



# 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.*



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by **FIBRE2FASHION**

**U**ndoubtedly, 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:

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

Post 2020, China's exports, in case of apparel, have improved and are performing better than 2019.



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has resulted in increase of price of goods.

- **Labour:** Several organisations have raised their voice against the use of forced labour, particularly in the Xinjiang Uygur Autonomous Region (XUAR).
- **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.
- **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.

- **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.
- **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.

TABLE 1 US IMPORTS OF APPAREL

US Imports of Apparel in Mn USD						
Exporting country	2017	2018	2019	2020	2021	CAGR
China	32352.48	34735.18	32046.44	25374.49	34772.03	2%
Vietnam	11462.51	12184.89	13467.09	12749.68	14304.43	6%
Bangladesh	4893.96	5237.81	5727.44	5096.72	6890.09	9%
India	3764.78	3411.81	3146.75	2929.78	4405.54	4%
Mexico	3656.43	3762.67	3222.02	2576.86	3440.76	-2%
Turkey	340.91	392.27	435.85	548.21	670.43	18%
Malaysia	402.77	378.15	384.93	292.2	287.78	-8%
Colombia	169.17	197.05	185.28	149.2	235.78	9%
Brazil	18.83	16.17	20.41	16.57	25.08	7%
Argentina	0.79	0.05	0.41	0.13	0.82	1%

TABLE 2 EU-27 IMPORTS OF APPAREL

EU-27 Imports of Apparel in Mn USD						
Reporting Country	2017	2018	2019	2020	2021	CAGR
China	39078.84	38186.04	30885.83	29768.09	35026.41	-3%
India	5686.14	5173.69	4987.62	3915.55	4205.04	-7%
Vietnam	3696.97	4141.04	4271.23	3653.14	3639.02	0%
Bangladesh	17753.79	19787.32	20207.74	16809.58	18838.23	1%
Malaysia	262.27	268.5	242.27	209.81	165.67	-11%
Turkey	11109.05	11423.94	11172.73	10691.94	12087.08	2%
Brazil	13.14	12.06	12.51	9.54	12.11	-2%
Mexico	1.28	3.15	8.09	54.06	46.95	146%
Colombia	26.38	24.11	23.6	17.27	20.65	-6%
Argentina	0.07	0.12	0.15	0	0.01	-35%

## TRADE DATA

As trade data statistics of countries exporting to the US (Table 1) and EU-27 (Table 2) 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 (Tables 3 to 17).

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.

TABLE 3 **BABY WEAR EXPORTS**

Baby Wear Exports (Mn USD)	
Top 10 Exporters	2021
China	2640.5
India	1203.1
Spain	494.53
Turkey	396.93
Poland	394.5
Germany	307.69
France	304.15
Netherlands	235.09
Indonesia	211.85
Italy	187.55

TABLE 4 **COATS EXPORTS**

Coats Exports (Mn USD)	
Top 10 Exporters	2021
China	4162.01
Italy	1751.16
Germany	1307.53
Spain	915.72
France	719.1
Netherlands	579.31
Poland	501.83
Indonesia	441.82
Belgium	396.8
United Kingdom	344.1

TABLE 5 **DRESSES EXPORT**

Dresses Export (Mn USD)	
Top 10 Exporters	2021
China	9817.53
India	1912.34
Italy	1576.41
Germany	1520.43
Turkey	1508.2
Spain	1472.94
Poland	971.63
France	869.64
United Kingdom	735.16
Netherlands	732.81

TABLE 6 **ENSEMBLES EXPORT**

Ensembles Export (Mn USD)	
Top 10 Exporters	2021
China	2200.36
Pakistan	1741.87
Italy	554.72
Turkey	330.63
India	270.11
France	87.79
Belgium	50.44
Spain	43.02
Morocco	38.19
Indonesia	34.48

TABLE 7 **INNERWEAR EXPORTS**

Innerwear Exports (Mn USD)	
Top 10 Exporters	2021
China	16333.23
Netherlands	1698.91
Germany	1648.3
Turkey	1612.08
Italy	1265.57
India	910.3
Poland	839.67
France	748.71
Indonesia	735.58
Belgium	658.68

TABLE 8 **JACKETS & BLAZERS EXPORT**

Jackets & Blazers Export (Mn USD)	
Top 10 Exporters	2021
China	15673.79
Italy	1038.21
Spain	681.77
Germany	675.73
France	592.59
Turkey	527.31
Pakistan	455.54
India	341.60
Poland	279.63
Morocco	274.35

TABLE 9 **JERSEYS EXPORTS**

Jerseys Exports (Mn USD)	
Top 10 Exporters	2021
China	20976.88
Italy	3614.93
Germany	2689.17
Turkey	2609.37
Spain	2020.22
Netherlands	1778.98
France	1563.62
Belgium	1187.02
Indonesia	1160.37
Poland	1078.74

TABLE 10 **HOME TEXTILES EXPORT**

Home Textiles Export (Mn USD)	
Top 10 Exporters	2021
China	45555.67
India	8860.72
Turkey	6133.26
Pakistan	4500.33
Germany	4132.7
United States	3649.5
Netherlands	3419.7
Belgium	2654.56
Poland	1981.49
France	1504.13

TABLE 11 **INDUSTRIAL TEXTILE EXPORTS**

Industrial Textile Exports (Mn USD)	
Top 10 Exporters	2021
China	9297.67
Germany	2476.57
United States	2087.68
Italy	1078.31
Taiwan	982.7
Netherlands	731.07
Belgium	499.67
Canada	453.28
India	441.07
Poland	436.84

TABLE 12 **FOOTWEAR EXPORTS**

Footwear Exports (Mn USD)	
Top 10 Exporters	2021
China	51711.11
Italy	11812.64
Germany	8572.47
Belgium	6712.49
Indonesia	5534.04
France	4720.61
Netherlands	4312.33
Spain	3218.62
Poland	2818.9
India	2336.61

TABLE 13 **TROUSERS & SHORTS EXPORTS**

Trousers & Shorts Exports (Mn USD)	
Top 10 Exporters	2021
China	28554.85
Germany	5877.95
Turkey	4443.25
Spain	4177.43
Italy	3114.30
Netherlands	3033.20
Poland	2566.43
India	1878.96
Belgium	1840.76
Indonesia	1692.13

TABLE 14 **T-SHIRTS EXPORTS**

T-Shirts Exports (Mn USD)	
Top 10 Exporters	2021
China	8576.95
Turkey	2702.19
Germany	2590.35
India	2346.94
Italy	1804.87
Netherlands	1542.03
Belgium	1327.27
Spain	1310.22
France	1160.96
Portugal	991.63

TABLE 15 **SHIRTS EXPORTS**

Shirts Exports (Mn USD)	
Top 10 Exporters	2021
China	4928.23
India	2422.59
Turkey	1739.99
Germany	1739.62
Italy	1434.00
Spain	1235.69
Netherlands	915.11
France	851.53
Indonesia	844.85
Guatemala	652.79

TABLE 16 **SKIRTS EXPORTS**

Skirts Exports (Mn USD)	
Top 10 Exporters	2021
China	3111.03
Italy	342.19
Spain	290.40
Germany	278.01
Turkey	234.82
France	198.83
India	191.38
Netherlands	161.56
Poland	153.13
Morocco	146.38

TABLE 17 **SPORTSWEAR EXPORTS**

Sportswear Exports (Mn USD)	
Top 10 Exporters	2021
China	668.94
Turkey	229.17
Italy	177.66
Germany	172.61
France	122.50
Netherlands	91.30
Belgium	89.53
Indonesia	66.42
United Kingdom	65.27
Spain	60.88

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.



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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 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.

TABLE 18 **BANGLADESH**

Advantages	Disadvantages
Less labour cost	Longer lead time
Energy at relatively lesser price	Lack of marketing tactics
Freely accessible infrastructure like railway, sea, river, and air route	Weak infrastructure
Pre-export financing organisations for guidance	Lack of seaport capacity
Reasonably open economy, particularly in the Export Processing Zones (EPZs)	Absence of stable economic conditions
Presence of several associations like BGMEA, BKMEA, and BEPZA to build the tight collaboration with various connected organisations	Lack of organisations for training industrial workers, supervisors, and managers
Duty free access to some of the largest markets of the world like the EU & the US	Prone to natural calamities, especially floods
Availability of duty-free custom bonded warehouses	Communication gap created by the lack of English knowledge

TABLE 19 VIETNAM

Advantages	Disadvantages
Minimal labour cost	Dependency for raw materials on other countries
Highly skilled workforce	Self-design is still weak
Good transportation facility	Outdated machinery and equipment
Good lead time management	High price of energy
Business friendly foreign investment law	Longer time required for producing specialised products
Availability of workers and land	Rise in prices of raw material because of introducing VAT
Strong infrastructure	No widespread distribution channels
Good variety of products	

TABLE 20 INDIA

Advantages	Disadvantages
High textile production capacity	Imports of cheap textiles from other Asian neighbours
Proficient multi-fibre raw material manufacturing capacity	Use of outdated manufacturing technology
Large pool of efficient and inexpensive work force	Poor supply chain management
Entrepreneurial knowledge with experiences	Huge unorganised and decentralised sector
Heavy export capacity	High production cost with respect to other Asian competitors
Huge domestic market	Very high lead time
Lower import content	High taxes, power, and interest costs
Tangible readymade garments manufacturing system	

TABLE 21 TURKEY

Advantages	Disadvantages
High production capabilities	Absence of stable economic conditions
Highly skilled and flexible workforce	Lack of investment
Strategic and favourable geographic location	Increasing production costs
Shorter lead times	Dependency on imports for raw materials
Flexible manufacturing processes	
Product expertise	
Support of associations like ITKIB	

TABLE 22 MEXICO

Advantages	Disadvantages
Production is across the value chain	Legal regulations
Proximity to US	Weak infrastructure
Growing domestic market	Possible violations of agreements by suppliers
Strong denim industry	Language and cultural barriers
Supportive climate for business	Troublesome customs regulations
Cheap and well-trained labour	
Strong marine transport system	
Low manufacturing prices	

## 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. **FF**

ALL TABLES –  
SOURCE: **TEXPRO**