



# ASIA SOURCING UPDATE

SOUTHEAST ASIA | SOUTH AND WEST ASIA

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# IN THE NEWS

## BANGLADESH



### EXPORT GROWTH REBOUNDED IN APRIL

After four consecutive months of weakened momentum, export growth re-accelerated to 16.0% yoy in April, with exports amounting to US\$2.41 billion (Exhibit 1). During the same month, garment exports rose 17.8% yoy to US\$1.92 billion.

In the first ten months of the current fiscal year (July 2013 - June 2014), garment exports grew 15.4% yoy. Over the same period, exports of woven garments amounted to US\$10.1 billion, registering a yoy growth of 13.9%; and knitwear exports surged by 17.0% yoy to US\$9.3 billion. So far, the performances of overall exports and exports of knitwear and woven garments have all achieved their respective targets set by the government, easing concerns over decelerated growth in previous months and news of buyers leaving the country due to factory compliance issue.

According to exporters, orders from international buyers have picked up since the beginning of the year as political tension eased after the national elections in January. However, these new orders may not be shipped before the second half of the year. As such, the impressive garment export figures in April may in fact represent the release of

backlogs, as is also the view held by Shahidullah Azim, vice president of the Bangladesh Garment Manufacturers and Exporters Association.

#### BANGLADESH

### EXPORTS OF LEATHER AND LEATHER PRODUCTS SURGED 43.6% YOY IN JULY 2013 - APRIL 2014

Exports generated by the leather industry, which includes the leather and leather product sectors, surged 43.6% to reach US\$621 million in July 2013 - April 2014 (see Exhibit 2 for details). The impressive performance was attributable to competitive pricing and quality improvement. As production cost has increased significantly in China, a growing number of orders are being diverted to the country.

Bangladesh exports leather products mainly to Italy, New Zealand, Poland, the United Kingdom, Belgium, France, Germany, the US, Canada and Spain. At the same time, Japan, India, Nepal and Australia are also emerging as major importers.

The Bangladeshi leather industry has huge potential to grow in the global leather and leather product market which is worth US\$230 billion, as it is supported by a ready supply of raw materials, favorable government policies and preferential tariff rates in major markets.

**Exhibit 1 | Bangladesh's exports in November 2013 - April 2014**

	Nov	Dec	Jan	Feb	Mar	Apr
Export value (billion US\$)	2.21	2.72	2.75	2.38	2.41	2.41
Year-on-year growth (%)	25.3	10.5	7.8	6.4	4.8	16.0

Source: *The Daily Star and the Export Promotion Bureau, Bangladesh*

## Exhibit 2 | Export performance of Bangladesh's leather industry

	Million US\$ (yoy growth)		
	Financial year 2011-2012	Financial year 2012-2013	First ten months of financial year 2013-2014
<b>Total</b>	<b>430 (21.6%)</b>	<b>561 (30.7%)</b>	<b>621 (43.6%)</b>
Leather	330 (10.9%)	400 (21.1%)	424 (33.9%)
Leather products	99 (79.3%)	162 (62.7%)	197 (70.1%)

Source: The Daily Star and the Export Promotion Bureau, Bangladesh

Note: The financial year in Bangladesh starts in July.

### BANGLADESH

#### BGMEA AND GIZ SIGNED A MOU FOR SUSTAINABLE MANUFACTURING

The Bangladesh Garment Manufacturers and Exporters Association (BGMEA) has signed a Memorandum of Understanding (MoU) with the German Society for International Cooperation (GIZ) to improve the environmental performance of Tier 2 textile and garment factories in Bangladesh. As defined by the Accord on Fire and Building Safety in Bangladesh, Tier 1 factories are facilities representing not less than 30% of any signatory company's annual production in Bangladesh by volume. Tier 2 factories are any remaining major or long-term suppliers to the signatory companies. Together, Tier 1 and Tier 2 factories should represent not less than 65% of any signatory company's production in Bangladesh by volume.

The agreement is part of the Promotion of Social and Environmental Standards in the Industry (PSES), a joint technical cooperation program between the EU and the governments of Bangladesh and Germany.

According to the MoU, GIZ will help Bangladeshi garment enterprises enhance their environment-friendly capacity. The cooperation will be implemented under the local initiative of "TREES" (Toward Resource Efficiency and Environmental Sustainability), a BGMEA project for the promotion of cleaner production practices and more eco-friendly technologies among its member factories.

The joint initiative aims to transfer existing knowledge and best practices from Tier 1 factories to Tier 2 factories. Under the initiative, a total of 16 Bangladeshi garment firms would be given support

on environmental issues such as energy conservation, management of chemicals, and implementation and operation of effluent treatment plants. ■



#### RUPEE STRENGTHENED TO AN ELEVEN-MONTH HIGH

The Indian rupee closed at 58.46 rupees per US dollar on 22 May, the highest level since mid-June last year. With a gain of 5.8% year-to-date, the Indian rupee has become the second-best performing currency against the US dollar among the Asian countries tracked by our *Asia Sourcing Update* (Only behind the Pakistani rupee, which appreciated by 6.6% year-to-date). The appreciation also represented a major turnaround since last August when the Indian rupee hit a historic low of 68.83 rupees per US dollar.

Steady inflows of foreign capital and continued selling of the US dollar by exporters have contributed to a strong rupee. Moreover, the unprecedented victory of the main opposition Bharatiya Janata Party (BJP) in the recent general election – winning a decisive majority in the parliament – has reignited hopes of structural reforms and better economic growth, thereby boosting investor confidence. In the last fiscal year ended on 31 March, total inflows of foreign direct investment (FDI) amounted to US\$24.3 billion, up by 8.4% yoy.

In the January-March quarter, India's GDP grew by 4.6% yoy. Stalled infrastructure investment and

structural bottlenecks have daunted the country's growth momentum in recent years.

#### INDIA

### MINIMUM WAGE IN DELHI INCREASED BY 5.8% STARTING IN APRIL

New minimum wage in Delhi was applicable for the period 1 April to 30 September. Monthly minimum wages for unskilled, semi-skilled and skilled workers in all scheduled employments covered by the Minimum Wage Act, except those employed in 'shops and establishments' and 'clubs', were raised to 8,554 rupees, 9,438 rupees and 10,374 rupees respectively, representing a 5.8% increase from the previous levels effective from October 2013.

In India, minimum wages are set at regional, sectoral and skill levels by each state or union territory according to the local conditions. Besides Delhi, a number of other states/union territories have also raised the minimum wage this year, including Maharashtra, West Bengal, Rajasthan, Karnataka, Tamil Nadu, Uttar Pradesh and Gujarat.

The Central Government introduced a National Floor Level Minimum Wage (NFLMW), the current level of which is 115 rupees per day, in order to unify wage structure and reduce the disparity in minimum wages across the country. It is worth noting that, at present, the NFLMW is non-statutory and is not legally binding upon the state governments.

#### INDIA

### NEW SECRETARIAT WILL BE SET UP TO SUPPORT ORGANIC COTTON SECTOR

Industry leaders from the Indian organic cotton sector are to set up a new secretariat to help the country to realize its potential in sustainable production of fiber. The move was agreed in Indore at the inaugural meeting of the Organic Cotton Roundtable, an event organized by CottonConnect and curated and funded by the C&A Foundation. Details of the Roundtable's discussion are

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published in a report entitled '*Time for Action: Key Issues and Actions Facing the Cotton Sector in India*'.

One of the primary actions agreed by the participants of the Roundtable is to set up an 'Organic & Fair Cotton Secretariat' to focus on industry policy, identify and leverage resources, and provide support services to accelerate the growth of India's organic cotton sector. Its long-term aims are to develop responsible organic cotton supply chains, create credible Indian organic brands, and improve the livelihood of smallholder organic cotton farmers.

Despite an increasing demand in international market, global production of organic cotton continues to decline. After continuous growth up to the year 2011, global yield of organic cotton fell in the following years, despite the fact that half of the production countries had increased their cultivation. This is due to the lack of knowledge regarding proper organic cultivation methods and the lack of cooperation within the organic farming sector.

Today, organic cotton accounts for only 1% of global cotton production. India is the second largest producer of organic cotton behind Turkey. According to Textile Exchange, a non-profit organization that promotes sustainable fibers, C&A used the largest volume of organic cotton in 2012, followed by H&M, Nike, Puma and Coop Switzerland.

A copy of the report can be downloaded from here: [http://www.cottonconnect.org/media/25522/time\\_for\\_action\\_report\\_april\\_2014.pdf](http://www.cottonconnect.org/media/25522/time_for_action_report_april_2014.pdf)



## PAKISTAN



### EXPORTS OF TEXTILES AND GARMENTS WITNESSED A SHARP DECLINE IN APRIL

After posting a 6.4% yoy growth in March, Pakistan's exports of textiles and garments recorded a sudden contraction of 6.1% yoy in April.

On a month-on-month basis, exports of textiles and garments dropped substantially by 14.6% to US\$1,054.9 million in April.

Compared with the previous month, all of the top five sub-categories witnessed negative growth in April (Exhibit 3). With a contraction of 26.9% mom, cotton yarn led the decline in exports, followed by bed wear (-13.6% mom) and woven garments (-13.1% mom). Exports of cotton cloth, which accounted for one-fifth of total exports of textiles and garments, fell by 12.0% mom in April, while exports of knitwear decreased by 5.6% mom.

Although the country has been granted the GSP Plus status by the EU, under which most of Pakistan's products enjoy zero or reduced tariffs to the EU market, Pakistan's exports of textiles and garments are expected to see slow growth this year. Additional production capacity takes time to build to take full advantage of the trade benefits, and prolonged energy shortage has dented the prosperity of the sector. Sharp appreciation of the Pakistani rupee against the US dollar in recent months also makes Pakistani products less competitive in the export market.

The Pakistani government is going to unveil new textile policies for the next five years by the end of June, with a target to boost the country's annual exports of textiles and garments to US\$26 billion by five years' time.

## PAKISTAN

### VARIOUS POWER PROJECTS ARE UNDERWAY TO OVERCOME ENERGY SHORTAGES

As the country suffers from ten hours of load-shedding per day on average, the Pakistani government is ramping up efforts to construct various power projects to overcome one of the most acute power crises in its history.

The Uch II Power Plant, located in the southwestern province of Balochistan, was inaugurated in late April. With a capacity of 404 megawatts, the power plant is expected to meet up to 3% of the country's annual electricity needs. Recent discoveries of untapped coal fields in the south of Pakistan have convinced the government to carry out a fuel switching plan by converting many of the country's existing oil-based thermal plants to coal-fired ones. A number of power projects using renewable energy resources and technologies, such as the Jhimpir Wind Power Plant in Sindh and the solar power projects in Punjab, are also prominent steps to tackle power shortages.

Pakistan stands at 175 in the ranking of 189 economies on the ease of getting electricity, according to the World Bank's *Dong Business Report 2014*. Currently, many businesses operating in the country have to rely on self-generated electricity.

**Exhibit 3 | Pakistan's exports of textiles and garments**

	April 2014			July 2013 - April 2014	
	Export value (million US\$)	yoy growth (%)	mom growth (%)	Export value (million US\$)	yoy growth (%)
<b>Total</b>	<b>1,054.9</b>	<b>-6.1</b>	<b>-14.6</b>	<b>11,437.6</b>	<b>6.5</b>
<b>Top five sub-categories</b>					
Cotton cloth	220.3	-7.4	-12.0	2,346.8	5.5
Knitwear	174.3	16.0	-5.6	1,842.1	10.7
Bed wear	159.9	6.7	-13.6	1,767.3	20.4
Woven garments	151.8	-6.8	-13.1	1,580.8	7.5
Cotton yarn	134.1	-30.0	-26.9	1,708.1	-8.2

Source: Pakistan Bureau of Statistics

## PAKISTAN

### DISNEY WITHDRAWS FROM PAKISTAN

Starting on 1 April, US licensor Walt Disney has dropped Pakistan from its list of 'Permitted Sourcing Countries' and banned any import from the country. Last year, it was reported that Disney had decided to phase out gradually the sourcing of Disney-branded products from Pakistan as the country had failed to satisfy the company of its intentions to improve on governance standards and working conditions. It has been estimated that the move will lead to the loss of annual export orders worth US\$150 million for the country.

The Walt Disney Company's International Labor Standards (ILS) Program uses the World Bank's Worldwide Governance Indicators (WGI) as the main tool to assess relative country risks. Countries where the International Labor Organization (ILO) and the International Finance Corporation (IFC) operate the Better Work program are also included in the list of permitted sourcing countries.

The company's permitted sourcing countries fall into three groups: those with a WGI ranking of over 65%; those with a WGI ranking of 31% or above and with the ILS audits; and countries with a WGI ranking below 31% but has implemented a ILO/IFC's Better Work program. Pakistan failed to satisfy any of these requirements as it ranked only 19% in the WGI, and does not have a Better Work program in place. ■

## TURKEY



### EXPORT GROWTH REBOUNDED TO 12.4% YOY IN MARCH

Exports from the country rose markedly by 12.4% yoy to reach US\$14.7 billion in March, after posting slower growth of 8.3% yoy and 5.7% yoy in January and February respectively. Exports to the EU grew by 11.3% in 1Q14 compared to the same

quarter last year, indicating that the EU market has been recovering strongly.

Exports of knitwear and woven garments gained 8.1% yoy and 5.8% yoy respectively in March, while exports of furniture increased by 4.8% yoy during the same month. In 1Q14, exports of these three product categories rose by 10.6% yoy, 6.8% yoy and 7.1% yoy respectively.

While new export orders expanded at the highest rate in over three years, domestic demand remained sluggish, dragging the overall growth of the country's manufacturing sector. The Purchasing Managers' Index (PMI) – an indicator of the economic health of the manufacturing sector – has declined for two consecutive months, from 53.4 in February to 51.7 in March and 51.1 in April. (A PMI reading below 50 indicates an overall contraction in the manufacturing sector.) Individual indices of the PMI suggest that the growth moderation was attributable to the weak domestic demand.

## TURKEY

### TEXTILE COMPANIES EYE ETHIOPIA FOR OPPORTUNITIES

Turkish clothing companies are tapping into Ethiopia for manufacturing and sourcing opportunities in recent years. In 2013, Istanbul-based Ayka Addis Textile and Investment Group got approval from Ethiopia's Ministry of Industry to establish an industrial zone in the country. In January 2014, MNS Manufacturing, another Turkish textile company, invested more than US\$60 million into Ethiopia. The company has already started producing polyester, home textiles, carpets and towels in Ethiopia, according to the Ethiopian Textile Industry Development Institute (ETIDI). ETIDI also reported in late March that Akber, a Turkish textile manufacturing firm, is going to build the largest textile plant worth US\$175 million in the Ejere town of the Oromia region.

The government of Ethiopia has identified textile and garment as a priority industry in its five-year

Growth and Transformation Plan. It aims at boosting the gross production value and the foreign exchange revenue generated by the textile and garment industry to US\$2.5 billion and US\$1.0 billion, respectively, by the end of 2015. Fassil Tadesse, president of the Ethiopian Textile and Garment Manufacturers Association, believes that an abundance of cheap labour and low energy costs are two major benefits that the country can offer to foreign investors.

Notwithstanding these advantages, a shortage of cotton is a serious challenge facing textile companies operating in Ethiopia. According to ELSE Addis Industrial Development, a Turkish textile factory, these companies are required to set up their own cotton farming and ginning factory in the country, as an attempt to mitigate the problems arising from the low quality and insufficient supply of cotton in the domestic market. Besides, due to the scarcity of skilled workers, foreign companies operating in the country need to allocate sufficient resources to training.

## TURKEY

### UNIQLO PLANS TO MAKE TURKEY ITS PRODUCTION HUB FOR EUROPEAN MARKETS

The Japanese casual wear company Uniqlo announced in May its plan to open an office in Istanbul in October this year, according to local media. Turkey is set to become a production hub for the company to boost exports to Europe, a market where the company sees high growth potential.

According to Yoshihiro Kunii, Uniqlo Group's Executive Vice President for Production, Turkey will become the company's fifth production hub in the world, following India, China, Americas and Southeast Asia. Recognizing Turkey's capability of designing and producing high-quality fashion products, the company would like to forge a long-term partnership with the country.

As the primary subsidiary of the Fast Retailing group, Uniqlo targets to raise sales to US\$50

billion in 2020 and expand further in overseas markets. Currently, the company operates around 1,400 stores in 16 countries. ■

# MAJOR ECONOMIC INDICATORS

## BANGLADESH

	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14
Quantum index of medium and large-scale manufacturing (yoy growth %)*	12.1	7.0	-	-	-	-
Consumer price index (yoy growth %)*	7.2	7.4	7.5	7.4	7.5	7.5
Exports (yoy growth %)	25.3	10.5	7.8	6.4	4.8	16.0
Exports (FOB, US\$ mn)	2,212.4	2,726.2	2,753.8	2,389.4	2,413.7	2,411.7
<i>Of which:</i>						
Knitwear (US\$ mn)	877.6	1,048.9	1,045.8	915.8	920.7	972.4
Woven garments (US\$ mn)	889.4	1,230.0	1,195.2	1,049.6	993.4	945.0
Home textile (US\$ mn)	54.4	52.4	92.2	57.8	72.4	77.1
Footwear (US\$ mn)	44.9	47.8	52.9	37.8	33.5	33.3
Leather products (US\$ mn)	17.6	17.0	28.1	15.0	31.6	27.6
Imports (yoy growth %)	10.6	29.9	8.2	15.7	25.6	-
Imports (C&F, US\$ mn)	3,235.5	3,338.1	3,644.6	3,017.7	3,659.6	-

\* 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

	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14
Quarterly GDP (real yoy growth %)*	4.6(3Q13)		4.6(4Q13)		-	
Index of industrial production (yoy growth %)	-1.3	0.1	0.8	-1.8	-0.5	-
Manufacturing PMI (HSBC)	51.3	50.7	51.4	52.5	51.3	51.3
Wholesale price index (yoy growth %)	7.5	6.4	5.1	5.0	5.7	5.2
Consumer price index (yoy growth %)	11.2	9.9	8.8	8.1	8.3	8.6
Exports (yoy growth %)	5.9	3.5	3.8	-3.7	-3.2	5.3
Exports (FOB, US\$ mn)	24,613.0	26,346.1	26,752.0	25,688.9	29,578.4	25,634.1
<i>Of which:</i>						
Readymade garments (US\$ mn)	1,023.8	1,245.0	1,453.5	1,412.8	1,522.0	-
Cotton, yarn and fabrics (US\$ mn)	701.4	739.9	851.4	728.5	814.1	-
Imports (yoy growth %)	-16.4	-15.3	-18.1	-17.1	-2.1	-15.0
Imports (CIF, US\$ mn)	33,833.0	36,486.3	36,666.0	33,819.1	40,085.8	35,720.0
Trade balance (US\$ mn)	-9,220.0	-10,140.3	-9,914.0	-8,130.2	-10,507.3	-10,086.0

\* Financial year in India starts in April.

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

## PAKISTAN

	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14
Quantum index of large-scale manufacturing (yoy growth %)	2.7	11.4	3.0	1.1	-	-
Consumer price index (yoy growth %)	10.9	9.2	7.9	7.9	8.5	9.2
Exports (yoy growth %)	-3.2	26.1	1.9	18.1	4.9	-10.0
Exports (US\$ mn)	1,804.0	2,275.0	2,061.0	2,167.0	2,239.0	1,915.0
<i>Of which:</i>						
Garments (US\$ mn)	306.1	378.4	358.2	333.5	359.3	326.1
Cotton cloth (US\$ mn)	194.1	248.9	210.8	237.2	250.2	220.3
Bed linen (US\$ mn)	152.4	180.9	168.2	167.8	185.1	159.9
Towels (US\$ mn)	54.5	71.2	55.5	62.3	73.5	60.0
Imports (yoy growth %)	11.3	-2.5	9.9	6.4	-1.6	4.0
Imports (US\$ mn)	3,651.0	3,561.0	4,137.0	3,600.0	3,630.0	4,067.0
Balance of trade (US\$ mn)	-1,847.0	-1,286.0	-2,076.0	-1,433.0	-1,391.0	-2,152.0

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

## TURKEY

	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14
Quarterly GDP (real yoy growth %)	4.4(4Q13)			-		-
Industrial production index*, manufacturing (yoy growth %)	5.7	7.2	7.4	4.1	4.3	-
Industrial turnover index*, manufacturing (yoy growth %)	16.3	17.7	23.4	20.4	18.2	-
Manufacturing PMI (HSBC)	55.0	53.5	52.7	53.4	51.7	51.1
Producer price index (yoy growth %)	5.7	7.0	10.7	12.4	12.3	13.0
Consumer price index (yoy growth %)	7.3	7.4	7.8	7.9	8.4	9.4
Exports (yoy growth %)	3.2	4.6	8.3	5.7	12.4	-
Exports (US\$ mn)	14,196.1	13,180.3	12,433.7	13,093.5	14,747.5	-
<i>Of which:</i>						
Knitwear (US\$ mn)	914.2	763.7	826.3	765.4	851.3	-
Woven garments (US\$ mn)	509.5	455.0	523.5	522.8	567.3	-
Furniture (US\$ mn)	278.4	278.4	232.0	218.5	250.5	-
Imports (yoy growth %)	2.2	16.7	2.6	-5.9	-3.0	-
Imports (US\$ mn)	21,403.4	23,137.7	19,292.1	18,249.0	19,942.9	-
Balance of trade (US\$ mn)	-7,207.3	-9,957.4	-6,858.4	-5,155.5	-5,195.4	-

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

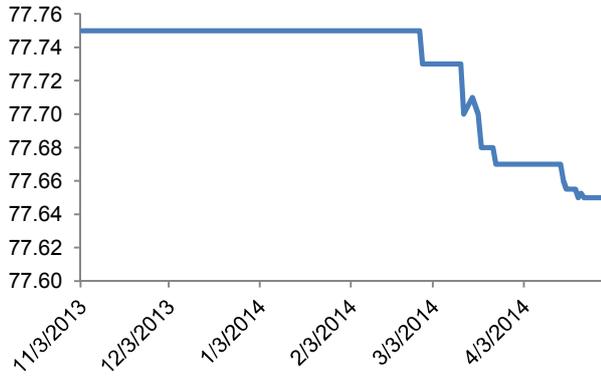
Source: Turkish Statistical Institute, HSBC PMI reports

# DAILY EXCHANGE RATES

## NOVEMBER 2013 - APRIL 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

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It also produces reports on sourcing and trading in other Asian countries. More than 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 has become an impartial thought leader on issues shaping the future of manufacturing, distribution, logistics and retailing in China, and regularly provides advice and consultancy services to internal and external clients of the Fung Group.

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