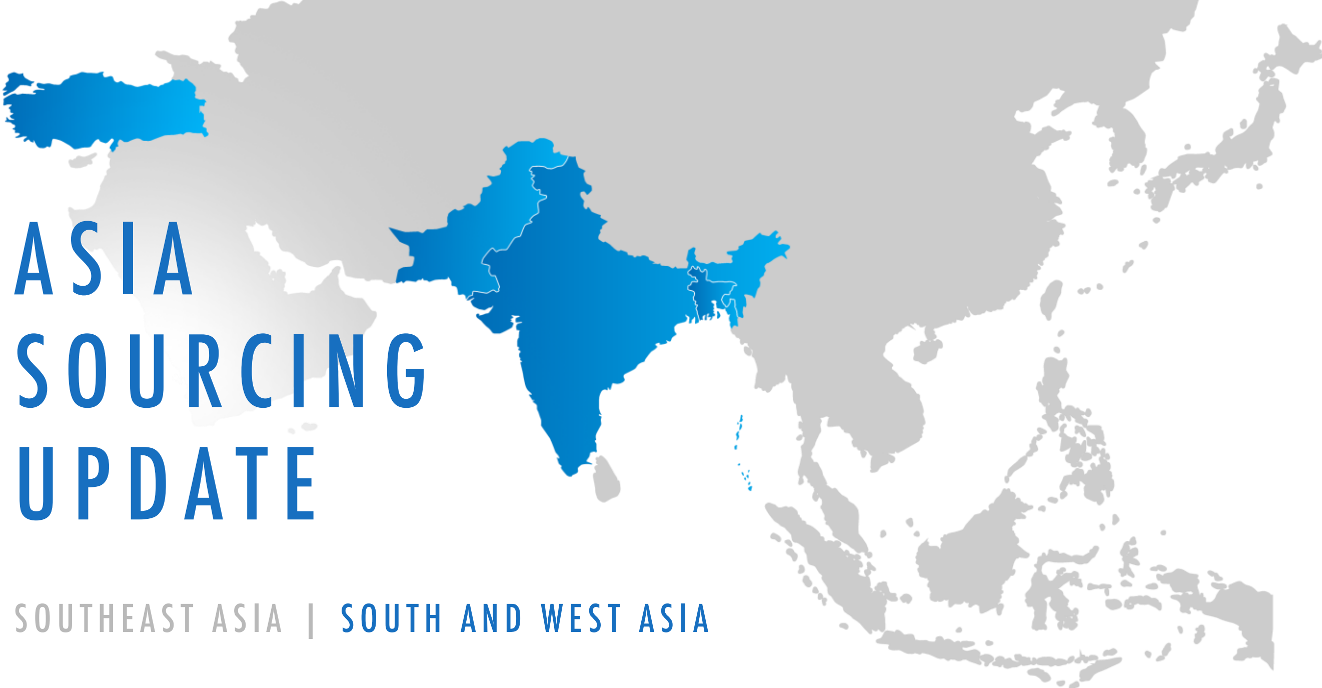

ASIA SOURCING UPDATE

SOUTHEAST ASIA | **SOUTH AND WEST ASIA**

MAY 2019

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

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

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- Exports grow by 12.57% yoy in first nine months of 2018-19 fiscal year
- Business sector urges government not to raise gas prices
- Textile manufacturers suffer from cheap yarn and fabric imports

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- Industrial output expands by a mere 0.1% yoy in February
- Government approves scheme to rebate embedded taxes to support textile and garment sector
- US withdraws India's GSP status

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- Inflation rises to five-year high in March
- Textile and garment exports edge up by 0.1% yoy in US dollar terms in first three quarters of current fiscal year
- First-ever National Tariff Policy approved

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- GDP records first quarterly contraction in a decade
- Government unveils new economic reform package
- Joint working group being established to boost bilateral trade between Turkey and US

FUNG BUSINESS INTELLIGENCE

IN THE NEWS

BANGLADESH

EXPORTS GROW BY 12.57% YOY IN FIRST NINE MONTHS OF 2018-19 FISCAL YEAR

Bangladesh's exports in the first nine months of the current financial year (July 2018 – June 2019) rose by 12.57% yoy to US$30.90 billion, surpassing the government-set target (US$28.82 billion), according to data from the Export Promotion Bureau.

In July 2018 – March 2019, exports of readymade garments (RMG) jumped by 13.65% yoy to US$25.95 billion. Among RMG exports, exports of woven garments grew by 14.22% yoy to US$13.15 billion, while knitwear exports increased by 13.07% yoy to US$12.80 billion. RMG exports increased as US buyers were shifting their orders from China to Bangladesh due to the China-US trade tension, said Mahmud Hasan Khan Babu, vice president of the Bangladesh Garment Manufacturers and Exporters Association.

However, exports of some other major manufacturing products recorded negative growth in the 9-month period. Exports of home textiles fell by 3.36% yoy to US$647.34 million, while exports of leather and leather products dropped 9.08% yoy to US$771.69 million in the period. Exports of jute and jute products declined sharply by 23.23% yoy to US$628.08 million in the period.

BANGLADESH

BUSINESS SECTOR URGES GOVERNMENT NOT TO RAISE GAS PRICES

State-owned oil and gas company Petrobangla and its gas distribution subsidiaries proposed to the Bangladesh Energy Regulatory Commission (BERC) in March an average 103% hike in gas prices — 132% rise for industrial users, 41% increase for commercial users, and 208% hike for the power sector.

A number of trade bodies have demanded scrapping of the proposal, saying that it would wreak havoc on the country's economy if implemented. Osama Taseer, president of the Dhaka Chamber of Commerce and Industry, said that energy-intensive industries like fertiliser, textile, denim, RMG, cement, and steel would be affected the most by the proposed gas tariff hike. Dr Fouzul Kabir Khan, former Secretary to the Power Division of the government, estimated that the proposed gas price increase would raise the cost of power generation by 93.73%, production cost of the textile sector by 18.06%, cost of steel mills by 7.37% and cost of cement production by 1.93%.

The Bangladesh Textile Mills Association president Mohammad Ali Khokon said that many textile mills would face closure if the gas tariff is increased as proposed. He requested the government not to raise gas prices considering the current state of the textile sector.

Monowar Islam, chairman of BERC, told the business sector and people 'not to panic', as BERC never increased gas tariff as per the gas distributors' demands in the past. BERC will make the final decision by mid-June.

BANGLADESH

TEXTILE MANUFACTURERS SUFFER FROM CHEAP YARN AND FABRIC IMPORTS

Bangladesh's textile manufacturers are facing hard challenges and incurring business losses, as they cannot compete with imported yarns and fabrics from China, India, and Pakistan, according to a report published on 4 April by the US Department of Agriculture.

The report said that Bangladeshi textile millers are facing uneven competition due to abundant imports of low-cost yarns and fabrics. This is attributed mainly to an increase in low-priced yarn and fabric imports through a bonded warehouse, false declaration of product specification, and smuggling through the border with India. Local RMG manufacturers are importing yarns and fabrics from China, India, and Pakistan using the bonded warehouse privilege (i.e., zero tariff on import of raw materials for export-oriented production). However, some of the imported yarns and fabrics are then illegally sold to the local market which pushes prices down. Although some local weaving mills could become more cost competitive (because of low-cost imported yarns), many of them are also facing a huge stockpile of unsold fabrics (because of competition from imported fabrics).

Even though imported yarns and fabrics seem to benefit apparel manufacturers, it also makes them more dependent on imported materials and vulnerable as a supplier of low-priced garments for export, said the report.

At a press conference on 10 April, the Bangladesh Textile Mills Association urged the Bangladeshi government to take necessary action to protect the local textile industry, such as ensuring proper management of bonded warehouses and preventing sales of illegally-imported yarns and fabrics. ■

INDIA

INDUSTRIAL OUTPUT EXPANDS BY A MERE 0.1% YOY IN FEBRUARY

India's index of industrial production (IIP) grew by 0.1% yoy in February, the weakest growth recorded in the 2018-19 fiscal year (April 2018 – March 2019), according to data released by the Central Statistics Office (CSO) on 12 April. The unsatisfying performance of the industrial sector was attributed to the contraction in manufacturing output and an adverse base effect.

By major industrial segment, industrial production of the manufacturing industry dropped by 0.3% yoy in February, while industrial production of the mining industry and the electricity industry grew by 2.0% yoy and 1.2% yoy, respectively. Within the manufacturing industry, the output contraction was led by the manufacture of machinery and equipment (-12.8% yoy), fabricated metal products (-10.7% yoy) and furniture (-9.7% yoy), while industrial output of apparel manufacturing increased by 19.3% yoy in February.

Cumulatively, India's IIP expanded by 4.0% in the April 2018 – February 2019 period, compared to the same period in the last fiscal year.

On a side note, the Nikkei India Manufacturing Purchasing Managers' Index (PMI), a composite indicator designed to provide a snapshot of the performance of the manufacturing industry, registered 52.6 in March, the lowest level in six months. This was caused by a widespread slowdown across most sub-indices, including new orders, production, input purchases and employment.

INDIA

GOVERNMENT APPROVES SCHEME TO REBATE EMBEDDED TAXES TO SUPPORT TEXTILE AND GARMENT SECTOR

The Union Cabinet approved in early March a scheme to rebate all state and central embedded taxes for apparel and textile made-up exports. Textile made-ups include products such as bed sheets, blankets and curtains. The scheme will make exports of the two segments zero-rated, thus boost the cost competitiveness of India's textile and garment exports in the global market.

Apparel and textile made-ups account for around 56% of India's textile and apparel exports.

Currently, the Indian government implements the Rebate of State Levies (ROSL) scheme for apparel and textile made-up exports to offset certain indirect taxes levied by states such as stamp duty, petroleum tax, electricity duty and mandi tax that are embedded in exports. Apparel products get ROSL at the rate of 1.5% – 1.7%, while the total embedded taxes are up to 5%, according to the Apparel Export Promotion Council (AEPC). 'We have been asking for reimbursement of all embedded taxes and it has been considered for the first time. It will help in making exports zero-rated,' said a spokesperson for the AEPC.

The scheme also entails a change in disbursement mechanism whereby the rebate of all state and central embedded taxes will be done through an IT-driven scrip system.

The new scheme will come into effect once the refund rates are notified, and it will be extended to yarn exports in the future, reported *The Hindu*.

INDIA

US WITHDRAWS INDIA'S GSP STATUS

At the direction of US President Donald Trump, US Trade Representative (USTR) Robert Lighthizer announced in early March that the US plans to terminate India's designation as a beneficiary developing country under the Generalized System of Preferences (GSP) programme, on the ground that India fails to assure the US that it will provide equitable and reasonable access to its markets in numerous sectors, according to the press release from the USTR's office.

With a 60-day notification period in place, around 3,500 eligible products from India can still enjoy duty-free benefits to the US until early May. According to the USTR, India was the No.1 beneficiary under the US GSP in 2017, with GSP-eligible imports from India amounting to US$5.6 billion or equivalent to 26.4% of total US imports under GSP.

Soon after USTR's announcement, Indian Commerce Secretary Anup Wadhawan said at a press conference that the withdrawal of the GSP benefits would have a minimal impact on India, with total benefits to Indian exporters in terms of duty relaxation under GSP amounting to US$190 million. Meanwhile, according to India's textile industry associations, the revocation of GSP benefits will have a marginal impact on the garment sector, as only 15 garment-related products are eligible under the US GSP, which accounts for a mere 0.5% of India's apparel exports to the US.

The USTR's decision came after a GSP eligibility review initiated in April 2018 by the USTR, following complaints against perceived trade barriers of India made by the US dairy industry and the medical equipment industry. US President Donald Trump has repeatedly criticised India for its alleged high tariffs on American products, and he has also been pushing for reduction of trade deficit with India.

Trade tensions between the two countries have escalated after the US imposed higher import duties on aluminium and steel from several countries, including India, last year. To hit back at the US over 'unfair' tariffs, India announced in last June to impose retaliatory duties worth US$235 million on US goods, but implementation of the tariffs has not begun yet as the effective date has been postponed for multiple times. Even though the two countries have been working towards a trade package to address trade and market access issues, there are increasing signs that negotiations have reached a stalemate.

In early April, after consulting all the ministries, Indian Union Commerce and Industry Minister Suresh Prabhu said the Indian government has made a new offer to the US to resolve bilateral trade issues.

Recently, 25 US trade associations sent a letter to the USTR demanding a deferral of the final withdrawal decision until the formation of the new Indian government after the general election. Meanwhile, two US senators also urged the USTR to consider delaying the revocation of India's GSP benefits and maintaining an open dialogue with the Indian government. ■

PAKISTAN

INFLATION RISES TO FIVE-YEAR HIGH IN MARCH

Pakistan's consumer price inflation rose from 8.2% yoy in February to 9.4% yoy in March, the highest level since November 2013, according to the Pakistan Bureau of Statistics. Sharp increases in food and fuel prices and transport costs were the main reason for the acceleration of inflation.

A breakdown of the consumer price index (CPI) shows that prices of food and non-alcoholic beverages, which account for 34.8% of the index make-up, rose 8.2% yoy in March. Prices of housing, water, electricity, gas and fuels, which account for 29.4% of weight in the CPI basket, jumped 11.6% yoy, while transport costs registered a 13.0% yoy increase in March. Core inflation, measured by non-food and non-energy items, increased by 8.5% yoy in March, compared to an 8.8% yoy increase in February.

According to the monetary policy statement released by the State Bank of Pakistan (SBP) on 29 March, the pressures on headline inflation can be explained by adjustments in the administered prices of electricity and gas, significant increases in perishable food prices and the continued unfolding impact of the rupee's depreciation. The SBP projected that Pakistan's CPI inflation to fall in the range of 6.5% – 7.5% for the 2018-19 fiscal year (July 2018 – June 2019).

PAKISTAN

TEXTILE AND GARMENT EXPORTS EDGE UP BY 0.1% YOY IN US DOLLAR TERMS IN FIRST THREE QUARTERS OF CURRENT FISCAL YEAR

The country's exports of textiles and garments reached US$9.99 billion in the first three quarters of the current fiscal year (July 2018 – June 2019), up by 0.1% yoy, according to data released by the Pakistan Statistics Bureau. In rupee terms, exports of textiles and garments shot up by 23.1% yoy to 1.32 trillion rupees in the period. The huge difference in export growth rates was due to the sharp depreciation of the rupee against the US dollar by over 25% since late 2017.

A breakdown of the export figure shows that knitwear, woven garments and bed linen were the top three export categories in the 9-month period. Specifically, exports of knitwear amounted to US$2.16 billion, with a growth rate of 9.3% yoy, while exports of woven garments and bed linen grew by 2.0% yoy and 2.7% yoy, respectively, to US$1.96 billion and US$1.72 billion. Meanwhile, all major textile materials recorded a contraction in exports in the period, led by raw cotton (-71.8% yoy), cotton yarn (-15.4% yoy), other yarn (-3.2% yoy) and cotton cloth (-2.1% yoy).

The Textile Policy 2014-19 is going to expire by end-June 2019. The Pakistani government is planning to come up with a new policy comprising new targets, incentives and recommendations.

PAKISTAN

FIRST-EVER NATIONAL TARIFF POLICY APPROVED

On 3 March, Pakistani Prime Minister Imran Khan approved, in principle, the first-ever National Tariff Policy of the country to ensure transparency and predictability of the tariff regime and institutionalise the entire tariff structure. The draft policy will be presented before the federal cabinet for its consideration and approval.

The objectives of the National Tariff Policy are to improve the competitiveness of the manufacturing sector by exempting import duties on essential raw materials, intermediate goods and machinery for export-oriented industries, to increase employment opportunities by attracting investment in the manufacturing sector through a transparent and predictable tariff regime, to lessen the price distortions in the domestic market by reducing the burden of excessive industrial protection, and to remove anomalies in the tariff structure which causes distortions between sectors and along the value chain of a certain sector, local newspaper *The Nation* reported.

The prime minister said the new policy would greatly restore confidence of the business community as trade and industrial development in the past was impeded by ad hocism and unpredictability of the tariff structure. If approved by the federal cabinet, the policy recommendations will be implemented in a five-year period starting from the 2019-20 fiscal year. ■

TURKEY

GDP RECORDS FIRST QUARTERLY CONTRACTION IN A DECADE

The Turkish economy contracted by 3.0% yoy in the fourth quarter of 2018, the first quarterly contraction since 2009, after registering 7.4%, 5.3% and 1.8% year-on-year growth in the first, second and third quarter in 2018, according to data released by the Turkish Statistical Institute on 11 March. For the full year of 2018, real GDP expanded by 2.6% yoy.

All major economic sectors recorded year-on-year contractions in the fourth quarter. Specifically, total value added decreased by 0.5% yoy in the agricultural sector, 6.4% yoy in the industry sector, 8.7% yoy in the construction sector and 0.3% yoy in the major services sectors (wholesale and retail trade, transport, storage, accommodation and food service activities) in the chained linked volume index.

By expenditure approach, private consumption and gross fixed capital formation shrank by 8.9% yoy and 12.9% yoy, respectively, while government spending only increased by 0.5% yoy in the fourth quarter. In the external sector, exports posted an increase of 10.6% yoy in the October – December quarter, while imports slumped by 24.2% yoy.

Commenting on the growth figures, Treasury and Finance Minister Berat Albayrak said the economic contraction in the fourth quarter occurred as expected. He stressed that the country's economy is on track for a rapid recovery, driven mainly by rising exports and tourism revenue.

TURKEY

GOVERNMENT UNVEILS NEW ECONOMIC REFORM PACKAGE

On 10 April, Turkish Treasury and Finance Minister Berat Albayrak announced a new economic reform package to revive the Turkish economy which is plagued by soaring inflation and a fragile currency. The package includes steps to address the most urgent issues, including the financial structure, inflation, the tax regime and agricultural policy, as well as measures to boost the tourism, exports and logistics sectors.

To tackle the financial structure issues, the government will provide 28 billion lira (US$4.9 billion) to recapitalize state banks, and the balance sheet of private banks will be strengthened by relieving them of troubled assets through debt-equity swaps. In addition to the financial sector, reform efforts will be concentrated on fighting inflation, particularly food inflation, by structural changes in the agricultural policy. 'We are going to launch a National Unit Project in agriculture, which will be the most important structural reform in this area,' Albayrak said.

According to Albayrak's announcement, the government is working on a logistics master plan that will identify the needs of the logistics sector and strategic priorities to boost Turkey's competitiveness as a regional hub for trade, and a tourism master plan to host 70 million tourists and generate US$70 billion in tourism revenues by 2023. Another master plan on boosting exports is also in the works, which will determine long-term export potential and increase the exports of high-value-added products.

The reform package also includes pledges to lower tax exemptions and gradually reduce corporate tax. The reform process will continue decisively for the next four years, Albayrak added.

TURKEY

JOINT WORKING GROUP BEING ESTABLISHED TO BOOST BILATERAL TRADE BETWEEN TURKEY AND US

The Turkish and US trade ministries are establishing a joint working group to achieve a bilateral trade target of US$75 billion, said the Turkish Trade Minister Ruhsar Pekcan after her three-day trip to Washington in mid-April, reported state-run news agency *Anadolu Agency*.

In February, Turkish President Recep Tayyip Erdogan and US President Donald Trump agreed to further enhance economic relations, setting a target of boosting the annual bilateral trade volume to US$75 billion from just over US$20 billion at present.

Pekcan said her meetings with US Secretary of Commerce Wilbur Ross and Trump's senior adviser Jared Kushner were very productive. Both sides agreed that there was need to collaborate on the diversification of tradable products and better utilisation of existing potential. To this end, a joint working group is being formed between the US Department of Commerce and Turkey's Ministry of Trade.

According to Pekcan, industries such as aerospace, defence, automotive, steel, jewellery, clothing, carpets, machinery and parts, olive oil, ceramics, marble and cement demonstrate high potential for trade between the US and Turkey. Moreover, there are plans to establish tariff-free cooperation zones in Turkey for research and development (R&D)-intensive, high-tech and high value-added activities. US high-tech companies can invest in these zones either on their own or in joint venture with Turkish companies, and incentives will be provided, Pekcan added.

The decision to set up a US-Turkey joint working group came after the US announced its intention to terminate duty-free privilege for Turkey under the US Generalized System of Preferences (GSP) scheme in early March, for the reason that Turkey is sufficiently economically developed and should no longer benefit from preferential market access to the US. ■

MAJOR ECONOMIC INDICATORS

BANGLADESH

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Quantum index of medium and large-scale manufacturing (yoy growth %)	17.3	16.4	8.8	-	-	-
Consumer price index (yoy growth %)	5.4	5.4	5.4	5.4	5.5	5.6
Exports (yoy growth %)	30.5	11.9	2.2	8.0	10.1	9.4
Exports (FOB, US$ mn)	3,711.2	3,422.0	3,426.1	3,679.7	3,383.2	3,340.2
Of which:						
Knitwear (US$ mn)	1,668.4	1,430.8	1,346.5	1,488.0	1,352.5	1,307.8
Woven garments (US$ mn)	1,473.0	1,422.3	1,552.2	1,644.6	1,556.4	1,517.2
Home textile (US$ mn)	66.6	71.1	68.2	81.3	78.4	78.8
Footwear* (US$ mn)	56.4	69.2	84.9	81.8	58.3	59.3
Leather products (US$ mn)	21.0	21.9	21.9	20.9	16.9	24.3
Imports (yoy growth %)	15.6	0.3	9.2	9.7	-5.8	-
Imports (C&F, US$ mn)	5,085.6	4,460.8	4,556.1	5,543.1	4,118.2	-

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

INDIA

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Quarterly GDP (real yoy growth %)		6.6 (3Q18)			-	
Index of industrial production (yoy growth %)	8.4	0.2	2.6	1.4	0.1	-
Manufacturing PMI (Nikkei)	53.1	54.0	53.2	53.9	54.3	52.6
Wholesale price index (yoy growth %)	5.5	4.5	3.5	2.8	2.9	3.2
Consumer price index (yoy growth %)	3.4	2.3	2.1	2.1	2.6	2.9
Exports (yoy growth %)	17.9	0.8	0.3	3.7	2.4	11.0
Exports (FOB, US$ mn)	26,976.6	26,502.2	27,927.7	26,360.2	26,667.6	32,548.0
Of which:						
Knitwear (US$ mn)	619.6	588.6	699.0	704.7	662.8	-
Woven garments (US$ mn)	512.5	542.3	677.7	823.5	883.5	-
Footwear (US$ mn)	213.1	217.4	256.9	272.7	269.5	-
Furniture (US$ mn)	144.7	133.1	148.1	157.6	137.4	-
Imports (yoy growth %)	17.6	4.3	-2.4	0.0	-5.4	1.4
Imports (CIF, US$ mn)	44,107.7	43,172.9	41,005.0	41,085.8	36,263.0	43,439.9
Trade balance (US$ mn)	-17,131.1	-16,670.7	-13,077.3	-14,725.6	-9,595.4	-10,891.9

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

PAKISTAN

	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Quantum index of large-scale manufacturing (yoy growth %)	2.7	1.2	-11.7	-1.4	-1.5	-
Consumer price index (yoy growth %)	6.8	6.5	6.2	7.2	8.2	9.4
Exports (yoy growth %)	1.2	-6.4	5.5	4.0	-0.4	-11.1
Exports (US$ mn)	1,903.1	1,842.8	2,079.6	2,043.1	1,888.9	1,978.8
Of which:						
Garments (US$ mn)	472.4	464.5	498.5	504.9	441.3	430.2
Bed linen (US$ mn)	187.4	194.7	193.1	193.3	175.4	189.2
Towels (US$ mn)	65.4	64.7	63.7	68.4	70.1	71.3
Leather products (US$ mn)	42.8	43.7	42.9	40.7	38.5	33.2
Sporting goods (US$ mn)	25.9	23.1	23.9	25.0	21.9	23.9
Imports (yoy growth %)	-1.0	-2.8	-8.9	-19.1	-12.3	-20.9
Imports (US$ mn)	4,841.5	4,626.4	4,444.1	4,503.7	4,179.9	4,155.3
Balance of trade (US$ mn)	-2,938.4	-2,783.7	-2,364.5	-2,460.6	-2,291.0	-2,176.5

Source: Pakistan Bureau of Statistics, State Bank of Pakistan

TURKEY

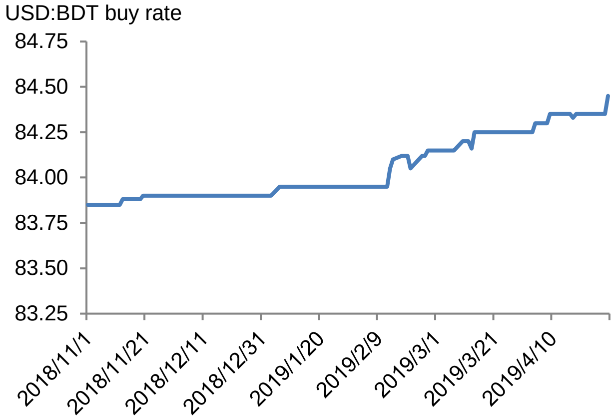
	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
Quarterly GDP (real yoy growth %)		-3.0 (4Q18)			-	
Industrial production index, manufacturing (yoy growth %)	-6.8	-7.3	-10.8	-7.6	-5.5	-
Industrial turnover index, manufacturing (yoy growth %)	37.5	22.4	16.5	20.2	20.5	-
Manufacturing PMI (Istanbul Chamber of Industry)	44.3	44.7	44.2	44.2	46.4	47.2
Producer price index (yoy growth %)	45.0	38.5	33.6	32.9	29.6	29.6
Consumer price index (yoy growth %)	25.2	21.6	20.3	20.4	19.7	19.7
Exports (yoy growth %)	12.7	9.2	-0.2	6.0	3.3	-0.4
Exports (US$ mn)	15,679.1	15,495.4	13,813.7	13,186.0	13,577.2	15,485.6
Of which:						
Knitwear (US$ mn)	829.2	805.7	664.7	717.3	710.5	830.2
Woven garments (US$ mn)	526.8	499.5	458.6	522.5	547.9	667.8
Furniture (US$ mn)	270.9	295.0	275.1	243.0	261.5	304.7
Imports (yoy growth %)	-23.8	-21.3	-28.3	-27.2	-17.8	-17.0
Imports (US$ mn)	16,174.1	16,164.0	16,554.4	15,671.0	15,726.7	17,622.3
Balance of trade (US$ mn)	-494.9	-668.6	-2,740.7	-2,485.0	-2,149.6	-2,136.7

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

DAILY EXCHANGE RATES

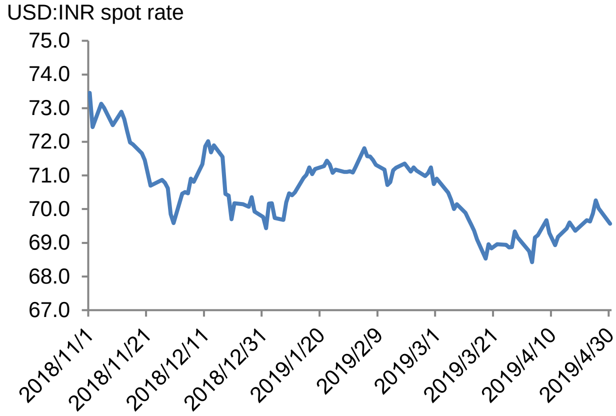
NOVEMBER 2018 – APRIL 2019

BANGLADESHI TAKA



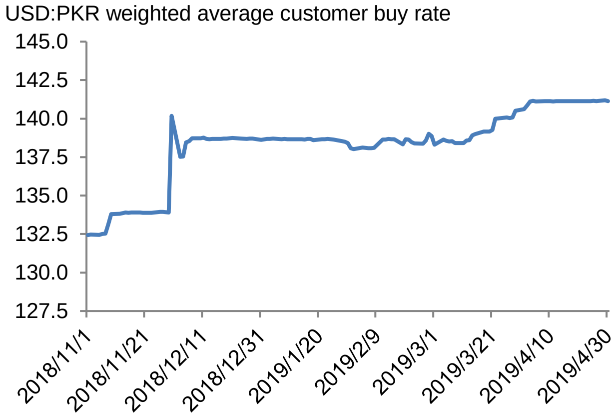
Source: Bangladesh Bank

INDIAN RUPEE



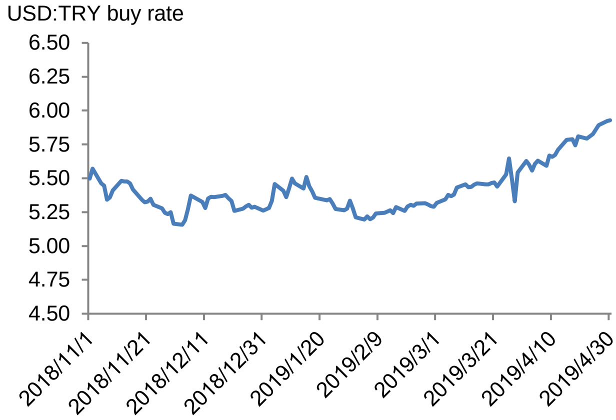
Source: Bloomberg

PAKISTANI RUPEE



Source: State Bank of Pakistan

TURKISH LIRA



Source: Central Bank of the Republic of Turkey

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CONTACT

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

William Kong
Research Manager
williamkong@fung1937.com
(852)2300 2404

Winnie He
Research Manager
winniehe@fung1937.com

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

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

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