EU's Generalised Scheme of Preferences Plus (GSP+), the country's garment industry is likely to experience a revival in the next few years, with more garment manufacturers and foreign buyers coming back to the country, according to Gregory L. Domingo, Secretary of the Department of Trade and Industry (DTI).

One such first-mover is CS Garment, a German-owned garment manufacturer located in the Cavite Processing Zone. The company recently announced its plan to expand operations and add 100 sewers to its existing 300 workers in anticipation of increased orders from European clients. According to the president of CS Garment, the lack of domestic raw materials, such as fabrics and clothing accessories, is the major impediment to the revival of the industry.

To benefit from the duty-free preference under the GSP+, garments originated from the Philippines should have at least 60% of local content, which domestic manufacturers currently find it difficult to comply with. While the domestic textile industry gradually develops, the country is going to apply for a temporary relaxation of the rule, according to DTI.

In 2014, the Philippines exported US$2.1 billion worth of textiles and garments to the world, according to data released by the Philippine Statistics Authority. Of which, yarn and fabric exports grew by 34.5% yoy to US$252.7 million, while garment exports increased by 16.6% yoy to US$1.8 billion.

PHILIPPINES

MASS TRANSPORT SYSTEM IN THE WORKS TO EASE TRAFFIC IN METRO MANILA

A mass transport system, which aims at reducing travel time within Metro Manila and between Metro Manila and the surrounding provinces, will be completed in five years, according to the Department of Transportation and Communications (DOTC).

This mass transport system project, which is part of the "Mega Manila Master Plan", involves the construction of nine additional train lines and three new bus terminals, as well as the improvement of the existing transport systems. With a total budget of 900 billion pesos (US$20 billion), this project aims at decongesting the capital region, increasing the mass transport ridership from the current 6% to 20% of the population, and alleviating the overcrowding problem in the existing transport systems such as the Metro Rail Transit Line 3 (MRT-3).

In recent years, the Philippine government has continued to invest more in infrastructure, with a target of raising infrastructure spending from 3.4% of the country's GDP in 2014 to at least 5% in 2016. ■

THAILAND

REAL GDP GROWTH SLOWS TO THREE-YEAR LOW IN 2014

Thailand's real GDP growth slowed to 0.7% yoy in 2014 from 2.9% yoy in 2013, the slowest since 2011, when the worst floods in decades shuttered thousands of factories. Household debt burden and stricter personal loan approvals have curbed household consumption, while lower agricultural prices and sluggish global demand have hurt the country's exports.

Data from the National Economic and Social Development Board (NESDB) show that the agricultural sector expanded by 1.1% yoy in 2014, while the manufacturing sector and the mining and quarrying sector contracted by 1.1% yoy and 0.5% yoy respectively. By the expenditure approach, household consumption grew by a modest 0.3% yoy in 2014, the same growth rate as in 2013, while growth rates of exports and imports registered 0% yoy and -4.8% yoy respectively.

But more encouragingly, GDP increased by 2.3% yoy in the fourth quarter of 2014, compared to the 0.6% yoy growth in the third quarter, indicating a moderate recovery. The NESDB predicts that the country's GDP will grow 3.5%-4.5% yoy in 2015, supported by recoveries in exports, private investment and tourism.

THAILAND

BLUEPRINT FOR SPECIAL ECONOMIC ZONES EXPANDS

In view of the insufficient infrastructure in the Special Economic Zones (SEZs) under construction, the Policy Committee on the Special Economic Development Zone approved an infrastructure development plan on 19 January. The plan consists of 45 projects in 2015 and 79 projects in 2016, mostly involving the construction of new roads, which are worth 2.6 billion baht

(US$80 million) and 7.9 billion baht (US$243 million), respectively.

The Committee also agreed to add Nong Khai to the first batch of new SEZs, apart from the other five locations (Mae Sot in the Tak province, Aranyaprathet in the Sa Kaeo province, Khlong Yai in the Trat province, Mueang in the Mukdahan province, and Sadao in the Songkhla province) approved in July 2014. These planned SEZs, bordering Cambodia, Myanmar, Laos or Malaysia, have great potential for expanding border trade due to their manufacturing capacities, infrastructure and the abundance of labour.

With the provision of investment privileges in the SEZs, the military-led government aims at attracting foreign direct investment, generating employment and enhancing Thailand's competitiveness to prepare for the realization of the ASEAN Economic Community.

Although the government places more emphasis on high-tech or high value-added projects in the SEZs, labour-intensive industries, such as textiles, garments and processed food, can also benefit from establishing production facilities in the SEZs.

THAILAND

LABOUR SHORTAGE THREATENS INDUSTRIAL DEVELOPMENT

Labour shortage in Thailand's industrial sector is expected to worsen in the next few years, due mainly to demographic changes and the rapid growth of informal sectors. The country's birth rate has been falling in recent years, causing an aging population. Meanwhile, according to the NESDB, 50% of the country's 38.6 million workforce are now employed in informal (mostly non-industrial) sectors such as the agricultural sector, small family businesses and self-employed occupations.

The labour-intensive industries, particularly the automotive and auto part, electronics, and textiles and clothing industries, have borne the brunt of the labour shortage. The country is expected to hire more than 1 million migrant workers in the coming years to meet labour demand, according to Udom Wongviwatchai, director of the Ministry of Industry's Office of Industrial Economics. In the medium term, however, Thailand could face a migrant worker shortage when neighbouring countries can provide better jobs for those workers domestically.

Apart from the labour shortage, unskilled labour is another obstacle to transforming the country into a knowledge-based economy. A report by the NESDB reveals that up to 65% of the current workforce are graduated from Mathayom 3 (junior high school diploma) or lower, while only 23.2% hold vocational certificates or bachelor's degrees. ■

VIETNAM

VIETNAM BECOMES SECOND LARGEST FOOTWEAR EXPORTER TO THE US MARKET

According to US Customs data, Vietnam became the second largest footwear exporter to the US market, only after China, accounting for 13.8% of all US footwear imports in 2014. The country exported US$3.55 billion worth of footwear to the US last year, an increase of 22.4% over 2013. At the same time, China remained the biggest footwear exporter to the US, taking up a 65.6% share of all US footwear imports in 2014.

In 2010-2014, exports of Vietnamese footwear to the US grew by an average of 30% per year in dollar terms, according to the Vietnam Leather and Footwear Association (Lefaso). The association attributed the remarkable rise in Vietnam's footwear exports in recent years to higher investment made by foreign enterprises tapping the opportunities offered by the free trade agreements (FTA) now under negotiations, such as the Trans-Pacific Partnership and the EU-Vietnam FTA.

According to the General Customs Department of Vietnam, the total export value of the country's footwear sector amounted to US$10.22 billion in 2014, representing a year-on-year increase of 21.6%. The export value contributed by foreign-invested footwear businesses was estimated at US$7.93 billion, or 77% of the country's total footwear export value.

VIETNAM

ELECTRICITY PRICES RISE 7.5% STARTING MID-MARCH

The Vietnamese government has approved a proposal by the state-owned Vietnam Electricity (EVN) to raise electricity prices by 7.5%. Starting from 16 March, electricity prices will be adjusted upward to an average of 1,622 dong (US$0.08) per kilowatt hour.

The increase will help EVN compensate for losses, estimated at about 8 trillion dong (US$381 million), incurred in recent years from exchange rate disparities. The previous power price increase of 5% was applied in August 2013.

The electricity price hike increases production cost, especially for energy-intensive industries such as steel, cement and chemicals. The price change is also forecast to raise this year's consumer price index (CPI) by 0.23%, according to Nguyen Anh Tuan, Director General of the Ministry of Industry and Trade's Electricity Regulatory Authority.

VIETNAM

GARMENT PROJECTS LESS WELCOMED IN MORE AFFLUENT PROVINCES

According to local media *VietNamNet*, the provinces of Ba Ria–Vung Tau, Dong Nai, Binh Duong and Hai Duong have begun restricting the introduction of new garment projects.

In Dong Nai, the director of the provincial Planning and Investment Department has announced that new textile and garment projects will only be licensed if they are located in industrial zones and the investors pledge to satisfy requirements on wastewater treatment. In Hai Duong, the provincial authorities have stopped trying to attract foreign direct investment into six industries, including textiles and garments.

This indicates that projects perceived by local authorities as labour-intensive and low value-added are now less welcomed in the more affluent Vietnamese provinces. In particular, the provincial authorities are increasingly concerned about the environmental cost associated with dyeing and textile mills. ■

MAJOR ECONOMIC INDICATORS

INDONESIA

	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Quarterly GDP (real yoy growth %)	4.9(3Q14)		5.0(4Q14)		-	
Production index of large and medium manufacturing (yoy growth %)	9.8	5.4	3.8	5.3	5.0	-
Manufacturing PMI (HSBC)	50.7	49.2	48.0	47.6	48.5	47.5
Real retail sales index (yoy growth %)	17.9	17.6	11.4	3.3	10.4	11.4
Consumer price index* (yoy growth %)	4.5	4.8	6.2	8.4	7.0	6.3
Exports (yoy growth %)	3.9	-2.2	-14.6	-13.8	-8.1	-16.0
Exports (FOB, US$ mn)	15,275.8	15,350.9	13,615.9	14,621.3	13,300.9	12,289.1
Of which:						
Textile and textile products (US$ mn)	1,091.0	1,028.5	920.1	1,189.5	1,016.9	-
Footwear (US$ mn)	301.8	363.7	378.8	399.9	395.5	-
Furniture (US$ mn)	138.9	151.5	135.7	156.8	143.2	-
Sports requisites (US$ mn)	56.2	49.8	35.3	39.4	36.0	-
Imports (yoy growth %)	0.2	-2.2	-7.3	-6.6	-15.6	-16.2
Imports (US$ mn)	15,546.1	15,327.7	14,041.6	14,434.5	12,591.5	11,550.8

Source: Statistics Indonesia, Bank Indonesia, HSBC PMI reports

PHILIPPINES

	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Quarterly GDP (real yoy growth %)	5.3(3Q14)		6.9(4Q14)		-	
Value of production index, manufacturing (yoy growth %)	5.8	8.2	6.5	3.3	-1.8	-
Volume of production index, manufacturing (yoy growth %)	5.0	8.9	8.7	6.7	3.3	-
Producer price index (yoy growth %)	0.7	-0.7	-2.0	-3.2	-4.9	-
Consumer price index (yoy growth %)	4.4	4.3	3.7	2.7	2.4	2.5
Exports (yoy growth %)	15.7	2.5	21.7	-3.2	-0.5	-
Exports (FOB,US$ mn)	5,848.9	5,151.1	5,261.7	4,800.6	4,356.8	-
Of which:						
Woodcrafts and furniture (US$ mn)	202.3	198.3	359.4	201.7	166.4	-
Garments (US$ mn)	150.9	150.0	132.1	154.9	160.9	-
Imports (yoy growth %)	-2.6	7.5	-10.8	-10.6	-	-
Imports (FOB, US$ mn)	5,648.0	5,345.0	5,495.0	4,868.8	-	-
Balance of trade (US$ mn)	200.9	-193.9	-233.3	-68.2	-	-

Source: National Statistics Office, National Statistical Coordination Board

THAILAND

	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Quarterly GDP (real yoy growth %)	0.6(3Q14)		2.3(4Q14)		-	
Industrial production index (value added weight, not seasonally adjusted, yoy growth %)	-3.9	-3.0	-3.7	-0.1	-1.3	-
Producer price index (yoy growth %)	-1.1	-1.3	-1.7	-3.6	-5.4	-4.9
Consumer price index (yoy growth %)	1.8	1.5	1.3	0.6	-0.4	-0.5
Exports (yoy growth %)	3.2	4.0	-1.0	1.9	-3.5	-
Exports (US$ mn)	19,912.8	20,163.8	18,567.8	18,790.0	17,248.6	-
Of which:						
Textiles and apparel (US$ mn)	629.3	643.1	602.2	627.6	579.4	-
Furniture (US$ mn)	109.2	121.5	97.7	97.7	88.7	-
Footwear (US$ mn)	57.0	69.5	61.9	65.0	54.0	-
Imports (yoy growth %)	14.4	-4.9	-3.5	-8.7	-13.3	-
Imports (US$ mn)	21,711.0	20,132.3	18,645.7	17,201.3	17,705.2	-
Trade balance (US$ mn)	-1,798.3	31.5	-78.0	1,588.7	-456.5	-

Source: National Economic and Social Development Board, Office of Industrial Economics, Ministry of Commerce

VIETNAM

	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
Quarterly GDP (real yoy growth %)	6.1(3Q14)		7.0(4Q14)		-	
Industrial production index (yoy growth %)	8.6	7.9	11.1	9.8	16.4	7.0
Manufacturing PMI (HSBC)	51.7	51.0	52.1	52.7	51.5	51.7
Retail sales of consumer goods and services (year-to-date, yoy growth %)	11.1	11.1	11.1	10.6	13.0	11.4
Price index of materials used for production (yoy growth %)	3.9(3Q14)		3.5(4Q14)		-	
Producer price index for industrial products (yoy growth %)	2.8(3Q14)		2.0(4Q14)		-	
Consumer price index (yoy growth %)	3.6	3.2	2.6	1.8	0.9	0.3
Exports (year-to-date, yoy growth %)	14.4	14.1	13.7	13.7	14.0	8.4
Exports (US$ mn)	12,634.3	14,067.8	13,229.5	12,875.7	13,404.7	9,513.2
Of which:						
Textiles & garments (US$ mn)	1,941.7	1,955.8	1,564.5	1,990.3	1,918.2	1,341.3
Footwear (US$ mn)	761.1	863.4	955.2	1,087.2	1,075.8	684.9
Wood & wooden products (US$ mn)	507.4	577.4	537.6	609.6	588.7	397.8
Imports (year-to-date, yoy growth %)	11.6	11.5	11.8	12.1	39.2	21.9
Imports (US$ mn)	13,216.3	14,072.1	12,791.9	14,038.1	13,798.8	10,479.7

Source: General Statistics Office of Vietnam, General Department of Vietnam Customs, HSBC PMI reports

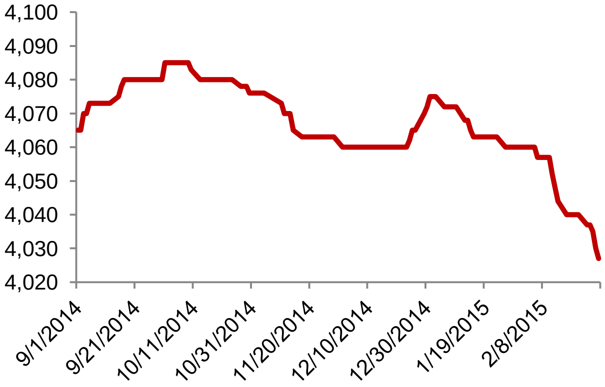
Macroeconomic data for Cambodia are not available as of the date of publishing

DAILY EXCHANGE RATES

SEPTEMBER 2014 - FEBRUARY 2015

CAMBODIAN RIEL

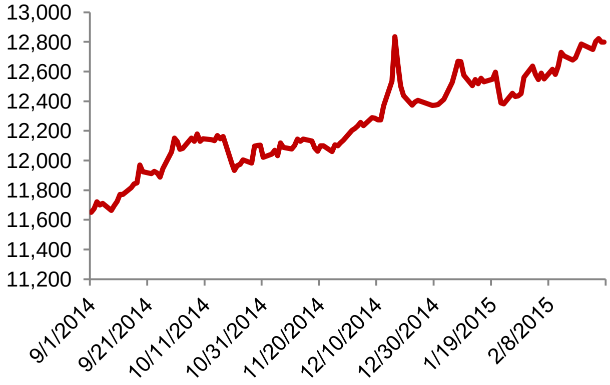
USD:KHR official exchange rate



Source: National Bank of Cambodia

INDONESIAN RUPIAH

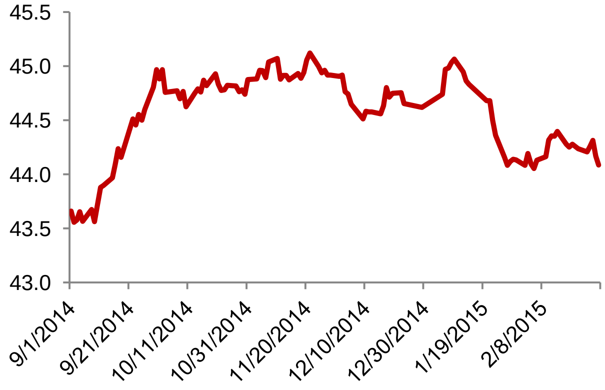
USD:IDR buy rate



Source: Bank Indonesia

PHILIPPINE PESO

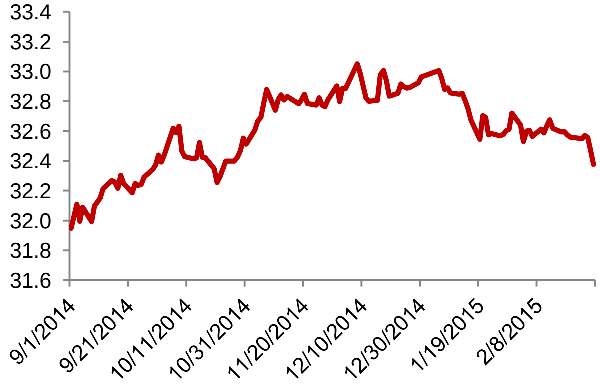
USD:PHP BSP reference rate



Source: Bangko Sentral ng Pilipinas (BSP)

THAI BAHT

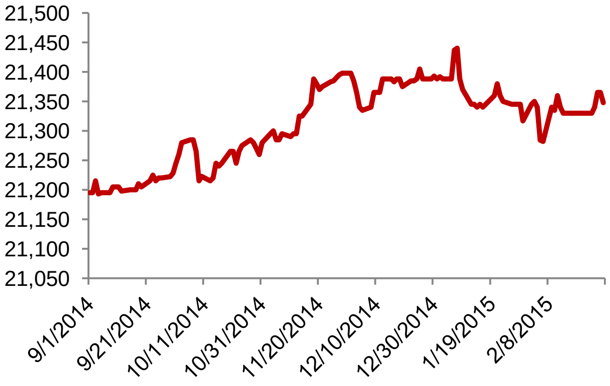
USD:THB mid-rate



Source: Bank of Thailand

VIETNAMESE DONG

USD:VND spot rate



Source: Bloomberg

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