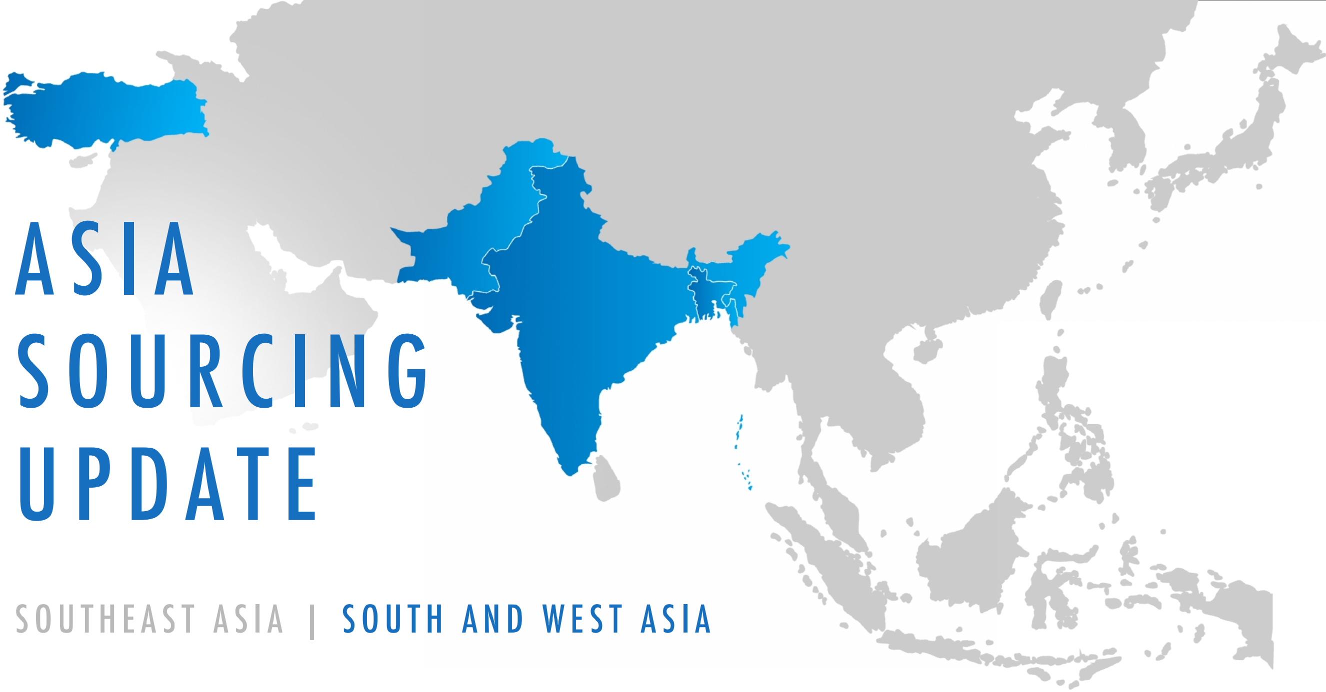

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

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IN THE NEWS

BANGLADESH

LEATHER EXPORTS FALL 8.4% YOY IN JULY-AUGUST

In the fiscal year 2013-14 (July 2013 - June 2014), Bangladesh's exports of crust and finished leather rose 26.5% yoy to fetch US$506 million. However, foreign buyers are now placing fewer orders in Bangladesh due to environmental concerns, and local tanners are under tremendous pressure.

As foreign buyers are no longer placing orders with the country's polluting tanneries, tanners have lost about 30-40% of their orders in the global market, according to Abu Taher, president of the Bangladesh Finished Leather, Leather Goods and Footwear Exporters' Association. Brands from the US and Europe, including Michael Kors, Coach, Nine West and Hugo Boss, have shifted their orders from Bangladesh to other countries, mostly India.

This development is reflected in the country's leather export earnings during the first two months of the current financial year. According to the Export Promotion Bureau, earnings from exports of leather products declined by 8.4% yoy in the July-August period.

The trend, however, may reverse after the Savar Leather Industrial Park becomes operational. With a Central Effluent Treatment Plant (CETP) in place, where all forms of tannery waste will be treated according to relevant regulations, the Savar Leather Industrial Park will promote and enforce environmentally compliant production standards. According to the government's plan, all tanneries in the country must relocate to the Industrial Park by March 2015.

BANGLADESH

HUNDREDS OF RMG FACTORIES HAVE ENDED OPERATION

Since the Rana Plaza tragedy in April 2013, hundreds of factories have shut down, leaving thousands of workers unemployed. The closures were attributable to insufficient work orders, inability to comply with regulations, lack of financing for upgrades or relocation, and worker unrest.

The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) reported that at least 218 of its member factories closed from May 2013 to September 2014, whereas Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA) reported more than 180 facing closure.

At least 120,000 workers were employed in the 218 BGMEA member factories that were shut down. The majority of them are women and most of them have difficulty finding work. According to the BGMEA, among these workers who were formerly employed by a BGMEA member factory, only 40% found permanent jobs in another factory, while 25% were working on contract basis, 20% remained unemployed, 10% left Dhaka and 5% changed their professions.

The trend is expected to continue as foreign buyers – mostly from the US – are fleeing the country to avoid compliance risks.

BANGLADESH

VF CORPORATION SET UP A US$10 MILLION FUND TO UPGRADE ITS RMG VENDORS

A recent independent review announced in September on progress of the Alliance for Bangladesh Worker Safety (Alliance) indicates that the organization has made "significant and laudable progress" in the endeavor to improve workplace safety in Bangladesh's readymade garment (RMG) industry. The review conducted by the Bipartisan Policy Center (BPC) also reveals numerous challenges that remain, one of which is the need for more affordable financing for the upgrading of Bangladesh's RMG factories.

The Alliance has committed approximately US$50 million to date to a worker safety fund (for, among other things, the support of workers displaced by factory closures with two months of pay) and has made an additional US$100 million available to support factories to implement safety improvements. Another US$20 million has also been made available in the form of low-cost loans to support factory upgrades. Meanwhile, it is estimated that the average cost of upgrading may be more than US$250,000 per factory. That makes a total of approximately US$150 million needed to upgrade the infrastructure of the Bangladesh's RMG industry.

In September, Alliance member VF Corporation announced a partnership with the International Finance Corporation (IFC) to provide up to US$10 million in financing for building upgrades and fire safety improvements in its vendor factories. Under the partnership, IFC will grant loans at preferential rates to VF's qualified vendor factories, and VF will act as a guarantor for the loans. ■

INDIA

EXPORT GROWTH DECELERATES IN AUGUST

India's exports reached US$27.0 billion in August, representing a year-on-year growth of 2.4% in dollar terms. The figure points to a further deceleration in export growth in the month, which slowed from double digits in May and June to 7.3% yoy in July.

The moderation was due to an unfavorable base effect and the stalled recovery in the euro zone. By major export category, 'petroleum products' and 'gems and jewellery' witnessed sharp declines of 12.9% yoy and 10.3% yoy, respectively, in August. Meanwhile, exports of 'engineering goods' (+22.2% yoy) and 'readymade garments' (+23.1% yoy) maintained strong growth rates in the month.

In the first five months of the current fiscal year (April 2014 - March 2015), exports grew by 7.3% in dollar terms over the same period last year. The Indian government is finalizing a new foreign trade policy (2014-19), which is likely to include incentives for domestic value addition – the proportion of exports truly produced in India – and new rules for Special Economic Zones (SEZs).

INDIA

GAP TO OPEN 40 STORES STARTING NEXT YEAR

US fashion chain Gap announced in August its plan to open 40 stores in India starting from 2015 through a franchise agreement with Arvind Lifestyle Brands Limited, a subsidiary of Arvind Limited. Arvind Limited is Gap's long-term supplier and one of India's largest textile companies. The first two Gap outlets in India will be located in Mumbai and New Delhi.

In January 2012, the Indian government allowed 100% foreign ownership in single-brand retailers. The liberalization comes with a set of prescribed conditions, including a 30% local sourcing requirement for single-brand retail entities where foreign ownership exceeds 51%. The opening-up of the retail market to foreign investors spurs a retail rush to India. Last year, H&M received final approval from the Indian government to invest in the country. It plans to open 50 wholly-owned shops in India starting this year. Other retailers that have got the government's nod include French fashion brand Promod, French sports goods retailer Decathlon, American accessories retailer Fossil, American clothing brand Brooks Brothers, British footwear chain Pavers England and Italian jewellery maker Damiani. So far, the biggest single-brand retail proposal approved by the government came from IKEA, which will invest 125 billion rupees (US$2.0 billion) to open 25 stores in India over the next decade.

However, many global retailers prefer not to set up wholly-owned retail outlets directly in India. Among the ten international fashion brands that launched operations in India in 2013, eight entered the country through franchise or distribution partnerships, according to a piece of research by Third Eyesight, a consulting firm. For example, Gap decided to enter India through a franchise arrangement, which would help reduce the cost and time needed to set up in the new market and take advantage of the established distribution network of its franchisees. Besides, a franchise arrangement will allow Gap more flexibility about where to source the apparels for sale in the Indian market, as it will not be subject to the same local sourcing requirements that apply to a foreign-owned retail entity.

INDIA

ANTI-DUMPING DUTIES ON IMPORTED PTA WILL INCREASE POLYESTER PRICES

In a notification issued on 25 July, the Department of Revenue under the Ministry of Finance announced the imposition of anti-dumping duties on imports of purified terephthalic acid (PTA) – a raw material for producing polyester – from China, South Korea, Thailand and the EU with immediate effect.

The anti-dumping duties range from US$19.05 to US$117.09 per metric tonne, depending on the country of origin and the manufacturer. The anti-dumping duties will last for a period not exceeding six months, unless revoked, amended or superseded earlier.

The decision has split the polyester sector. While domestic PTA producers welcome the move, polyester manufacturers will face a higher raw material cost as they import a fair amount of PTA. Polyester manufacturers are claiming that the domestic PTA producers have already raised their selling prices in view of the protectionist policy. It is expected that polyester fibers in India will become costlier over the next few months. ■

PAKISTAN

EXPORTS OF TEXTILES AND APPAREL DROP IN JULY-AUGUST

Pakistan’s exports amounted to US$3.84 billion in the first two months of the current fiscal year (July 2014 - June 2015), posting a 5.8% yoy decline, according to data released by the Pakistan Bureau of Statistics.

Exports of textiles and apparel, which accounted for 56.5% of total exports, dropped 5.2% yoy to US$2.17 billion during July-August. The decline was led by sharp decreases in exports of cotton cloth (-13.8% yoy), cotton yarn (-27.0% yoy) and raw cotton (-40.6% yoy). Meanwhile, exports of knitwear, woven garments and home textiles witnessed moderate growth of 9.3% yoy, 1.4% yoy and 9.1% yoy respectively in the two months.

The poor export performance was attributable to chronic energy shortage in the country and the liquidity problem facing exporters due to the outstanding duty drawbacks. Moreover, production and export activities have been further hit by devastating floods in the northeast and anti-government protests in Islamabad since mid-August.

PAKISTAN

PTEA AND ILO FORGE PARTNERSHIP TO PROMOTE COMPLIANCE

Pakistan Textile Exporters Association (PTEA) and the International Labour Organization (ILO) announced a new partnership in August to improve labour standards in the country’s textile and garment industry. Under the new partnership, the ILO will provide technical assistance to design, develop and enforce a self-inspection system. According to the ILO, the objectives of the support include improving respect for national laws and international labour standards among Pakistani textile factories; developing buyers' confidence in the public monitoring of the participating factories' standards, and the reliability and accuracy of reports; and establishing coordination between the textile industry and the country's labour department for appropriate reporting on compliance with international labour standards in the workplace.

Technical support will be provided to trade associations and factories. The pilot phase will initially target 10 factories, and eventually reach all 150-180 factories in Faisalabad within three years. The project will assist workers and employers of the target factories to work together to design and implement a workplace improvement plan, with the aim of achieving improvements in working conditions and productivity. Each participating factory will create a workplace improvement committee (WIC). The WIC will undertake an initial assessment of the issues that require improvement with regards to labour laws, safety and health, and productivity. A detailed implementation framework for the project is currently in the making.

PAKISTAN

ENERGY SHORTAGE CONTINUES TO INCAPACITATE THE TEXTILE AND GARMENT SECTOR

The sustained energy crisis in Pakistan has continued to negatively affect industrial production and textile exports. The country's export figures show year-on-year declines for five consecutive months since April, even though it has preferential market access to the EU under the revised Generalised System of Preferences. The Pakistan Textile Exporters Association (PTEA) blames the reason for the decline on an unprecedented scale of energy shortage.

The textile and garment industry has been facing a chronic energy shortage for the past several years. While electricity net generation has increased over the last ten years, the available capacity remains below the installed capacity, according to the Pakistani government. Currently, electricity generation is close to 11,000 megawatts, against a demand of 13,000 to 17,000 megawatts.

The shortage is a result of a number of factors, including inefficient power plants and insufficient transmission and distribution systems. Load-shedding, the temporary shut-down of electric lines when electricity demand is greater than supply, currently stands at 8 to 10 hours per day for manufacturers in the energy-starved state of Punjab, where approximately 70% of Pakistan's textiles are produced. Capacity utilization has fallen as much as 20-50% for many manufacturers as a result.

To cope with the energy shortage, manufacturers have set-up their own power generators that run on gas, oil, electricity or bio-fuels. The reliance on these local sources of power, however, has resulted in increases in the cost of production. While new power sources are expected to come online in the next five years, including the construction of a one-gigawatt hydroelectric generation project, the textile industry will need to seek out innovative ways of managing their energy consumption so as to remain competitive in the long run. ■

TURKEY

INFLATION REMAINS HIGH

Turkey's inflation, as measured by the yoy growth rate of the consumer price index (CPI), edged up to 9.5% in August from 9.3% in July. It was the fifth consecutive month that inflation hovered above 9%.

A breakdown of the CPI suggests that price pressures in Turkey are broad-based. Food price inflation soared to 14.4% yoy in August, as a result of the persistent drought that began late last year. 'Furnishings and household equipment' (+9.6% yoy), 'transportation' (+9.5% yoy) and 'health' (+9.1% yoy) were also among the major groups that recorded high increases in prices.

The sticky inflation means less chance to contain inflation within the central bank's year-end inflation forecast, which was revised up to 7.6% in April from the previous 6.6%. The failure in combating inflation leaves limited room for the monetary authority to cut interest rates. During the Monetary Policy Committee meeting on 25 September, the central bank decided to keep all the interest rates unchanged and maintain a tight monetary policy stance until there is a significant improvement in the inflation outlook.

TURKEY

NEW GOVERNMENT TAKES OFFICE AMID ECONOMIC AND POLITICAL CHALLENGES

The country's first popular presidential election on 10 August saw the landslide victory of Tayyip Erdoğan, who had been the prime minister since 2003. With key members of Turkey's economic management team in the last administration remaining largely intact, the new government – now headed by Ahmet Davutoglu as the new prime minister – is expected to continue the policies formulated by the former administration.

Though the election result allows for political continuity, credit rating agencies Moody's and Fitch both warned that ongoing domestic political tension and uncertainty will prevail at least through the parliamentary elections in the middle of next year.

Besides, the new government took office during an economically challenging time. Economic growth, one of the pillars on which the popularity of the ruling AK Party is based, decelerated to 2.1% yoy in 2Q14 from 4.7% yoy in 1Q14. Major external vulnerability comes from the Middle East, which has been suffering from extensive conflicts and political unrest.

It is also worth noting that Turkey's decades-long bid to join the EU would be reinvigorated during Erdoğan's new tenure, according to his inauguration speech.

TURKEY

TURKISH LIRA SLIDES TO EIGHT-MONTH LOW

The Turkish lira closed at 2.261 liras per US dollar on 25 September, hitting the weakest level since early February. The slide came after the central bank had decided to leave all the interest rates unchanged to combat stubbornly high inflation.

The lira has depreciated by almost 8% against the US dollar starting late July, mainly due to geopolitical tensions caused by the advances of Islamic State of Iraq and the Levant (ISIS) along its border with Syria and Iraq. The depreciation was also attributable to rising expectations that the US would start to raise its interest rates in the spring, earlier than many investors had assumed before.

Exchange rate of the lira is particularly vulnerable to the global liquidity conditions, as the country runs a large amount of current account deficit, which is easier to finance at times of low interest rates. According to Turkey's central bank, the country's current account deficit amounted to US$26.8 billion in January-July, 38.8% less than that of the same period last year. The marked improvement was the result of a sharp depreciation of the lira against the US dollar and a continued reduction in foreign trade deficit. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Quantum index of medium and large-scale manufacturing (yoy growth %)*	4.9	10.0	8.0	-	-	-
Consumer price index (yoy growth %)*	7.5	7.5	7.5	7.0	7.0	6.9
Exports (yoy growth %)	4.8	16.0	7.2	3.5	-1.4	7.3
Exports (FOB, US$ mn)	2,413.7	2,411.7	2,722.2	2,800.2	2,982.7	2,159.5
Of which:						
Knitwear (US$ mn)	920.7	972.4	1,115.7	1,130.7	1,307.9	898.4
Woven garments (US$ mn)	993.4	945.0	1,092.3	1,183.1	1,210.1	815.3
Home textile (US$ mn)	72.4	77.1	79.2	63.6	59.2	56.8
Footwear (US$ mn)	33.5	33.3	50.2	56.4	64.2	61.5
Leather products (US$ mn)	31.6	27.6	20.8	22.0	22.9	17.7
Imports (yoy growth %)	25.5	28.5	19.0	10.2	3.0	-
Imports (C&F, US$ mn)	3,656.2	3,648.9	3,513.3	3,247.1	3,147.8	-

** 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

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Quarterly GDP (real yoy growth %)*	4.6(4Q13)		5.7(1Q14)		-	
Index of industrial production (yoy growth %)	-0.5	3.7	5.0	3.9	0.5	-
Manufacturing PMI (HSBC)	51.3	51.3	51.4	51.5	53.0	52.4
Wholesale price index (yoy growth %)	6.0	5.5	6.2	5.7	5.2	3.7
Consumer price index (yoy growth %)	8.3	8.6	8.3	7.5	8.0	7.8
Exports (yoy growth %)	-3.2	5.3	12.4	10.2	7.3	2.4
Exports (FOB, US$ mn)	29,578.4	25,634.1	27,998.5	26,479.7	27,727.6	26,958.2
Of which:						
Readymade garments (US$ mn)	1,522.0	1,275.9	1,388.9	1,425.0	1,452.7	1,383.8
Cotton yarn and fabrics (US$ mn)	814.1	744.5	772.0	794.0	887.0	935.5
Imports (yoy growth %)	-2.1	-15.0	-11.4	8.3	4.3	2.1
Imports (CIF, US$ mn)	40,085.8	35,720.0	39,233.2	38,243.0	39,956.2	37,796.8
Trade balance (US$ mn)	-10,507.3	-10,086.0	-11,234.7	-11,763.2	-12,228.6	-10,838.6

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

PAKISTAN

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Quantum index of large-scale manufacturing (yoy growth %)	-1.0	3.5	2.3	0.3	1.1	-
Consumer price index (yoy growth %)	8.5	9.2	8.3	8.2	7.9	7.0
Exports (yoy growth %)	4.9	-10.0	-1.2	-6.8	-7.9	-3.6
Exports (US$ mn)	2,239.0	1,915.0	2,117.0	2,027.4	1,929.5	1,910.9
Of which:						
Garments (US$ mn)	359.3	326.1	401.7	393.0	425.0	312.9
Cotton cloth (US$ mn)	250.2	220.3	227.3	197.7	211.6	190.0
Bed linen (US$ mn)	185.1	159.9	109.7	179.7	195.9	151.6
Towels (US$ mn)	73.5	60.0	72.0	65.7	64.1	49.3
Imports (yoy growth %)	-1.6	4.0	-15.4	10.1	-11.8	32.1
Imports (US$ mn)	3,630.0	4,067.0	3,675.0	4,338.0	3,364.9	4,718.0
Balance of trade (US$ mn)	-1,391.0	-2,152.0	-1,558.0	-2,310.6	-1,435.4	-2,807.1

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

TURKEY

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Quarterly GDP (real yoy growth %)	4.3(1Q14)		2.1(2Q14)		-	
Industrial production index*, manufacturing (yoy growth %)	4.3	4.0	2.9	1.4	3.4	-
Industrial turnover index*, manufacturing (yoy growth %)	18.3	17.5	16.7	13.6	12.7	-
Manufacturing PMI (HSBC)	51.7	51.1	50.1	48.8	48.5	50.3
Producer price index (yoy growth %)	12.3	13.0	11.3	9.8	9.5	9.9
Consumer price index (yoy growth %)	8.4	9.4	9.7	9.2	9.3	9.5
Exports (yoy growth %)	11.9	7.3	3.2	4.0	2.4	2.9
Exports (US$ mn)	14,683.1	13,376.6	13,706.4	12,899.6	13,367.6	11,439.8
Of which:						
Knitwear (US$ mn)	847.9	805.0	881.0	857.1	933.1	856.8
Woven garments (US$ mn)	565.3	513.4	533.8	539.3	587.3	511.4
Furniture (US$ mn)	249.8	257.5	278.9	249.6	246.8	211.2
Imports (yoy growth %)	-3.1	-9.5	-10.2	-1.1	-13.5	7.0
Imports (US$ mn)	19,932.0	20,649.7	20,864.7	20,778.0	19,869.4	19,475.6
Balance of trade (US$ mn)	-5,248.9	-7,273.2	-7,158.3	-7,878.4	-6,501.7	-8,035.9

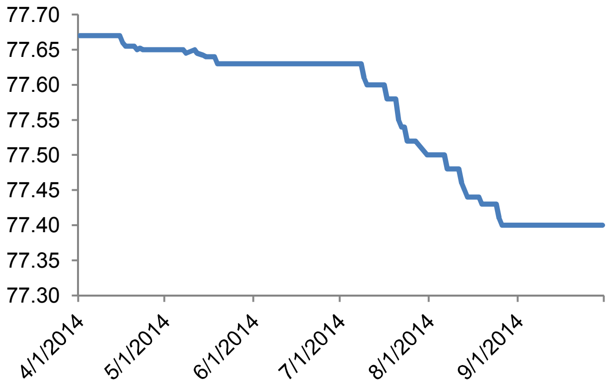
** Since January 2013, the base year of industrial production index and industrial turnover index has changed to 2010.*
Source: Turkish Statistical Institute, HSBC PMI reports

DAILY EXCHANGE RATES

APRIL - SEPTEMBER 2014

BANGLADESHI TAKA

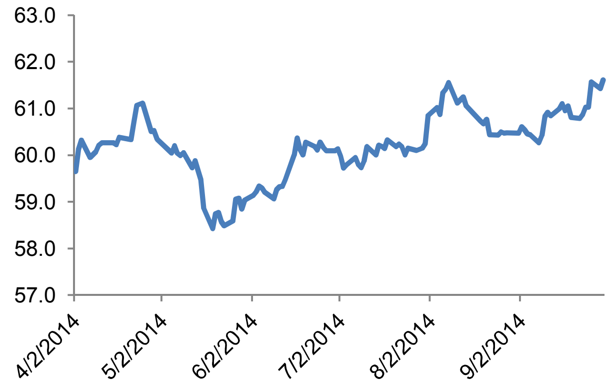
USD:BDT buy rate



Source: Bangladesh Bank

INDIAN RUPEE

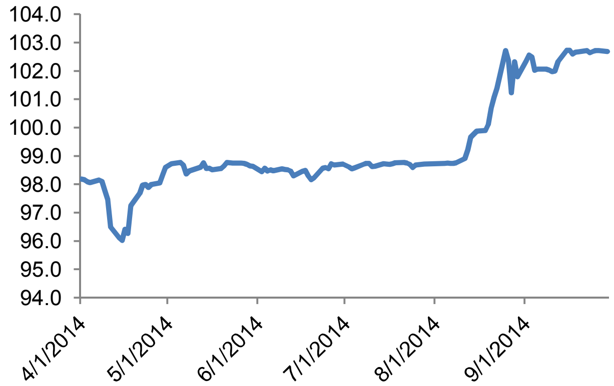
USD:INR RBI reference rate



Source: Reserve Bank of India (RBI)

PAKISTANI RUPEE

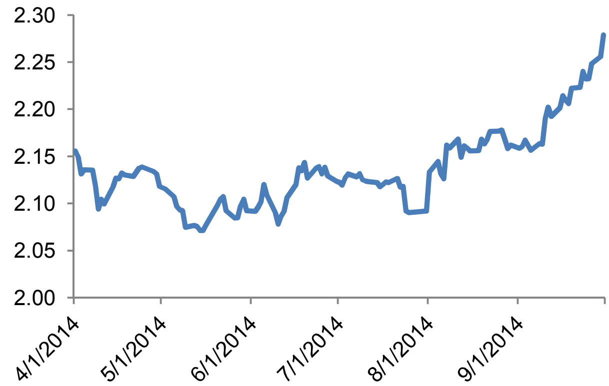
USD:PKR weighted average customer buy rate



Source: State Bank of Pakistan

TURKISH LIRA

USD:TRY buy rate



Source: Central Bank of the Republic of Turkey

THE FUNG BUSINESS INTELLIGENCE CENTRE

The Fung Group is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 45,000 people across 40 economies worldwide, generating total revenue of more than US$22.6 billion in 2013. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

The Fung Business Intelligence Centre, through its unique relationships, collects and analyses market data on China's economy, with special reference to sourcing, supply chains, distribution and retail. It also produces reports on sourcing and trading in other Asian countries and has recently expanded its research services on the global retail industry, where unprecedented change is being driven by technological innovation, the advent of multi-sales channels and greater supply chain efficiency.

Serving as a knowledge bank for the Fung Group, the Centre also makes its market data and analysis available to businesses, scholars and governments around the world. It is an impartial thought leader on issues shaping the future of manufacturing, distribution, logistics and retailing in China, and retailing globally. It regularly provides advice and consultancy services to internal and external clients.

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