ASIA SOURCING UPDATE

SOUTHEAST ASIA | SOUTH AND WEST ASIA

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IN THIS ISSUE

Global Sourcing,
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HIGHLIGHTS

CAMBODIA » P.2

- World Bank predicts Cambodia's economic growth to slow slightly
- Garment exports grow 11% yoy in 1Q15
- Various projects underway to boost electricity supply

INDONESIA » P.3

- Government launches ambitious project to boost electricity generation capacity
- Central Java now focal point of textile industry relocation
- China promises more investment as bilateral relationship deepens

THE PHILIPPINES » P.4

- Exports rebound in March
- Daily minimum wage in Metro Manila raised by 15 pesos
- Deadly factory fire highlights worker safety concerns

THAILAND » P.5

- General election postponed
- Baht slips to six-year low
- Footwear industry to see slow growth this year

VIETNAM » P.6

- Government devalues dong after record trade deficit
- Government becomes more selective towards foreign-invested projects
- Foreign investors' requests for easing overtime restrictions rejected

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IN THE NEWS

CAMBODIA

WORLD BANK PREDICTS CAMBODIA'S ECONOMIC GROWTH TO SLOW SLIGHTLY

In its *East Asia and Pacific Economic Update* released in April, the World Bank predicts that the real GDP growth in Cambodia will moderate slightly from 7.0% yoy last year to 6.9% yoy in 2015 and 2016, and 6.8% yoy in 2017. The slowdown is attributable in part to the concerns over reduced competitiveness in the garment industry and the modest growth in the agricultural sector amid weak agricultural commodity prices.

The garment industry, which accounted for 77% of the country's total exports last year, is facing increasing challenges. The 28% wage increase at the beginning of this year makes Cambodia's garment exports less competitive among its neighbouring sourcing countries. At the same time, the appreciation of the US dollar, to which the Cambodian riel is pegged, also makes garment exports to the EU – the largest export market for Cambodia's garments – less competitive in euro terms.

According to Ken Loo, secretary general of the Garment Manufacturers Association of Cambodia (GMAC), only 13 new export-oriented garment factories opened in 1Q15, compared to 40 export-oriented factories opened in the same period last year.

While the World Bank's prediction is among the least optimistic, the Asian Development Bank and Cambodia's Prime Minister both forecast that Cambodia's real GDP growth will accelerate to 7.3% yoy in 2015.

CAMBODIA

GARMENT EXPORTS GROW 11% YOY IN 1Q15

Cambodia exported US$1.73 billion worth of garments in 1Q15, up by 11% over the same period last year, according to data from the Ministry of Commerce. The figure points to a possible recovery of the garment industry, which grew a mere 4% yoy in terms of export value in 2014 due to falling orders.

By export destination, Cambodia's garment exports to the EU increased by 16% yoy to US$680 million in the first quarter, while those to the US fell 1% yoy to US$537 million. Garment exports to other markets rose 21% yoy to US$521 million, indicating that the country's efforts in diversifying its export markets have started to pay off.

The EU has accounted for an increasingly large share in Cambodia's garment exports, overtaking the US as the largest export market for Cambodia's garments. This is due mainly to the duty-free privileges granted by the EU to Cambodia under the "Everything but Arms" arrangement.

As labour strikes over minimum wage have gradually subsided, the growth of garment exports is likely to accelerate in the rest of the year.

CAMBODIA

VARIOUS PROJECTS UNDERWAY TO BOOST ELECTRICITY SUPPLY

Cambodia's state energy provider Electricité du Cambodge (EDC) announced in March its plan to develop a high-voltage distribution network that can enhance the transmission capacity in a number of provinces along the Tonlé Sap Lake.

The project, funded by a concessional loan from China, will include the construction of a distribution network connecting Battambang, a province in north-western Cambodia, to the Siem Reap, Kampong Thom and Kampong Cham provinces. Another network will also be constructed to connect the Kampong Speu province to Takhmao, a city in the Kandal province, via a circular-grid network crossing the Tonlé Sap Lake, upper and lower Mekong River and Bassac River. To be completed over the next three years, together the new grids will extend the existing networks by about 450 kilometres in length.

To meet the growing domestic demand for power and reduce the reliance on imported electricity, Cambodia has been actively developing electricity generation capacity by coal and hydropower.

The Russei Chrum Krom River hydroelectric dam has begun operating in January. With power generation capacity of 338 megawatts, the dam is so far the largest hydropower station in Cambodia. It is the fifth dam built by Chinese investors in the country. The sixth one, with power generation capacity of 246 megawatts, will also become operational later this year. ■

INDONESIA

GOVERNMENT LAUNCHES AMBITIOUS PROJECT TO BOOST ELECTRICITY GENERATION CAPACITY

On 4 May, Indonesia's President Joko Widodo launched an ambitious power plant development project to create 35,000 megawatt (MW) of additional electricity generation capacity in the next five years.

The project will build power plants in 210 locations in Sumatra, Java, Kalimantan, Sulawesi and other areas in eastern Indonesia. These constructions will cost around 1,100 trillion rupiah (US$84 billion) and will provide 650,000 permanent jobs and 3 million non-permanent jobs, according to the Energy and Mineral Resources Minister Sudirman.

The growth of electricity generation capacity in Indonesia has long lagged behind the growth of electricity demand, leading to frequent power shortages and a low electrification ratio. The country currently has the capacity to generate around 50,000 MW of electricity – 60% of which were built in the last seven decades. The government's project to add 35,000 MW in the next five years, if delivered as planned, will bring a huge increase in the country's electricity generation capacity.

INDONESIA

CENTRAL JAVA NOW FOCAL POINT OF TEXTILE INDUSTRY RELOCATION

According to the Directorate General for National Export Development of Indonesia's Ministry of Trade, textile and garment manufacturers from the US, EU, China, South Korea, and Vietnam are now looking at the possibility of relocating their Indonesian production facilities to Central Java. At the same time, the Indonesia Investment Coordinating Board (BKPM) has also revealed that a number of investors from the Chinese Mainland and Taiwan are eyeing investment potential in Central Java, especially in labour-intensive industries.

Central Java has become an attractive location for textile and garment investment because of its favorable investment climate. The province also has infrastructure in place so that it is easily accessed by land, air and sea. The availability of human resources at a relatively low cost is also a major draw, especially as minimum wages in Indonesia's maturing industrial locations have climbed rapidly in recent years.

However, the lack of skilled labour in Central Java may pose a serious challenge for the textile and garment sector. According to Agung Wahono, Chairman of the Indonesian Textile Association (API) of Semarang, while the number of textile and garment factories in Central Java are expected to grow about 10% a year, currently only 30% of the workers there are skilled.

INDONESIA

CHINA PROMISES MORE INVESTMENT AS BILATERAL RELATIONSHIP DEEPENS

In March, Indonesian president Joko Widodo met with Chinese president Xi Jinping at the Great Hall of the People in Beijing. The two leaders discussed various bilateral issues and witnessed the signing of several memorandums of understanding (MoU) on issues of finance, industry, infrastructure, natural disaster management and aerospace.

In April, the two leaders met again during the Asian-African Conference in Jakarta. This time, they further agreed to formulate priority projects and an action plan for comprehensive strategic partnership. Widodo also invited China to participate in Indonesia's maritime infrastructure development projects, especially for deep seaports, and Xi also vowed to expand Chinese investment in Indonesia.

On the same day after the meeting, investment fund China Minsheng Investment (CMI) announced its plan to lead a group of Chinese private enterprises to invest US$5 billion in Indonesia. Areas that the CMI is considering to invest include coal, chemicals, iron and steel, power generation, cement, infrastructure, ports and Internet-related industries. ■

PHILIPPINES

EXPORTS REBOUND IN MARCH

Following year-on-year declines recorded in December last year, January and February, Philippines' exports grew 2.1% yoy to US$5.4 billion in March. In the first quarter of 2015, exports fell slightly by 0.2% yoy to US$14.2 billion.

In March, growths in the exports of manufactured and mineral products more than offset the declines in agro-based and petroleum products, leading to the overall rebound of exports in the month. By major export category, exports of electronics, machinery and apparel grew 4.5% yoy, 42.4% yoy and 15.3% yoy, respectively, in March, while exports of woodcraft and furniture continued the downward trend and fell 29.8% yoy in the same month. It is worth noting that the exports of travel goods and handbags have become a bright spot among the country's top 20 categories, with year-on-year growth rates of 85.5% in March and 99.1% in the first quarter.

By export destination, exports to Japan, the largest export market for the Philippines, continued to contract at a double-digit pace in March, while those to the US, China and the EU grew 23.2%, 4.8% and 13.3%, respectively, over the same month last year.

PHILIPPINES

DAILY MINIMUM WAGE IN METRO MANILA RAISED BY 15 PESOS

The Regional Wage Board of the Department of Labour and Employment (DOLE) approved in mid-March to raise the daily minimum wage in the National Capita Region (NCR) by 15 pesos. Starting from 4 April, minimum wage for non-agriculture workers in the NCR has increased to 481 pesos per day, while that for agriculture workers has increased to 444 pesos per day.

The decision is in line with the Philippine government's policy to make regular, moderate and predictable minimum wage adjustments. It takes into account the current inflation rate, employers' ability to pay, and the possible effect of the wage hike on inflation and employment, etc. The wage adjustment benefits around 12.5% of all workers in Metro Manila, while the rest are already paid above the prescribed level.

The wage increase, however, fails to meet workers' demand. On 22 March, some workers gathered in Manila to protest against the 15-peso wage hike, arguing that the adjustment was far from sufficient to support a family. Kilusang Mayo Uno (KMU), one of the members of the All Workers' Unity (AWU) group, called for a national monthly minimum wage of 16,000 pesos. Meanwhile, the Trade Union Congress of the Philippines (TUCP) demanded a 136-peso increase in the daily minimum wage.

PHILIPPINES

DEADLY FACTORY FIRE HIGHLIGHTS WORKER SAFETY CONCERNS

On 13 May, a huge fire broke out in a two-storey rubber slipper factory and killed 72 workers, who were reportedly trapped on the second floor of the building by steel bars on the windows. The factory, located in Valenzuela, a suburb in the north of Manila, was operated by Kentex Manufacturing to produce rubber flip-flops and sandals for the local market.

According to local media, the five-hour blaze was caused by sparks from welding work at the factory's main entrance, triggering an explosion of the flammable chemicals used to make slippers. Survivors said the factory's main gate was padlocked, with only a small door opened when the fire broke out. Some of them climbed over a perimeter wall to get out of the factory.

The deadly fire highlights the workplace safety risks in the country. Local labour groups attributed the accident to lax implementation of safety rules and a lack of site inspections by the government. The accident could tarnish the reputation of the Philippines' manufacturing sector, which has been considered as more compliant with labour standards among its regional counterparts.

The timing of the accident also embarrassed the government, which just reiterated publically its commitment to upholding labour standards in this past Labour Day. In April, the Department of Labour and Employment (DOLE) signed an agreement with the Foreign Buyers Association of the Philippines (FOBAP) for ensuring Philippine exporters to enforce the labour and social compliance standards outlined in the country's Labour Laws Compliance System (LLCS), as well as to meet the basic human rights standards required by major importing countries. ■

THAILAND

GENERAL ELECTION POSTPONED

The military government had said earlier that a general election would be held in February next year, but failed to deliver on the promise. On 19 May, a deputy prime minister informed the press that the polls would now take place in August at the earliest to allow for a referendum on the new constitution and the military's blueprint for restoring democracy.

It has been one year since the military takeover. During the past year, the military government has brought peace and order back to the country, and has received widespread support from the public. However, the government has so far failed to improve the Thai economy as promised. In April, consumer confidence fell to the lowest level since last June, as consumers are concerned about the high cost of living and the sluggish domestic economy, according to the University of the Thai Chamber of Commerce. In the first quarter, GDP grew by a slower-than-expected 3.0% from the same period last year due to weak domestic consumption, private investment and exports.

The military government has lifted the ten-month long martial law in most part of the country, but still reserves the broad power to make any order in the name of national security under Article 44 of the constitution. Business leaders have expressed optimism over the removal of the martial law, which can help promote a better business environment, particularly for tourism.

THAILAND

BAHT SLIPS TO SIX-YEAR LOW

On 12 May, the Thai baht (THB) weakened suddenly to 33.90 against the US dollar, the lowest level in almost six years, as foreign investors shunned local assets over concerns about Thailand's economic prospects. On 20 May, the USD/THB exchange rate closed at 33.59, representing a depreciation of 3.5% from a month ago and 2.0% year-to-date, according to daily spot rates provided by Bloomberg.

The sharp depreciation of the baht followed the monetary policy of the Bank of Thailand (BOT), which cut the policy rate by another 25 basis points for the second consecutive month on 29 April. The baht is expected to remain volatile in the next few months, due mainly to uncertain external factors such as the timing of the US interest rate hike, Greece's debt negotiation with other eurozone members, and the slowdown of China's economy, according to a senior director of the BOT.

The weak baht may give some relief to Thailand's exporters. The country's exports posted year-on-year contractions in each of the first three months of this year, as falling rubber and oil prices affected the export revenue of related products.

THAILAND

FOOTWEAR INDUSTRY TO SEE SLOW GROWTH THIS YEAR

Thailand's footwear exports fell 1.3% yoy to US$53.8 million in March, according to data from the Bank of Thailand (BOT). In the first quarter, footwear exports dropped 5.8% from the same period last year.

The country's footwear industry, which relies heavily on export markets, is expected to see only slow growth this year, due mainly to weak demand from major export markets such as the US and the EU, according to Mingpant Chayavichitsilp, chairman of the footwear club under the Federation of Thai Industries.

Thai footwear manufacturers have to compete in the middle and upper markets, as the high labour cost makes the country uncompetitive against other low-cost production countries such as Cambodia, Vietnam and Indonesia. Currently, several international brands including ECCO, Buddy, Camel Shoe, Clicks and Stuttgart have set up their production base in Thailand. The country's geographic location as the logistics hub in ASEAN makes it attractive for international brands, according to Mr. Mingpant.

In 2014, Thailand's footwear exports amounted to US$764.7 million, up by 7.2% from 2013, according to the BOT. In terms of export volume, the country was ranked as the 10th largest footwear exporter to the US in 2014, down one spot from the previous year, according to Footwear Distributors and Retailers Association of America (FDRA). ■

VIETNAM

GOVERNMENT DEVALUES DONG AFTER RECORD TRADE DEFICIT

According to the country's General Statistics Office (GSO), in January-April, Vietnam's exports rose 8.2% yoy to US$50.1 billion, among which exports of textile and garments rose 10.2% yoy to US$6.6 billion. With imports surging 19.9% yoy to US$53.1 billion in the same period, the country is left with a trade deficit of US$3.0 billion.

The deficit is attributable to the huge increase in imports of machinery and electronics parts, which reached US$17.1 billion in the first four months of the year, up 36.6% from a year ago. The increase in imports of machinery represents, in part, exporters' plans to expand capacity.

In response to the record trade deficit, the Vietnamese government devalued the dong by 1% for the second time this year on 7 May to spur exports and curb demand for imports. The

Vietnamese dong is expected to depreciate further, as it has weakened by merely 2% (including this latest round of depreciation) since the beginning of the year, compared to the 4-5% depreciation of other currencies in the region.

VIETNAM

GOVERNMENT BECOMES MORE SELECTIVE TOWARDS FOREIGN-INVESTED PROJECTS

Vietnam licensed 448 new FDI projects worth US$2.67 billion in the first four months of the year, down 17.1% in terms of investment value compared with the same period last year. In the period, investors were also permitted to infuse US$1.01 billion of capital in 167 existing projects. While the amount of pledged investment capital have shrunk from last year, actual disbursement has risen by 5% to US$4.2 billion, according to the Foreign Investment Department.

This indicates that the country as a whole is now becoming more selective when licensing foreign-invested projects. At the same time, different local governments are implementing different policies. The special municipality (managed by the central government) of Da Nang, for example, has recently rejected over environmental issues two multi-million dollar foreign projects. Other more affluent provinces have also stopped licensing projects in textile and dyeing, leather and footwear manufacturing.

On the other hand, provinces such as Binh Dinh are still welcoming foreign-invested textile and garment projects. A number of projects in Binh Dinh have recently been granted investment certificates. They include the Onewoo garment project, which has a registered capital of US$6 million, and the Tam Thang textile-garment and dyeing project, which has a registered capital of US$30 million. Both projects are financed by South Korean companies.

VIETNAM

FOREIGN INVESTORS' REQUESTS FOR EASING OVERTIME RESTRICTIONS REJECTED

The Labour Code 2013 has for the first time stipulated the maximum overtime hours that a Vietnamese employee may work. In addition to the requirement that regular working hours may not exceed 10 hours per day or 48 hours per week, the Labour Code also sets the maximum overtime hours that an employee is allowed to work at 50% of the employee's regular working hours in one day, 30 hours in a month, and 200 hours in a year. In special circumstances, which often apply to the textile and garment sector, an employer can extend the limit to 300 hours a year.

South Korean businesses in Vietnam, most of which are operating in textile, garment, woodwork and processing sectors, have asked the Vietnamese government to increase the maximum overtime hours in a year to 360-400 hours. They claimed that the current cap is too low and many workers are not skilled enough to be reasonably productive. Japanese and European businesses had also made similar requests before.

The Vietnamese government has recently decided to deny these requests on the ground that excessive working hours will make workers vulnerable to accidents. A government official has suggested, instead, that employers should invest more in machineries to help boost productivity. ■

MAJOR ECONOMIC INDICATORS

INDONESIA

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Quarterly GDP (real yoy growth %)	5.0(4Q14)			4.7(1Q15)		
Production index of large and medium manufacturing (yoy growth %)	4.8	6.4	5.4	3.1	6.7	-
Manufacturing PMI (HSBC)	48.0	47.6	48.5	47.5	46.4	46.7
Real retail sales index (yoy growth %)	11.4	3.8	10.9	16.5	19.9	-
Consumer price index* (yoy growth %)	6.2	8.4	7.0	6.3	6.4	6.8
Exports (yoy growth %)	-14.6	-13.8	-8.1	-16.0	-9.8	-8.5
Exports (FOB, US$ mn)	13,615.9	14,621.3	13,300.9	12,289.1	13,710.8	13,083.7
Of which:						
Textile and textile products (US$ mn)	920.1	1,189.5	1,016.9	991.6	1,120.7	-
Footwear (US$ mn)	378.8	399.9	395.5	330.7	342.4	-
Furniture (US$ mn)	135.7	156.8	143.2	149.2	160.6	-
Sports requisites (US$ mn)	35.3	39.4	36.0	30.2	36.3	-
Imports (yoy growth %)	-7.3	-6.6	-15.6	-16.2	-13.4	-22.3
Imports (US$ mn)	14,041.6	14,434.5	12,591.5	11,550.8	12,579.2	12,629.3

Source: Statistics Indonesia, Bank Indonesia, HSBC PMI reports

PHILIPPINES

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Quarterly GDP (real yoy growth %)	6.9(4Q14)			-		
Value of production index, manufacturing (yoy growth %)	6.9	3.4	-0.8	-6.3	7.4	-
Volume of production index, manufacturing (yoy growth %)	9.1	6.4	4.3	-0.8	13.6	-
Producer price index (yoy growth %)	-2.0	-2.8	-4.9	-5.5	-5.4	-
Consumer price index (yoy growth %)	3.7	2.7	2.4	2.5	2.4	2.2
Exports (yoy growth %)	21.7	-3.2	-0.5	-3.1	2.1	-
Exports (FOB,US$ mn)	5,261.7	4,800.6	4,356.8	4,512.7	5,376.8	-
Of which:						
Woodcrafts and furniture (US$ mn)	359.4	201.7	166.4	202.3	260.0	-
Garments (US$ mn)	132.1	154.9	160.9	150.5	193.3	-
Imports (yoy growth %)	-10.8	-10.6	-14.2	11.2	-6.8	-
Imports (FOB, US$ mn)	5,495.0	4,868.8	5,108.3	5,326.2	5,112.6	-
Balance of trade (US$ mn)	-233.3	-68.2	-751.5	-813.5	264.2	-

Source: National Statistics Office, National Statistical Coordination Board

THAILAND

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Quarterly GDP (real yoy growth %)	2.1(4Q14)			3.0(1Q15)		
Industrial production index (value added weight, not seasonally adjusted, yoy growth %)	-3.7	-0.1	-0.8	3.0	-1.8	-
Producer price index (yoy growth %)	-1.7	-3.6	-5.4	-4.9	-5.0	-5.4
Consumer price index (yoy growth %)	1.3	0.6	-0.4	-0.5	-0.6	-1.0
Exports (yoy growth %)	-1.0	1.9	-3.5	-6.1	-4.4	-
Exports (US$ mn)	18,567.8	18,790.0	17,248.6	17,229.8	18,886.4	-
Of which:						
Textiles and apparel (US$ mn)	602.2	627.6	579.4	545.5	605.8	-
Furniture (US$ mn)	97.7	97.7	88.7	94.0	101.6	-
Footwear (US$ mn)	61.9	65.0	54.0	53.5	53.8	-
Imports (yoy growth %)	-3.5	-8.7	-13.3	1.5	-5.9	-
Imports (US$ mn)	18,645.7	17,201.3	17,705.2	16,839.6	17,391.2	-
Trade balance (US$ mn)	-78.0	1,588.7	-456.5	390.1	1,495.2	-

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

VIETNAM

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Quarterly GDP (real yoy growth %)	7.0(4Q14)			6.0(1Q15)		
Industrial production index (yoy growth %)	11.1	9.8	16.4	7.0	9.1	9.5
Manufacturing PMI (HSBC)	52.1	52.7	51.5	51.7	50.7	53.5
Retail sales of consumer goods and services (year-to-date, yoy growth %)	11.1	10.6	13.0	11.4	10.0	8.8
Price index of materials used for production (yoy growth %)	3.5(4Q14)			2.4(1Q15)		
Producer price index for industrial products (yoy growth %)	2.0(4Q14)			0.2(1Q15)		
Consumer price index (yoy growth %)	2.6	1.8	0.9	0.3	0.9	1.0
Exports (year-to-date, yoy growth %)	13.7	13.7	14.0	8.4	8.8	6.9
Exports (US$ mn)	13,229.5	12,875.7	13,404.7	9,513.2	13,344.7	13,348.0
Of which:						
Textiles & garments (US$ mn)	1,564.5	1,990.3	1,918.2	1,341.3	1,627.6	1,636.1
Footwear (US$ mn)	955.2	1,087.2	1,075.8	684.9	800.1	983.9
Wood & wooden products (US$ mn)	537.6	609.6	588.7	397.8	544.3	556.6
Imports (year-to-date, yoy growth %)	11.8	12.1	39.2	21.9	20.1	16.6
Imports (US$ mn)	12,791.9	14,038.1	13,798.8	10,479.7	14,735.6	13,199.5

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

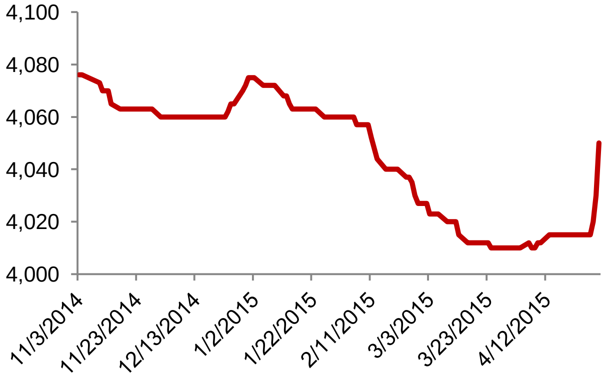
Macroeconomic data for Cambodia are not available as of the date of publishing

DAILY EXCHANGE RATES

NOVEMBER 2014 - APRIL 2015

CAMBODIAN RIEL

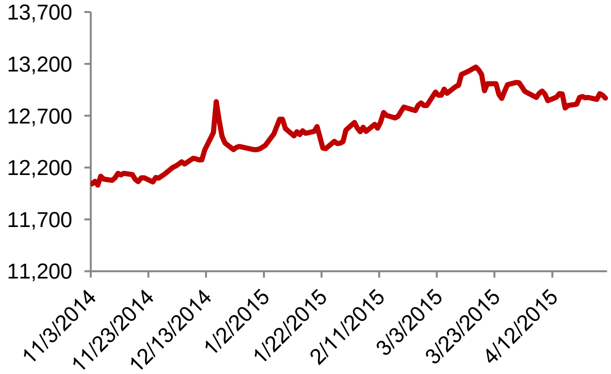
USD:KHR official exchange rate



Source: National Bank of Cambodia

INDONESIAN RUPIAH

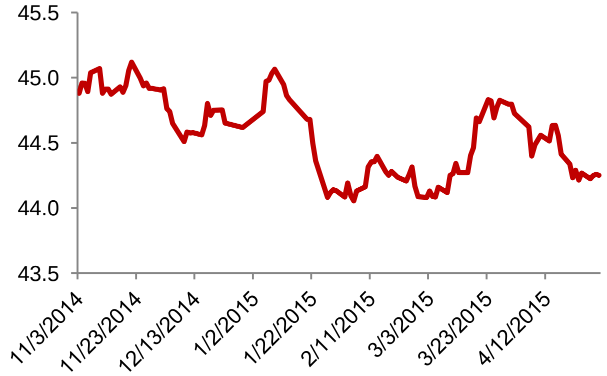
USD:IDR buy rate



Source: Bank Indonesia

PHILIPPINE PESO

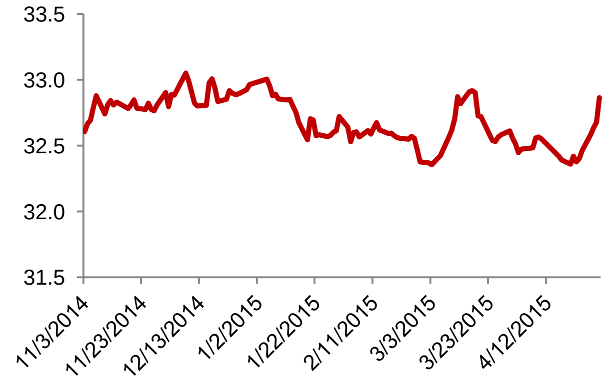
USD:PHP BSP reference rate



Source: Bangko Sentral ng Pilipinas (BSP)

THAI BAHT

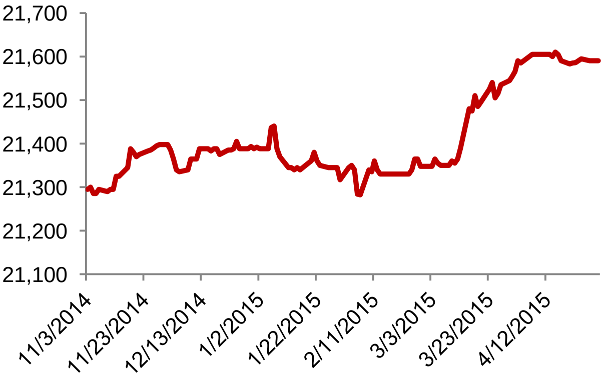
USD:THB mid-rate



Source: Bank of Thailand

VIETNAMESE DONG

USD:VND spot rate



Source: Bloomberg

THE FUNG BUSINESS INTELLIGENCE CENTRE

The Fung Group is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 46,800 people across 40 economies worldwide, generating total revenue of more than US$24.65 billion in 2014. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

The Fung Business Intelligence Centre (FBIC) collects and analyses market data on sourcing, supply chains, distribution and retail. It also provides thought leadership on technology and other key issues shaping their future.

Headquartered in Hong Kong, FBIC leverages unique relationships and information networks to track and report on trends and developments in China and other Asian countries. In addition, its New York-based Global Retail & Technology research team follows broader retail and technology trends, specialising in how they intersect and building collaborative knowledge communities around the revolution occurring worldwide at the retail interface.

Since its establishment in 2000, the FBIC (formerly known as the Li & Fung Research Centre) has served as the knowledge bank and think tank for the Fung Group. Through regular research reports and other publications, it makes its market data, impartial analysis and expertise available to businesses, scholars and governments around the world. It also provides advice and consultancy services to colleagues and business partners of the Fung Group on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

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