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Retailers find it hard to quit China's manufacturing

Article

The trend: Despite the supply chain vulnerabilities that the pandemic revealed, many retailers are finding it difficult to reduce their reliance on China's manufacturing might.

- **Apple** CEO **Tim Cook** met with China's minister of commerce **Wang Wentao** to discuss "stabilizing the industry supply chain" and the company's development in the country, per a government announcement.

- Others, like shoe retailer **Steve Madden**, have either delayed plans to shift production out of China, or reestablished production in the country due to higher costs elsewhere.

The challenges: The biggest challenge that retailers face is the fact that China spent the last two decades honing its manufacturing capabilities. Brands that want to set up shop elsewhere face a lack of skilled workers, adequate machinery, and logistical infrastructure to ensure goods can be transported quickly to ports and on to their final destination.

- Those difficulties can stymie brands looking to avoid dependence on China. For example, athleisure company **Actively Black** was unable to find factories in Latin America with workers skilled enough to sew the kind of stitching needed to produce the brand's apparel, founder and CEO **Lanny Smith** told Bloomberg.
- Even companies that successfully move production away can wind up sourcing the bulk of their materials from China. Along with its subsidiaries, **Texhong International Group** is responsible for nearly two-thirds of global trade for certain cotton-spandex materials, per Altana Technologies data cited by Bloomberg.
- Still others—including Steve Madden—have been forced to move production back to China after the Generalized System of Preferences (GSP) expired in 2020, reimposing tariffs on a wide variety of goods from over 100 countries and causing many companies' operating costs to escalate.

Other overseas opportunities: While manufacturing in China may still be the easiest—and cheapest—option for many companies, India, Vietnam, and Latin America are emerging as viable choices for retailers.

- Vietnam's manufacturing output grew by 11.2% year-over-year in Q4 2022, per the United Nations, as more companies look to take advantage of lower labor costs.
- Apple has already shifted some production to India, and reportedly plans to eventually manufacture 25% of all iPhones in the country, according to India's minister of commerce and industry. But the endeavor has hit snags due to poor manufacturing quality and additional logistical challenges, per The Financial Times.
- A number of companies, including **Target**, **Columbia Sportswear**, and **Nextil**, pledged to source more products from Central America as part of a US government initiative to boost

investment in the region. Target will spend $300 million more on products from vendors in El Salvador, Guatemala, and Honduras by 2033, while Nextil plans to invest $40 million to build two factories in Guatemala.

The big takeaway: For cash-strapped retailers, moving manufacturing from China is an expensive process that may not seem an immediate priority as logistical logjams ease. But failing to at least diversify supply chains away from China could be an even costlier move, leaving retailers just as vulnerable to disruption as they were during the early pandemic.