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Zak Stambor

US retailers and brands shift manufacturing away from China

Article

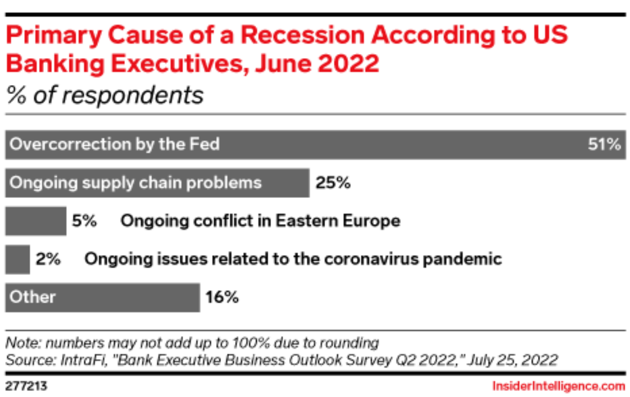
The trend: US retailers and brands have begun the slow, costly process of shifting manufacturing away from China to avoid supply chain disruptions caused by the country's stringent COVID lockdowns.

- Nineteen percent of US companies cut their investment in China this year, a marked increase from 10% last year, per the American Chamber of Commerce in Shanghai (AmCham Shanghai).

- That pullback is one reason that China's factory activity contracted in October, according to the official purchasing managers index for manufacturing produced by China's National Bureau of Statistics.
- Another measure, which is a subindex of the manufacturing PMI that measures new orders, fell to a six-month low in September.

Accelerating an existing trend: While US investment in China was already slowing before the pandemic, that trend accelerated in recent years. For example, US firms invested just $8.4 billion in China last year, which is a significant drop from $13 billion in 2019 and nearly half the high of $15.4 billion in 2012, per Rhodium Group reported in The Wall Street Journal.

- Roughly 33% of US companies have redirected their planned China investments to other destinations in the past year, which is nearly double the share that did so last year, per AmCham Shanghai.
- Another way to understand the shift is by looking at China's share of US imports, which has declined in part thanks to stiff tariffs imposed by the Trump administration. The value of goods taken in from China was 17% of all US imports over the first eight months of this year, down five percentage points from 2017—the year before the Trump administration imposed duties, per the US Census Bureau.



It pays to diversify: It has been a challenging period for US companies that rely on Chinese manufacturing. They endured four years of US-China tensions during the Trump administration, and roughly two years of rising supply chain costs and delays. That turmoil has driven several US companies to diversify their supply chain networks.

- For example, fragrance seller **Interparfums**—which produces fragrances for brands such as **Karl Lagerfeld**, **DKNY**, and **Oscar De la Renta**—moved its operations back to the US during the pandemic following disruptions at its factory in Shanghai, per the Journal.
- Similarly, some **Apple** iPhones are now being produced in India, and part of **Google**'s newest Pixel phone production has shifted to Vietnam, per The New York Times.

The big takeaway: The uncertainty that China's zero-COVID policy poses has brought to light the need for retailers and brands to diversify their supply chains if they want to avoid disruptions.

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