

Apparel Sourcing: Is the China Plus One Model viable?



China Plus One has been on the companies' to-do list for several years now, but the shift in sourcing destination has occurred only on a small-scale. However, there is a high possibility of apparel sourcing shifting out of China in the next 5-10 years if other countries are able to develop capacities to match China's.

Undoubtedly, the cost advantage that once turned China into the world's factory for everything, has diminished over the last decade. It was because of factors such as rising labour and indirect costs, increasing environmental regulations, and the US-China trade war, global companies were prompted to look for cheaper alternatives. However, the resultant sourcing shift occurred on a small-scale. It was industry specific, which meant that companies were majorly looking to complement rather than replace their sourcing from China. In short, it was an approach that embraced supply chain diversification—which was already on the to-do list of companies for over a decade as they wanted to decrease the dependency of entire supply chain on just one country.

The main factors that have contributed to risk in complete sourcing dependency on China are related to:

1. **Tariffs and the trade war:** Implementation of higher tariffs by US for importers, which increased the cost of sourcing from China.
2. **IP rights:** There have been concerns with regards to theft of Intellectual Property rights.
3. **Wages:** The steadily rising labour cost in China has resulted in increase of price of goods.

4. **Labour:** Several organisations have raised their voice against the use of forced labour, particularly in the Xinjiang Uygur Autonomous Region (XUAR).
5. **Environment standards:** Europe and the US have lately accelerated the implementation of new environmental standards. As a result, goods manufactured in conditions that are considered as polluting the environment are not allowed to import in their territory.
6. **Lead time:** Lead time, or the time taken for goods to reach Western countries from China, is much higher compared to sourcing from Turkey, Caribbean and few countries in Latin America.
7. **Logistics:** The world has been a witness to several problems in recent years including the blockage of Suez Canal, non-availability of containers, and the increasing freight cost for air cargo.
8. **COVID-19 impact:** Operations were either closed or restricted at several shipping ports in China to curb the spread of the pandemic, resulting in delay in delivery of goods.

Sourcing and the pandemic

During 2020 and 2021, the COVID-19 pandemic showed that all sourcing destinations are equally susceptible to disruption, prompting various companies to re-think, re-evaluate and change their strategies. Lockdowns were imposed everywhere, but not at the same time. While they were being lifted in few countries, they were being imposed in some other countries. This meant that sourcing from any one country was equally at risk as was depending only on China. This pushed global brands to diversify and their supply chain across few regions. But did that change the sourcing landscape? Let's see the below trade data to find out.

Trade data

As below trade data statistics of countries exporting to the US (see Table 1 in pdf) and EU-27 (see Table 2 in pdf) shows, there is no significant diversification happening away from China. On the contrary, post 2020, China's exports, in case of apparel, have improved and are performing better than 2019.

Continuing dominance of China

The tables below summarise the top ten exporters of various product categories in 2021 (see Tables 3 to 17 in pdf). China is on the top in each one of them. (Bangladesh and Vietnam have not been considered in these tables as they do not report their trade numbers as directed by the World Customs Organization (WCO), and hence cannot be classified into various categories.) This means that even though companies wish to diversify their supply chains, their dependency on China is so high in terms of volumes that matching the same scale and output is next to impossible for other prospective sourcing destinations.

So, China Plus One is probably just a matter of complimenting the supply chain with a country in addition to China. And if so, what are the best options and what do they offer? Tables 18 to 22 (see pdf) show advantages and disadvantages of sourcing from five countries—Bangladesh, Vietnam, India, Turkey and Mexico—that top the list of several global brands for adding a new sourcing destination, in addition to China.

Likely scenario

Even though apparel and fashion companies have long talked about shifting their supply chains out of China, it has not materialised so far. It is because the dependency on China in terms of volume, variety, innovation, lead times, etc is so high that it is not easy to replace it. However, if other sourcing destinations can develop their textile and apparel industries to match that of China, there is a high possibility of production shifting out of China in 5-10 years from now.

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