



ASIA PERSPECTIVE

Asia Perspective Outlook: Sourcing Survey 2022

Moving Home?

Uncovering the trends in sourcing:

Experiences and outlook on how companies view their global sourcing and supply chains.

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About Us



ASIA PERSPECTIVE

Asia Perspective is the most trusted and well-recognised partner and service provider for European companies in China and Southeast Asia.

We specialise in bridging the business ecosystems of Europe, East Asia and Southeast Asia. Our services cover market entry and growth, operational setup and reorganisation, production and sourcing, as well as cross-border M&A and financing.

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Our expertise



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Executive Summary

Asia Perspective has conducted sourcing surveys regularly since 2013, aiming to measure the perception of China as a sourcing market and how this perception is changing over time. The research is based on a survey sent to over 1,000 executives and purchasing managers in 15 countries around the world, thus reflecting changing opinions and paradigms rather than measurable sourcing changes, on which there already is sufficient data. This report aims to look into the future by measuring the intangible changes in perception that often predate tangible pattern shifts.

In 2022, global supply chains have continued to face the many disruptions that the past years have brought. After years of depending on China as the primary sourcing market, companies are now looking at alternative destinations to establish sourcing activity as part of their risk mitigation strategy. The study aims to deep-dive into emerging reshoring trends, to what extent companies are relocating, where they choose to move, and what motivates their sourcing decisions.

The Study at a Glance:

- What is the current sourcing situation in China, Southeast Asia, and Europe?
 - Are companies reshoring closer to home, and where are companies relocating?
 - What are the perceived risks and underlying reasons why companies are looking at alternative sourcing markets?
 - What risks and benefits are associated with sourcing in China, Southeast Asia, and Europe?
 - Which will be the most important sourcing countries and regions in the future?
-

After years of depending on China as the main sourcing market, companies are now looking at alternative destinations to establish sourcing activity.

The study concluded that although China maintains its position as the leading hub for sourcing and manufacturing, its perceived importance is starting to reduce, and companies are looking to lessen their reliance on the market. Still, alternative markets are yet unable to compete with China's manufacturing capabilities to the same extent. As the study shows, companies are currently focusing on diversifying their supplier base, utilising the strengths of each market.

This year's study reveals insights into how companies have coped with the risks of sourcing in China in relation to their reshoring activities, as well as what companies are expecting from future sourcing markets. For example, around 50% of surveyed companies are likely to relocate parts of their sourcing to other countries in an attempt to widen their supplier base.

Each sourcing market presents its own risks and benefits. There is no final answer to which market will be the most preferred. The key to a successful sourcing strategy is to gather comprehensive data from each market, evaluate one's demand and requirements, and choose the diversification strategy most suitable for the company's specific needs.

This year's study concludes that the trust in China as a sourcing market is still strong, but its future perceived importance is starting to decline. Southeast Asia and Europe are growing in attractiveness as alternative markets as concerns over costs and logistics increase.

Some specific findings of the report are:

- China is still considered a key sourcing market. However, a significant share of respondents indicates that they have plans and a desire to relocate at least parts of their sourcing within the upcoming year. Nevertheless, few other markets offer the same competitiveness, for example, in terms of price and production capacity, and most companies are staying in the country as of now.
 - Between Europe and Southeast Asia, there is no apparent favourite. Looking ahead, companies believe that the regions' importance for their future sourcing will be similar.
 - The main reasons why companies are looking at alternative sourcing markets include cost savings, improved logistics and distribution capabilities, and risk mitigation. The main barriers companies face when entering new markets include quality risks, insufficient knowledge, and production capability risks.
 - Eastern Europe has grown in importance as an alternative to China, passing Southeast Asia compared to previous years. Still, Europe's future potential as a sourcing alternative is less certain.
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1 Introduction

China has held the position as the world's key manufacturing hub for many years. After showing a resilient economy and strong growth, international businesses invested heavily in the market, contributing to developing the country's comprehensive sourcing environment. For a long time, China has been able to meet global sourcing demands. Still, as alternative markets are emerging and the challenges of sourcing in China are increasing, the country is starting to lose competitiveness.

The supply chain disruptions of 2020 and 2021 heavily impacted the global sourcing markets and are continuing to rattle global sourcing in 2022, not the least with the returning lockdowns in China during the second quarter of 2022. Companies have been reconsidering their reliance on China as their major sourcing market; last year's sourcing survey revealed that diversifying one's supplier base was considered among the most important risk mitigation strategies. At the same time, environmental issues and reducing one's carbon footprint are of rising concern, fueling companies' motivation to look for markets closer to the main consumer market.

Nevertheless, few other regions have developed their manufacturing ecosystems to the same extent as China. Companies choosing other markets have to deprioritise certain factors such as costs, efficiency, or logistics-related questions. These are compromises some businesses may not be willing or able to make. After being present in China for such a long time, switching to alternatives can be challenging, not the least due to the many barriers and lack of knowledge that new markets bring. Still, it is of crucial importance that companies have resilient supply chains and are prepared for any unexpected disturbances that may be thrown their way.

As companies are looking at new markets to invest in, new opportunities are also presented for emerging markets to develop and mature their economies. Many countries have already introduced financial incentives and implemented favourable initiatives to promote foreign investments in the country, all rushing to become the leading sourcing alternative. However, as apparent in this study, alternative markets are not fully able to compete with China yet. It is thus interesting to investigate to which extent businesses are actually moving out of China or if companies are staying despite the many discussions on leaving the market.

The study reveals that companies are not yet fully able to find the desired sourcing capabilities outside of China and that few are moving out of the country. Nevertheless, it is clear that businesses are starting to lose faith in the country and that alternative markets are being more favoured when looking ahead. China may lose its strong position as the world's leading sourcing market in the future.

Southeast Asia and Europe are both attractive alternatives. Southeast Asia because of its similarity to China, and Europe because of its geographic proximity to many of the respondents' headquarters. There is little to no difference in the importance of the two regions for companies' future sourcing. As of now, it is unclear if, and which market will become the most popular alternative to China. Southeast Asia is heavily dependent on China's abilities to develop its manufacturing; until now, China has long outcompeted the markets, hindering their growth.

In the meantime, companies are continuing to source in China, mainly looking to alternative destinations as ways to complement and strengthen their supply chains.



Daniel Karlsson
Managing Director, Asia Perspective

2 Methodology

The survey was conducted by Asia Perspective in the spring of 2022. The data was collected through an online questionnaire consisting of 51 questions, covering the following topics:

- Sourcing markets overview in China, Europe and Southeast Asia.
- Perceived risks and mitigation strategies.
- Current reshoring activities and trends.
- The future of sourcing and perceived importance of sourcing regions.

The majority of the survey participants are located in Asia and the Nordic region. Most are operational in the manufacturing, retail, electronics, machinery or automotive industry. Over 36% of the survey respondents have a purchasing value of over 100 million EUR per year. Figure 3 provides the nearest estimations of the global purchasing spend from our respondents.

Figure 1

Survey participants by location

The geographical locations of the surveyed companies' headquarters



Figure 2

Survey participants by industry

Share of the respondents belonging to different industries

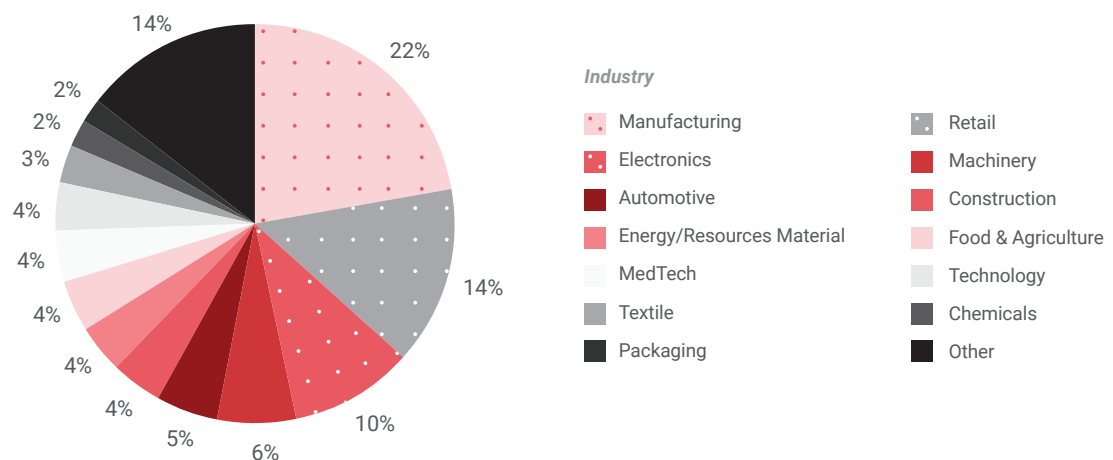
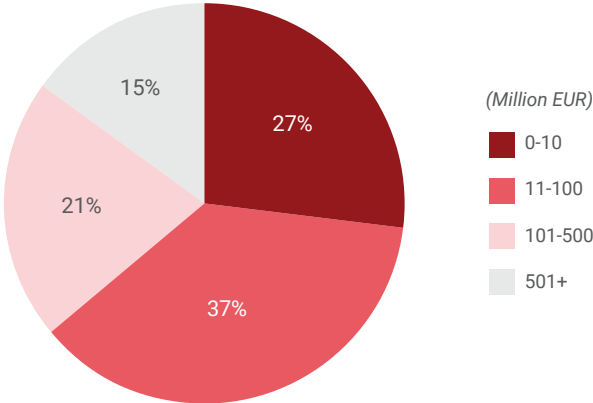


Figure 3

Total global purchasing amount in 2021 (Million EUR)

Share of companies belonging to different classes of total global purchasing amounts in 2021



3 Sourcing markets overview

In the past years, rising costs, environmental issues, and increasing risks have led to companies looking to improve their sourcing strategies and diversify their supplier base. With China holding on to its zero-covid strategy and with the still lingering supply chain disruptions of the past two years, companies' perception of China as their major sourcing market has changed, and other geographically strategic locations are being investigated.

Companies are reconsidering having China as their major sourcing market. Other geographic locations are being investigated.

This chapter illustrates the survey respondents' current sourcing situation in China, Europe and Southeast Asia. To identify sourcing trends and shifts, the responses are compared with the result of previous studies when data is available.

The survey assessed each region's importance for the companies' global sourcing activities. Furthermore, as there is a growing concern about climate change and political compliance, the survey also asked about the respondents' carbon footprint and regulatory compliance assessment to better understand how companies are dealing with these issues.

3.1 Current sourcing situation in China

This chapter provides a general overview of the surveyed companies' current sourcing situation in China. In general, the sourcing trends remain similar to previous years. Despite the supply chain disruptions that have defined the global sourcing environment in the past years, China continues to be a key manufacturing hub for the survey respondents, with 87% of respondents currently sourcing in China. Nevertheless, there is a decreasing trend in the number of companies sourcing in the country. Although not a significant difference compared to 2021, companies sourcing in China decreased by 9.4% compared to 2020, where the trend was increasing up until that point.

Figure 5 shows that the majority of respondents source between 10% and 49% of their total global spending in China. The number of businesses that spend more than 50% of their global purchasing spend on China accounts for 25% of the total surveyed companies, which is a 32.4% decrease compared to the year before. At the same time, the share of respondents that source less than 10% of their global purchase spend in China has increased by 50% compared to 2020. The data indicates that companies are increasingly reducing their dependence on China.

Figure 4

Current sourcing in China compared to the previous four years

Share of respondents that source in China

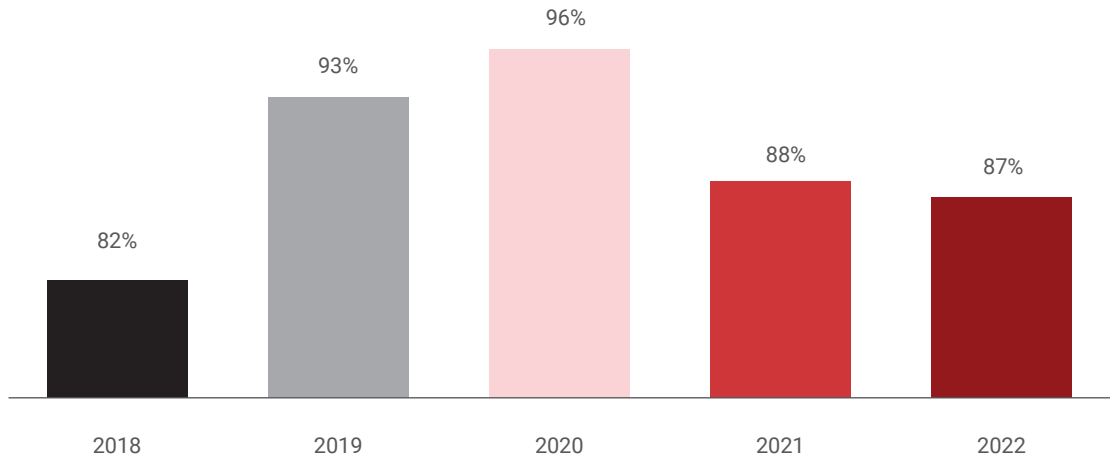
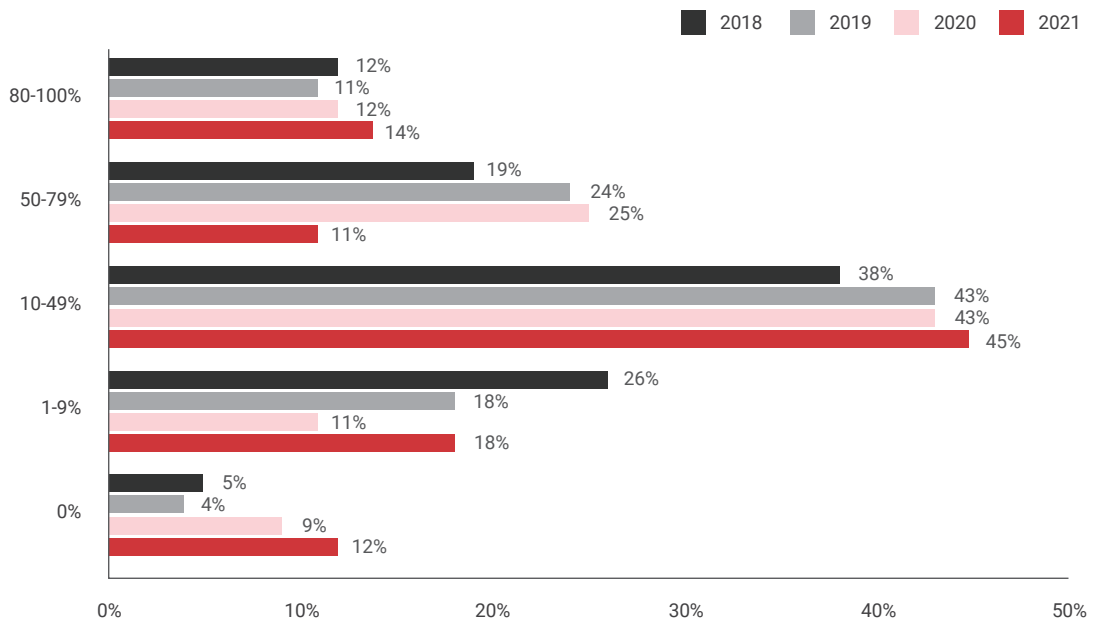


Figure 5

Share of purchasing amount in China of global purchasing spend in 2021

Estimation of how large the purchase amount was in China compared to the global purchasing spend in 2021

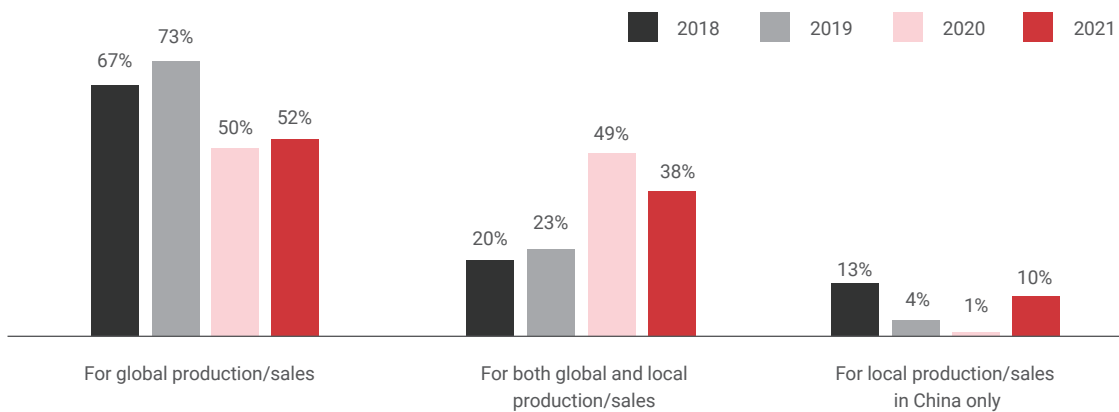


Most survey respondents recognise that China is mainly a market for their global supply, as 52% of the respondents source in China to serve their global production and sales. At the same time, 38% answered that their reason for sourcing in China is to serve both global and local production and sales, a 22.4% decrease compared to the previous year. Moreover, 10% of the respondents stated that their sourcing in China was solely to serve the local production and sales, a notable increase compared to 2020. The Chinese market remains the competitive sourcing destination for many sectors and industries, and it is unlikely that the country will lose its status anytime soon. Nevertheless, the data indicates that an increasing number of companies are shifting at least parts of their sourcing activities, relying less on China as their global supplier.

Figure 6

Reason for sourcing in China – to serve local demand or for global supply

Share of the respondents choosing the alternative as their main reason for sourcing in China



3.2 Current sourcing situation in Europe

As sourcing in China has become more challenging, with factors such as rising labour costs, political tensions, and, most recently, the many supply chain disruptions connected to the Covid-19 pandemic, many companies have looked to cheaper and more geographically favourable locations. Southeast Asia has long served as an attractive alternative with its cheap labour costs and many free trade agreements. At the same time, environmental issues and long lead times are causing European companies to look at markets outside of Asia, closer to the main consumer market. As such, this year’s sourcing survey investigates the surveyed companies’ sourcing activities in Europe and Southeast Asia to better understand their perception of the markets, their importance to the companies’ business, and how the markets compare.

As there is a rising discussion about moving geographically closer to the consumer market, Asia Perspective is examining companies’ sourcing activity in Europe this year. The results will give a better understanding of companies’ perception of the market while also identifying reshoring trends and shifts in global supply chains.

Figure 7

Current sourcing in Europe

Respondents share whether they are currently sourcing in Europe

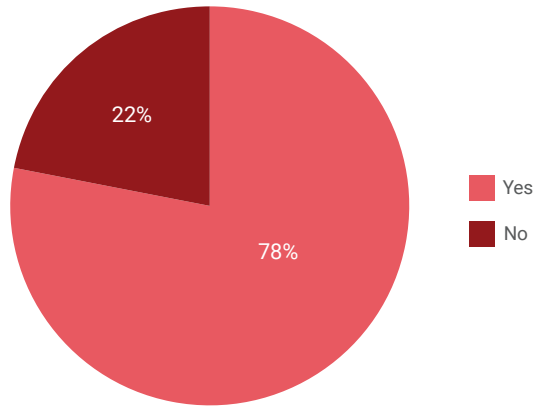


Figure 7 shows that 78% of the surveyed companies already have sourcing activities in Europe, slightly less than in China. However, as illustrated in figure 9, the companies' sourcing in Europe has less importance to their global production and sales than their sourcing in China. The majority of the companies' sourcing activity in Europe is to meet the global and local production and sales, as compared to China, where the majority answered that their sourcing activity was to meet global demand. Only 28% of the companies source in Europe to serve the global demand, much lower than 52% in China. In contrast, the share of companies that source in Europe solely for the local demand is 26%, significantly higher compared to the data from China. As many of the surveyed companies are headquartered in Europe, it is unsurprising that a large share also have sourcing activity in the region. However, as Europe lacks equal supply chain ecosystems and cost-efficient sourcing as China does, sourcing in Europe rather serves local demand to a greater extent than China and acts as a complementary sourcing activity.

The companies' purchasing spend in Europe follows a similar distribution and share as in China, where most respondents spend between 10% - 49% of their global purchasing value in Europe. The noteworthy difference is that 28% of respondents spend between 50%-79% of their global purchasing spend in Europe, much higher compared to the same purchasing share in China, which this year decreased from 24% to 12%, a possible indication that companies' European sourcing is growing in importance.

Figure 8

Share of purchasing amount in Europe of global purchasing spend in 2021

Estimation of how large the purchase amount was in Europe compared to the global purchasing spend in 2021

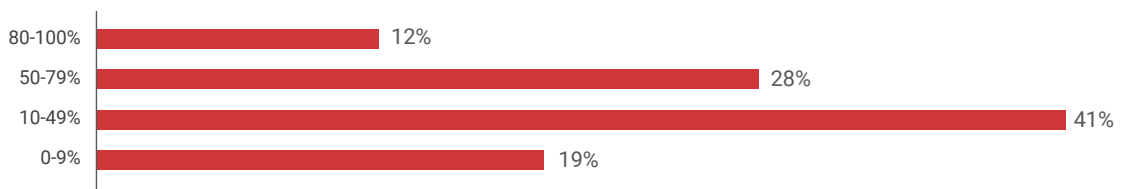
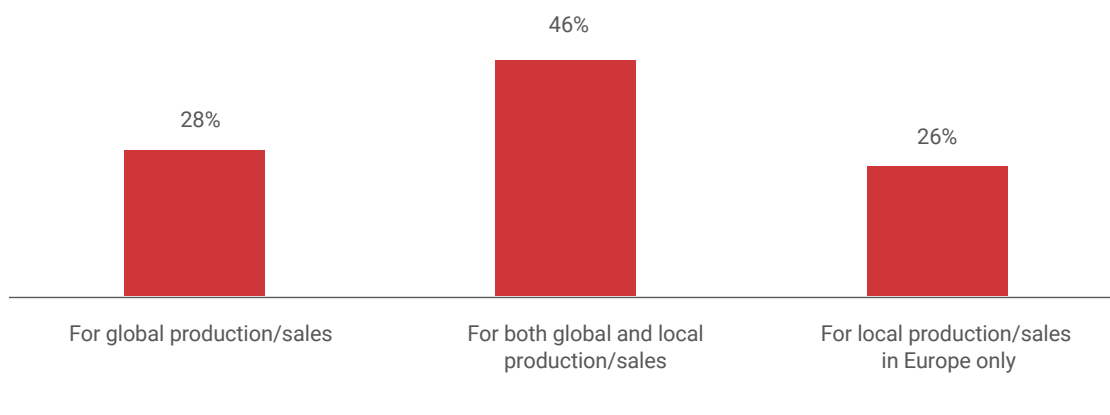


Figure 9

Reason for sourcing in Europe – to serve local demand or for global supply

Share of the respondents choosing the alternative as their main reason for sourcing in Europe

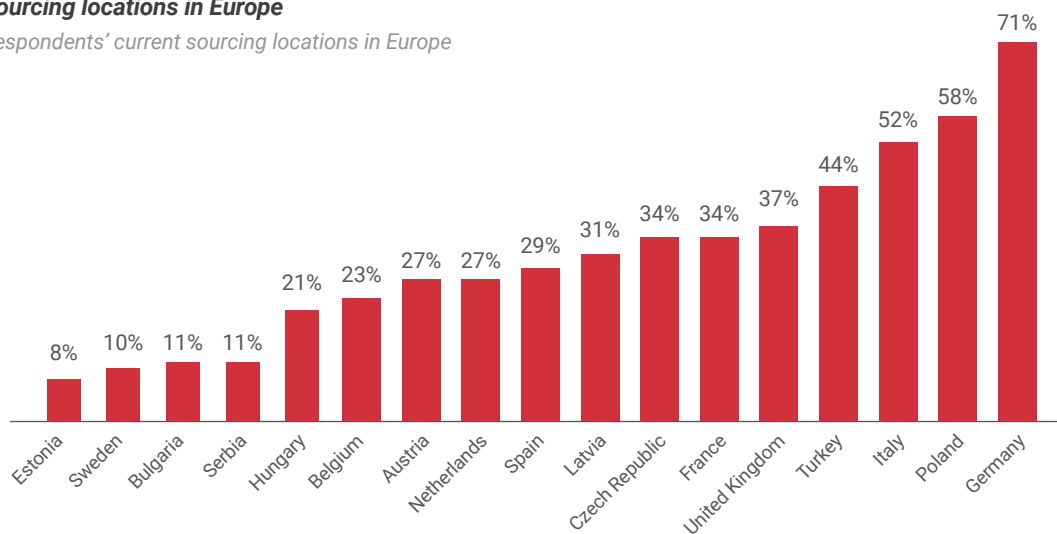


For the companies sourcing in Europe, 71% of the respondents have sourcing activity in Germany, naturally explained by Germany's position as a key manufacturing and export hub in Europe. Poland and Italy follow in second and third place.

Figure 10

Sourcing locations in Europe

Respondents' current sourcing locations in Europe



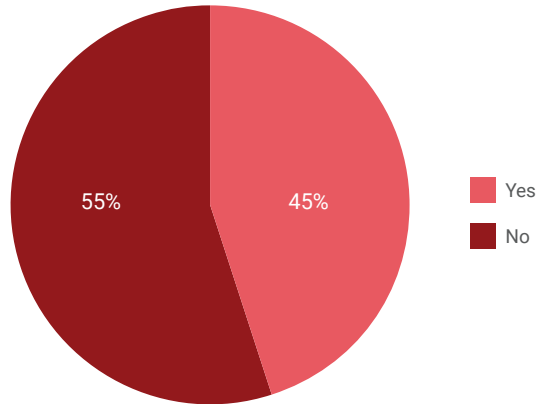
3.3 Current sourcing situation in Southeast Asia

In 2021, Asia Perspective started assessing companies' sourcing activity in Southeast Asia in more detail as an alternative sourcing market to China. The following part will look further into the region and compare it with data from last year to give further insights into trends and shifts.

Figure 11

Current sourcing in Southeast Asia compared to 2021

Respondents share whether they are currently sourcing in Southeast Asia



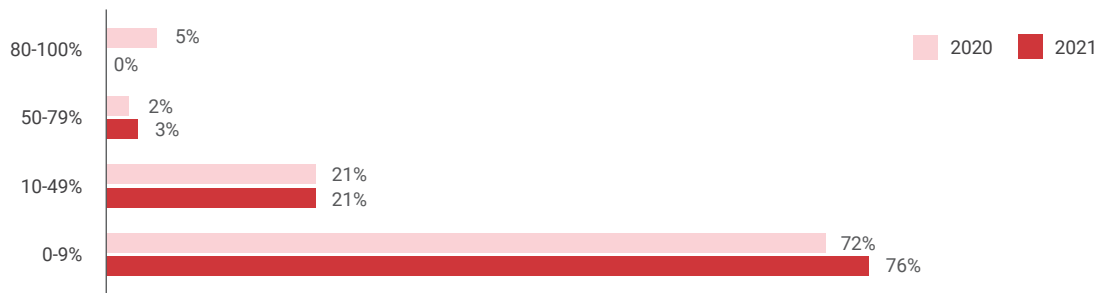
Many companies are already sourcing in Southeast Asia. 45% of respondents currently have existing sourcing activity in the region. However, Southeast Asia's importance for the respondents' global business is significantly lower than China's. Figure 13 shows that 53% of companies source in Southeast Asia to serve their global production and sales, similar to China but much higher than Europe's 28%. At the same time, the purchasing value is much lower than in China and Europe, as a large majority of the respondents spend less than 9% of their global purchasing spend on sourcing in the region. Companies that spend more than 50% on sourcing account for only 3% of all companies in Southeast Asia, whereas companies that spend more than 80% decreased from 5% to 0% this year.

The share of respondents that source in Southeast Asia is much lower than in Europe and China. As the region recently started to speed up the development of its manufacturing capabilities and almost no survey respondents are headquartered in the region, countries in the region have not previously been the primary choice for companies' sourcing. Nevertheless, it is evident that Southeast Asia serves a similar purpose to companies' global sourcing as China does and that companies are looking at the region as a possible alternative. However, the region does not hold the same importance as Europe and China, possibly because most companies' sourcing in the region is still relatively new.

Figure 12

Share of purchasing amount in Southeast Asia of global purchasing spend in 2021

Estimation of how large the purchase amount was in Southeast Asia compared to the global purchasing spend in 2021

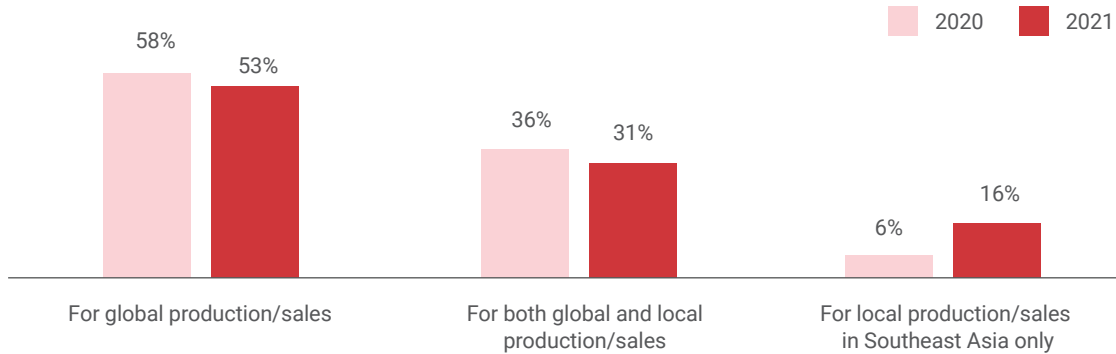


According to figure 13, although most companies sourcing in Southeast Asia are doing so to serve global production and sales, comparing the data with the previous year's result shows a decrease in companies sourcing in the region for their global and both global and local production and sales. There is also an increase in respondents that are sourcing in the region solely for local production and sales. The trend could partially reflect the rise in the local demand and the region's potential.

Figure 13

Reason for sourcing in Southeast Asia – to serve local demand or for global supply

Share of the respondents choosing the alternative as their main reason for sourcing in Southeast Asia

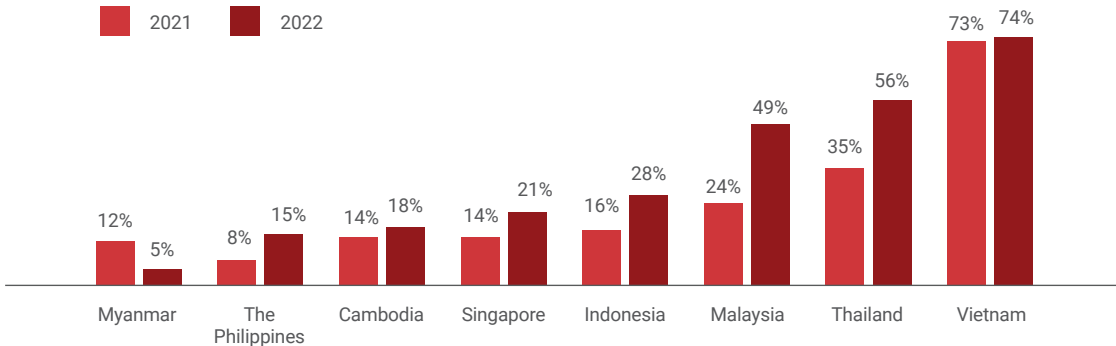


Among those with existing sourcing in Southeast Asia, Vietnam was named the top destination, with 74% of companies sourcing in the country, followed by Thailand and Malaysia. The data corresponds with the figure from the previous year, although there is a noticeable increase in the share of respondents sourcing in other Southeast Asian countries. In particular, Thailand and Malaysia experienced a sharp increase. Both countries have extensive and experienced manufacturing sectors, which started early on in the 1980s and 1970s respectively.

Figure 14

Sourcing locations in Southeast Asia

Respondents' current sourcing locations in Southeast Asia



3.4 Carbon footprint and regulatory compliance assessment of suppliers in China, Europe and Southeast Asia

Addressing climate change and environmental issues is becoming an increasingly important factor for companies to include in their business strategies, with pressure coming not only from the political environment but also from stakeholders. Many regions, including China, Europe and Southeast Asia, have pledged to reduce greenhouse gas emissions and reach carbon neutrality in the upcoming 30-40 years; China aims to reach its carbon peak by 2030. As China only recently introduced active measures to combat climate change, and with its carbon-intensive industry and large population, working with environmental issues is yet a relatively new and uncommon practice for many business entities operating in the region.

To better understand companies' engagement in this issue, we asked respondents how they assess their current and new suppliers' carbon footprint and regulatory compliance.

Figure 15

Assessment of new potential Chinese suppliers' carbon footprint

Share of respondents assessing the carbon footprint of new potential Chinese suppliers

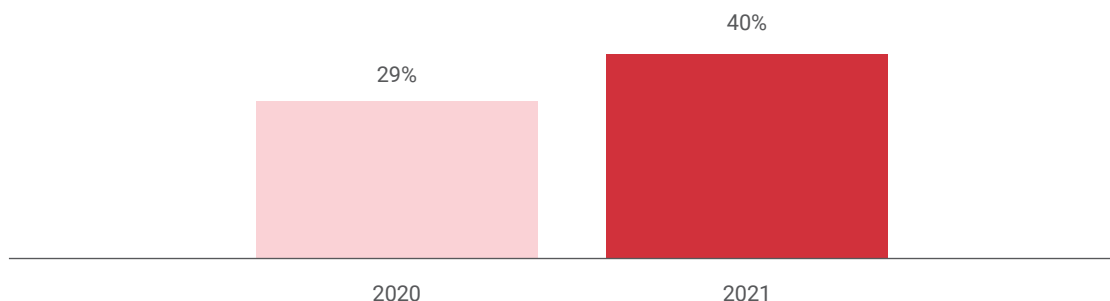
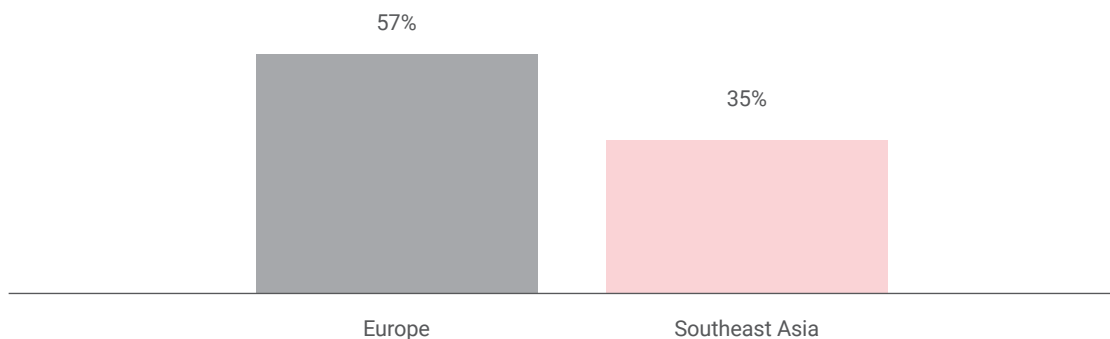


Figure 16

Assessment of new potential European & Southeast Asian suppliers' carbon footprint

Share of respondents assessing the carbon footprint of new potential European & Southeast Asian suppliers



According to the survey, only 40% of the respondents collect the carbon footprint of new Chinese suppliers when evaluating them. Although still a minority, it is a notable increase compared to 29% in 2021. Similarly, only 35% of respondents collect the carbon footprint of new Southeast Asian suppliers. In contrast, when evaluating new European suppliers, 57% say that they collect the carbon footprint of new suppliers, a much higher share compared to China and Southeast Asia.

On the other hand, according to the experience amongst those who attempted to collect carbon footprint data, suppliers in China and Southeast Asia are much less willing to share the data when requested compared to European suppliers. Only 28% of Chinese suppliers and 30% of Southeast Asian suppliers are willing to share the data, in contrast to 82% of European suppliers. At the same time, most Chinese and Southeast Asian suppliers are unaware of their carbon footprint data and, thus, unable to provide the proper documents when requested. Tracking greenhouse gas emissions is undoubtedly still relatively uncommon amongst Chinese and Southeast Asian suppliers, which certainly impacts the surveyed companies' ability to assess suppliers' carbon footprint. Nevertheless, although only a small percentage, carbon footprint data seem to be available to a larger extent among Southeast Asia suppliers than among Chinese ones. Still, around 35%, 27% and 37% of respondents stated that they did not track the data at all for Chinese, European and Southeast Asian suppliers respectively, regardless of their ability to share the data.

Figure 17

Assessment of suppliers' willingness to share carbon footprint data

Respondents share the willingness to share carbon footprint data of Chinese, European & Southeast Asian suppliers

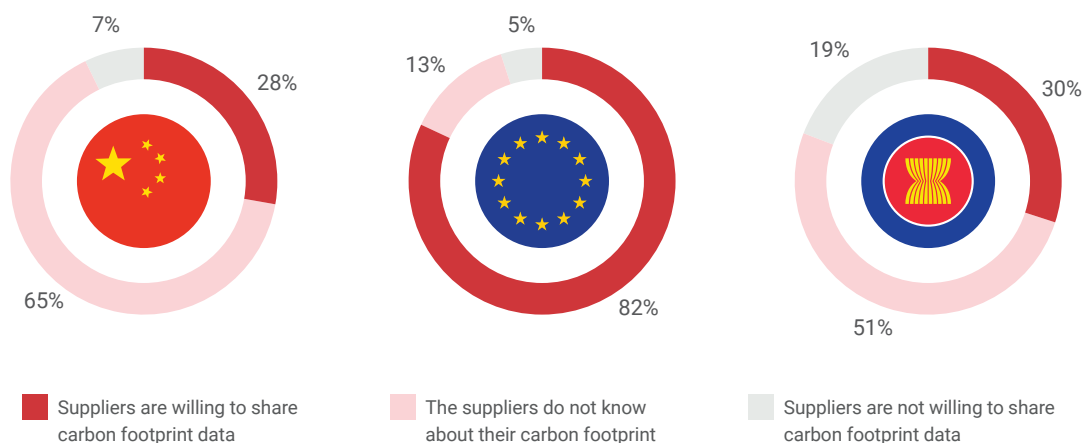
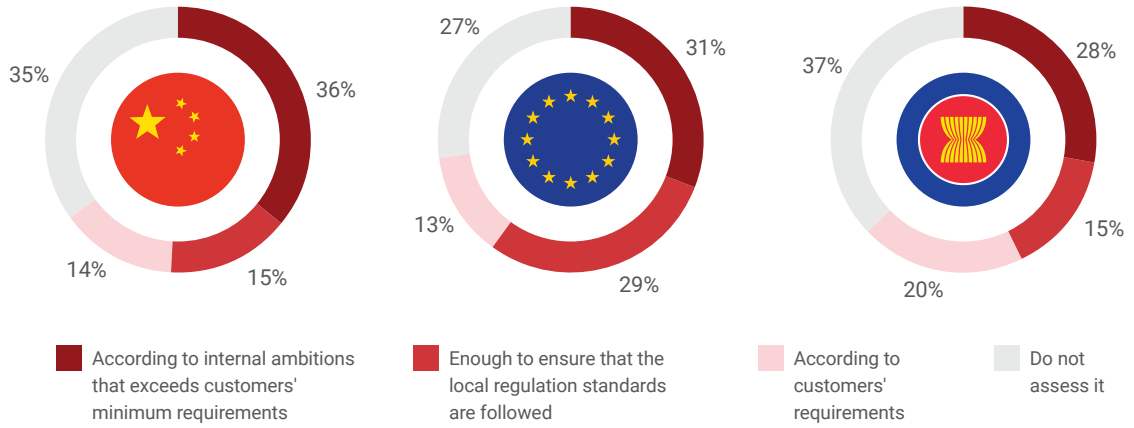


Figure 18 shows to which extent the surveyed companies assess their suppliers' carbon footprint data. Overall, 65%, 73% and 63% of companies evaluate their suppliers' carbon footprint data to some extent for Chinese, European and Southeast Asian suppliers respectively. The majority in each country assessed the data according to the company's own internal ambitions that exceed customers' minimum expectations, where the largest share did so in China (36%). While it is clear that companies assess their European suppliers to a larger extent, the difference between the countries isn't as significant as when comparing the countries in figures 15 and 16. The data indicates that, to a certain extent, the level of assessment is more dependent on the suppliers' ability to share the data rather than the companies' willingness to assess it.

Figure 18

Assessment of current and new Chinese, European & Southeast Asian suppliers' carbon footprint data

Respondents share the extent to which they assess the carbon footprint data of suppliers

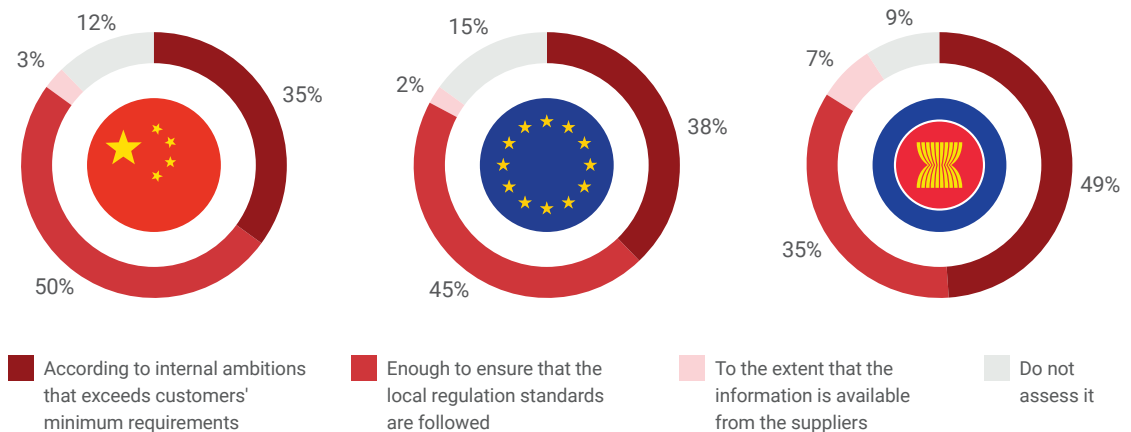


The data between the regions is relatively similar when it comes to checking the suppliers' compliance with local industry regulations and policies. More than 85% of respondents assess this factor to some extent in all countries. Southeast Asia is evaluated according to "internal ambitions that exceed the customers' expectations" by the largest share, with 49% stating this, almost 15 percentage points more than China. At the same time, Southeast Asia also has the largest share of respondents that only assess it "to the extent that the suppliers are able to provide the data". Although not a large difference, it is an indication that Southeast Asian suppliers may not track compliance with local industry regulations and policies to the same extent that Chinese and European suppliers do.

Figure 19

Assessment of current and new Chinese, European & Southeast Asian suppliers' compliance with local industry regulations and policies

Respondents share the extent to which they assess compliance with the local industry regulations and policies of suppliers



4 Reshoring trends

As costs started to soar and the business environment became riskier, especially after the US trade war, companies began looking at alternative sourcing markets outside China a while ago. With the insecurities and disturbances in China following the Covid-19 pandemic, as well as growing environmental incentives, the trend has only further accelerated in recent years. The once resilient Chinese economy has been shaky since the start of the pandemic, and many doubt China's ability to regain the same economic growth that first made the country such an attractive destination. Nevertheless, with years of heavy investments and a well-established manufacturing ecosystem, reshoring and finding equivalent alternatives can be difficult. Hence, it is interesting to examine to what extent companies are reshoring and the underlying reason why or why not.

This chapter seeks to answer the following questions:

- Are companies moving their sourcing activity, and if so, where?
- What are the underlying reasons why companies are moving or staying in their sourcing location?
- What are the most important factors when assessing a new sourcing location?

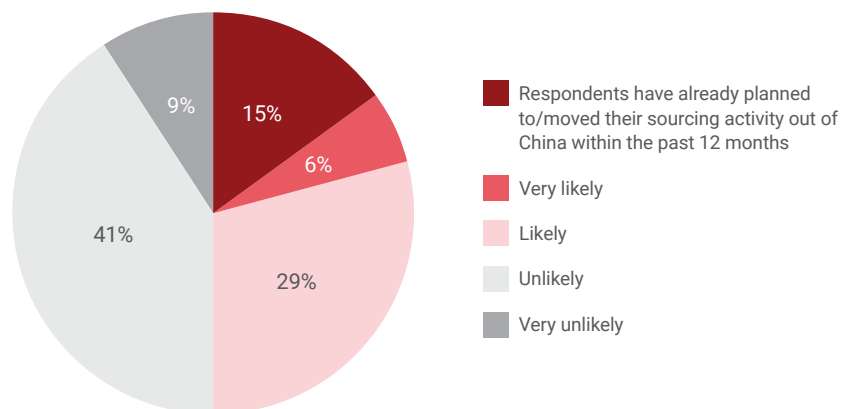
4.1 Likelihood to relocate sourcing activities

Figure 20 shows that the share of companies with existing sourcing activity in China that are either "likely" or "unlikely" to relocate their sourcing to some extent is divided evenly, with 50% on each alternative. The majority of respondents were "unlikely" to relocate their sourcing out of China, with 9% being "very unlikely" to move. At the same time, 15% stated that they already had definitive or realised plans to move within the past 12 months.

Figure 20

Likelihood to completely or partially relocate sourcing out of China in the near future

Share of respondents' likelihood to relocate their sourcing out of China



Looking at Europe and Southeast Asia in figures 21 and 22, a much larger percentage of respondents were likely to keep their sourcing in the regions. 70% and 75% of respondents stated that they were “unlikely” or “very unlikely” to relocate their sourcing respectively. Few of the surveyed companies were “very likely” or had definitive plans to move, with only a total of 7% and 4% of respondents choosing the alternative for the two markets. Europe had the most respondents being very unlikely to move out of the region.

Even though the numbers cannot reflect a definitive trend yet, it is evident that the respondents perceive Southeast Asia and Europe as more secure sourcing destinations than China, and companies are more likely to relocate parts or their entire sourcing out of the latter.

Figure 21
Likelihood to completely or partially relocate sourcing out of Europe in the near future

Share of respondents choosing the alternative in likelihood to relocate their sourcing

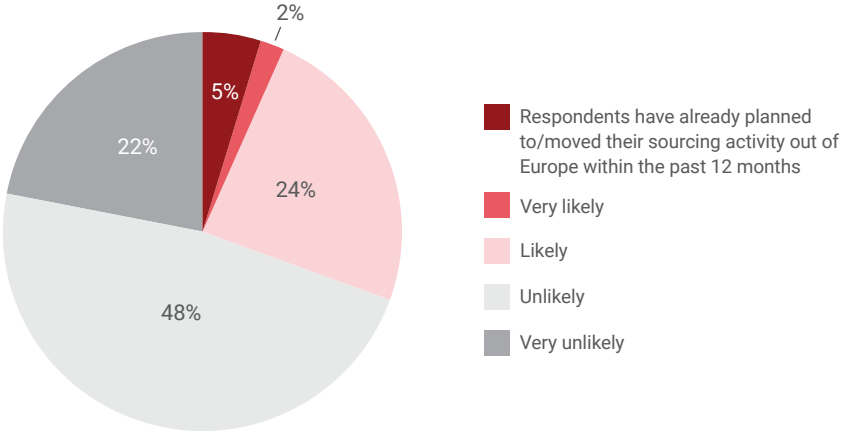
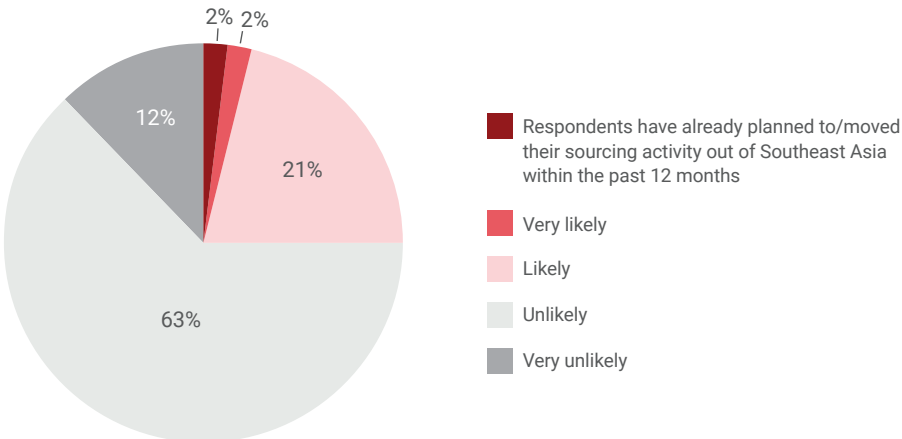


Figure 22
Likelihood to completely or partially relocate sourcing out of Southeast Asia in the near future

Share of respondents choosing the alternative in likelihood to relocate their sourcing



4.2 Reshoring destinations

Despite the higher share of companies being likely to relocate out of China compared to Southeast Asia and Europe, the share of companies that have established new sourcing activity in either of the regions is quite equally divided. As shown in figure 23, the majority of 32% have established new sourcing activity in China in the past 12 months. The share of companies that entered Europe or Southeast Asia is similar, with the former being slightly more popular. As shown in figure 24, amongst those that established new sourcing activity in each region, 52% stated that it was their first sourcing activity in China. The proportions were similar in the other markets, with 47% in Southeast Asia and 53% in Europe. Conversely, when asked if they already have had sourcing in any of the regions, China was the most common answer.

Figure 23

The establishment of new sourcing activities in the past 12 months

Share of respondents that have established new sourcing activities in the regions

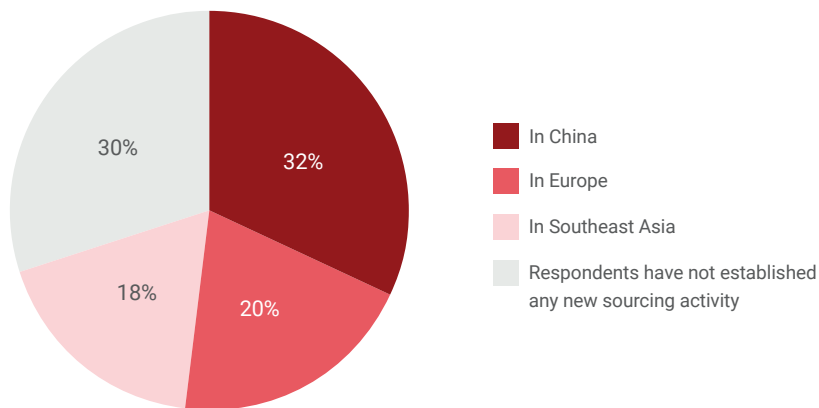
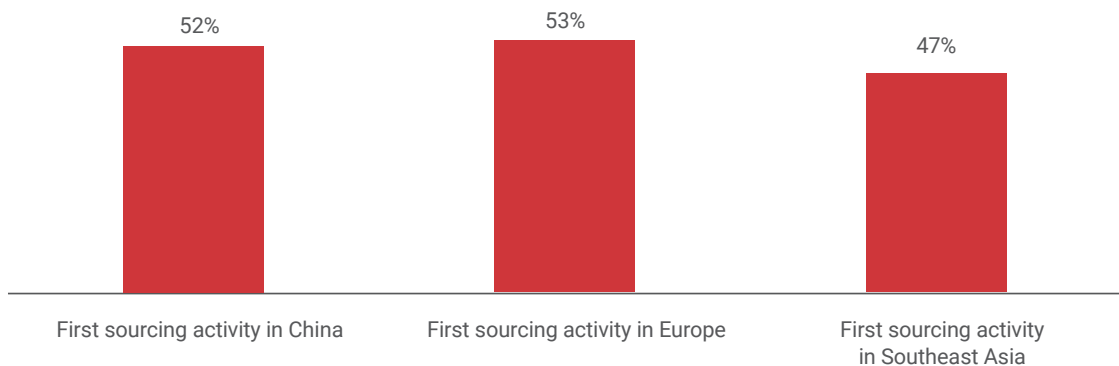


Figure 24

The establishment of sourcing activity in the region for the first time, following figure 23

Share of respondents that established sourcing activity in the region for the first time.



When asking companies that are not sourcing in China, 59% found it “likely” or “very likely” that they would move at least part of their sourcing to the country, as reflected in figure 25. Similar answers could be found for Southeast Asia and Europe. 52% of the respondents that have not had previous sourcing activity in Southeast Asia stated that they were likely or very likely to move parts of their sourcing to the region. For Europe, 57% reported the same.

In the previous part, Southeast Asia and Europe are seemingly more favoured over China, and many companies intend to or have already moved parts of their sourcing out of the country. At the same time, when it comes to where companies are establishing sourcing activity, the three regions stand relatively similar. China still holds the strongest manufacturing base, and there is no indication that companies are choosing other sourcing destinations instead of it. While Southeast Asia is an attractive alternative, additional efforts to strengthen its competitiveness as a sourcing destination are still needed. By comparison, Europe holds strength in location and experience, but lacks the same cost advantages that China and Southeast Asia have.

Figure 25
Likelihood to move parts of sourcing to China, Europe & Southeast Asia
 Share of respondents without previous presence in China, Europe & Southeast Asia that chose the alternative as likelihood to establish new sourcing activity in the region

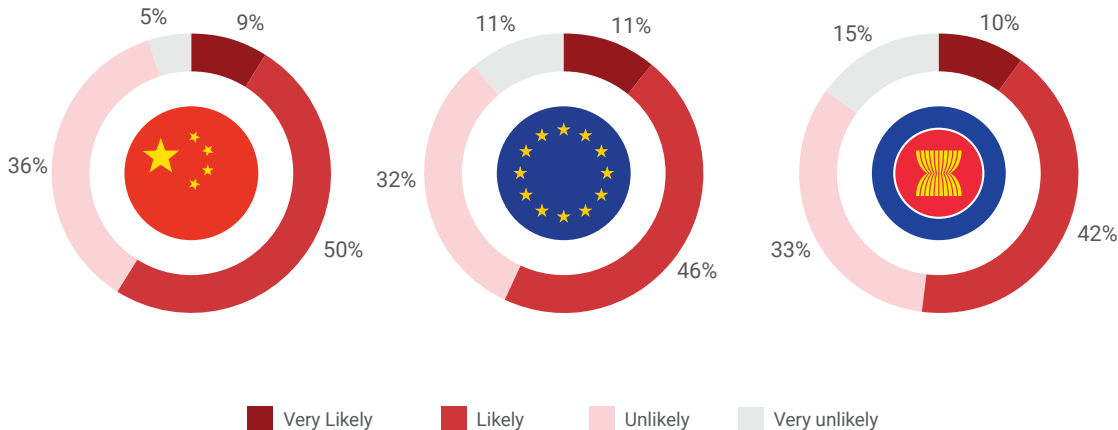
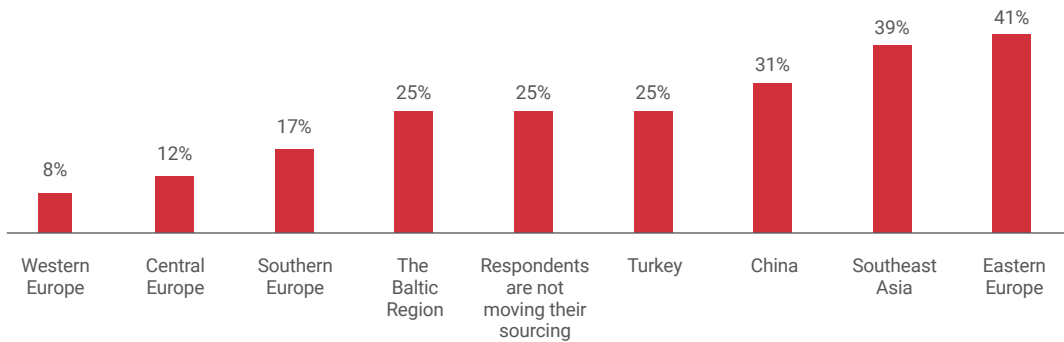


Figure 26 asked companies to specify where they would be more likely to relocate their sourcing. There is a more apparent distinction that Southeast Asia and Eastern Europe are favoured in front of China. According to the survey result, 41% of participants deem Eastern Europe the most important destination to move their future sourcing activities to; Southeast Asia stands in the 2nd position with 39%.

Figure 26

Potential sourcing location to relocate sourcing activity

Respondents' potential sourcing location to move their sourcing activity to



4.3 Reasons to relocate

The effects of the Covid-19 pandemic are still influencing the global market. The three most significant difficulties the respondents have faced in the past years remain similar to 2021 and are even more apparent this year. Figure 27 shows that 85% of respondents find their key sourcing problem to be increasing costs, followed by delays and logistical disruptions, and longer lead time from suppliers, with 74% and 68% of respondents experiencing this respectively. Prices and cost of raw materials have continued to surge this year, further fueled by the Russia-Ukraine war. As China has continued with its zero-covid policy and experienced yet another lockdown and production shutdown, logistical disruption and longer lead times also remained. At the same time, most of the other problems have been less prevalent in the respondents' sourcing; the large contrast between the top three problems and the fourth problem proves that companies' most prioritised concerns are cost and logistics-related issues.

Figure 27

Biggest sourcing problems faced in 2022

Share of respondents listing the top three sourcing problems they have encountered in 2022

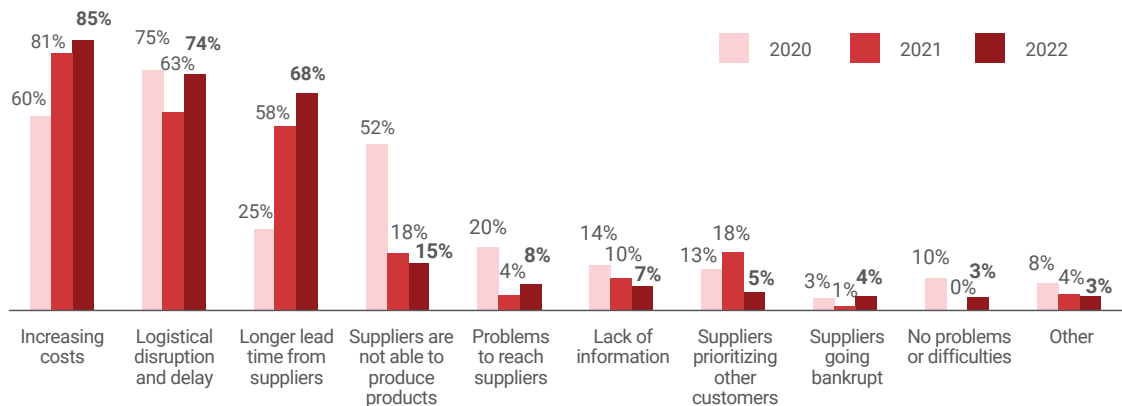
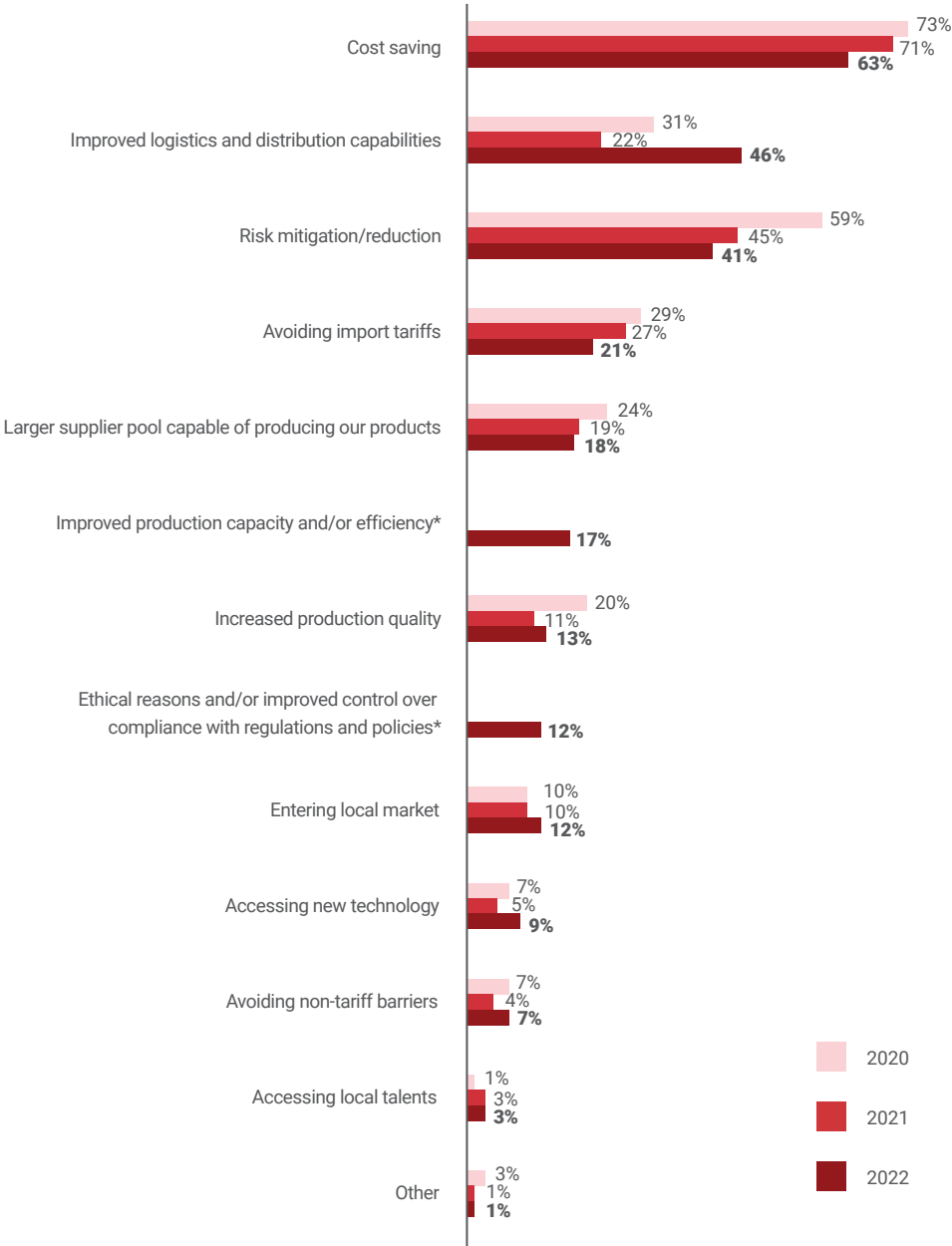


Figure 28 shows that companies' reason for relocating their sourcing largely corresponds to the problems they have faced in their sourcing activity. The effects of the recent years' supply chain disruptions are prevalent in companies' reasons for moving their sourcing.

Figure 28

Reasons for switching to a new sourcing market

Share of respondents listing top three reasons for switching to a new sourcing market



*"Improved production capacity and/or efficiency" & "Ethical reasons and/or improved control over compliance with regulations and policies" weren't included in previous surveys.

Cost saving

Cost saving remains the top reason why companies are relocating to new sourcing markets. Shortages in labour and supply and soaring demand following the end of the pandemic are causing surging inflation. In addition, the Russia-Ukraine war is fueling rising commodity prices. Although the price increase is affecting economies globally, companies can benefit from moving sourcing closer to the original country to save on transport-related costs.

A long ongoing trend is also the rising cost of production in China. Southeast Asia is an attractive alternative with a cheaper cost for labour and operations and favourable free trade agreements. Nevertheless, China's established manufacturing network can lower total costs as companies avoid, e.g. costs for quality control, compliance assessment, and risk management.

Improved logistics and distribution capabilities

Improved logistics and distribution capabilities jumped up to the second most important reason for finding a new sourcing market, with 46% of respondents stating this as one of their main reasons to move, more than double compared to last year's 22%. Halted production due to Covid-19 lockdowns, delays following long delivery distances and disrupted logistics activity, and re-routes after the Russia-Ukraine war have all contributed to companies' lack of control over production, logistics and distribution. As such, near-shoring is rising as a strategy to regain control and avoid unstable deliveries.

Additionally, rising demand in new markets can also be a contributing factor as companies are establishing local production in the new markets to meet local demand.

Risk mitigation/reduction

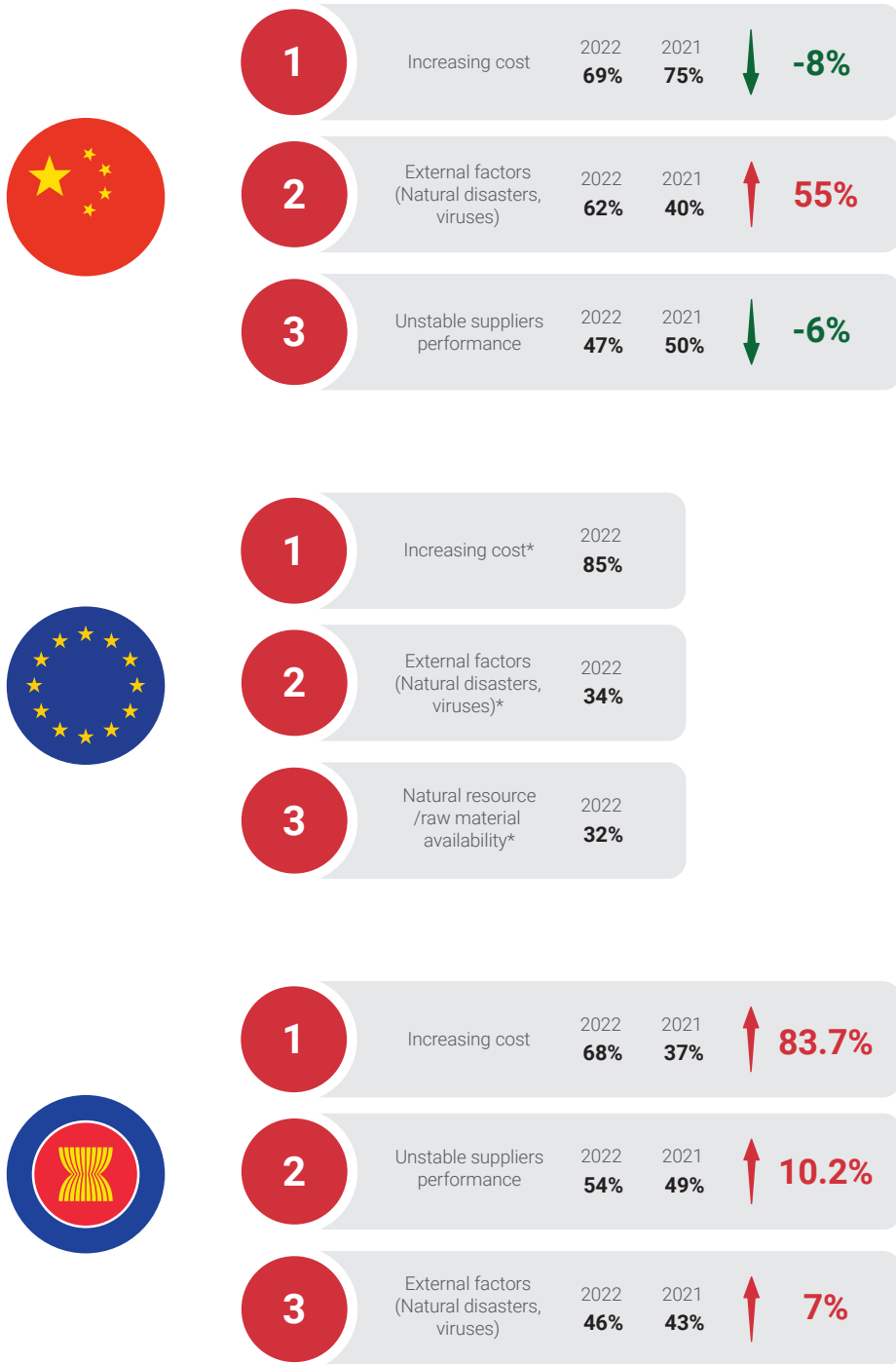
Risk mitigation is the third reason companies switch to a new sourcing market, with 41% of respondents stating this as one of their top reasons to find new sourcing markets. Many companies have invested heavily in China during the past decade, relying heavily on, or even entirely, on the country for its sourcing and manufacturing. Previous sourcing surveys revealed that many companies were not prepared for the turbulence that the pandemic caused in their supply chains. Diversifying one's supplier base in more markets reduces reliance on a single market.

The following data provides a more detailed view of the risks companies relate to each of the examined markets. In summary, each region has its strengths and weaknesses, which are all causing barriers when considering the markets for establishing new sourcing activity. The surveyed companies were asked to rank the top three risk factors they associated with each region. Rising costs were the main reasons for every market; however, the subsequent concerns varied depending on the market.

Figure 29

China, Europe & Southeast Asia sourcing risk factors of most concern compared to 2021

Share of respondents listing the category as one of their perceived top three risk factors



*Assessment of Europe's sourcing risk factors was not included in previous surveys.

Increasing cost

Increasing costs was the most significant risk factor for sourcing in all three regions. China and Southeast Asia had a similar share of respondents that ranked it as one of the top three risk factors, whereas a larger share stated this for Europe, with more than 15 percentage points higher. There is no doubt that China's labour costs have been rising, but increasing costs related to freight, operations and raw materials are also significant contributors.

For China, increasing costs remained the top risk factor. However, the share of respondents dropped by 8% compared to 2021. In comparison, Europe held the highest percentage share for this factor, with 85% stating increasing costs as one of their top three risk factors. Labour and operational costs are considerably more expensive in the region. In addition, inflation set off by the Russia-Ukraine war and rising commodity prices, which particularly affected the European region, have been significant contributors this year.

Noticeably, increasing costs was the top risk factor for sourcing in Southeast Asia, and the share of respondents was similar to China. However, the factor jumped up from the previous year, increasing by 84%. While the region benefits from lower labour and production costs, many countries are still highly dependent on imports from China. For example, the textile industry, one of Vietnam's strongest industries, imports 80% of its raw materials from China. Consequently, as commodity and raw material prices rise in China, so do costs in Southeast Asia and cancel out the cost benefits of manufacturing in the region. It is worth considering that factors such as China's production ecosystem, productivity, efficiency, and rising production quality also contribute to more profitable production, offsetting the rising prices in the country and causing more cost efficiency.

External factors

With the Covid-19 pandemic, it is no surprise that external factors is a concerning risk factor for sourcing in all regions. For China, external factors have become a much greater threat to businesses' sourcing this year compared to previous years, with the share of respondents increasing by 55%. As the rest of the world is recovering from the pandemic, China is clinging to its zero-covid strategy without any sign of easing restrictions anytime soon. Furthermore, the Russia-Ukraine war has heavily impacted economies globally. The conflict has further highlighted China and China's geographical location's vulnerability to unpredictable external factors. While the war has affected economies globally, Europe has been most heavily impacted, which can explain this factor's high ranking in the region despite its relatively early recovery from the pandemic.

Unstable supplier performance

Unstable supplier performance is regarded as the third most concerning factor for sourcing in China and the second most concerning when sourcing in Southeast Asia. Yet another major lockdown in China during the second quarter of 2022 caused additional production delays, adding to the disruptions of the past two years. Even though China implemented many strategies to avoid the closure of factories and harbours, the strict Covid-measures still halted production and caused unpredictable supplier performance. Many Southeast Asian countries were struck by new lockdowns and surges in Covid-cases during the second half of 2021 and only recently started to ease Covid-19 measures. With the region's heavy reliance on Chinese exports as well, growth in concern over supplier performance in the region is a natural consequence.

Closely related to supplier performance, lack of supplier skills and knowledge ranked as the fourth most common risk factor among Southeast Asian suppliers, with 24% stating this as one of their top three concerns with sourcing in the region. As China has had strong economic growth and received extensive foreign investments, Southeast Asia has been unable to compete with the country and thus lacked the necessary demand and foreign investments to develop its industries. The region is still relatively young in terms of supply chain knowledge.

Nevertheless, many countries in the region have implemented multiple efforts to improve their manufacturing. This is also reflected in the responses as the share of companies that find lack of supplier skill and knowledge a concern has decreased considerably by 35% compared to the previous year, indicating that the region will become a stronger sourcing destination in the foreseeable future.

Raw material/resource availability

Natural resource availability is the third most common concern for European suppliers. The region holds its strength in wood, agricultural resources, metal and gas. Nevertheless, Europe lacks the same raw material and natural resource availability as Asia.

Interestingly, based on the share of respondents, the second, third and fourth most common risk factors are of relatively similar concern for European suppliers. 26% stated that production capacity is one of their top three risk factors, making it the fourth most common concern in Europe. As Europe lacks the same cost advantages in labour force, production efficiency, and resource availability, certain suppliers are not as beneficial in the region as compared to lower-cost countries. Moving specific intermediate manufacturing inputs to Europe may move it closer to the consumer market, but would instead increase the distance to other suppliers in the value chain. As such, including the lack of resource availability, relocating entire value chains to the region can be both complicated and unprofitable.

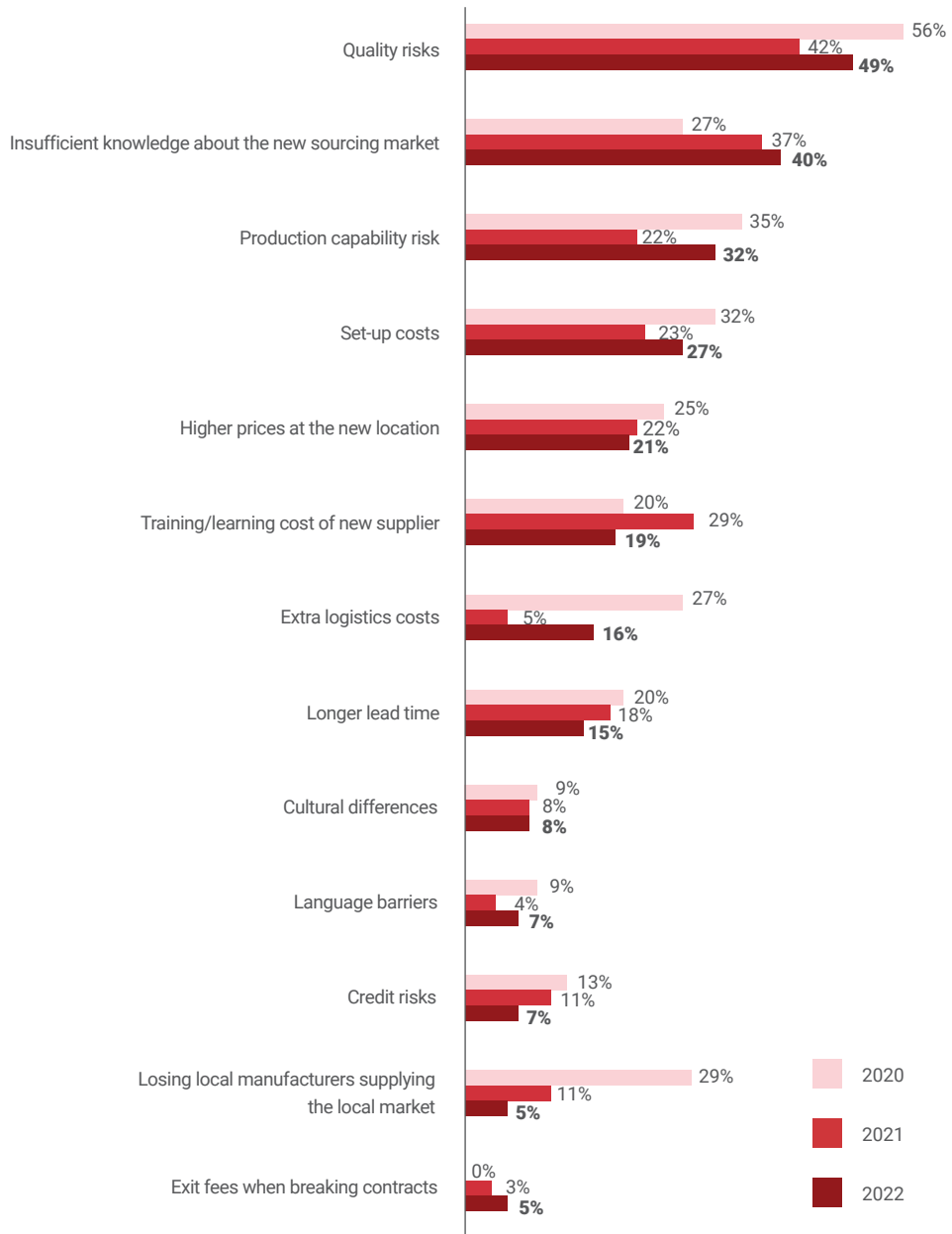
4.4 Reasons for staying

Plenty of international enterprises are seeking alternative sourcing markets outside of China, and there are rising concerns over the risks of sourcing in the country. Still, the rate at which companies are reshoring is marginal, and many are starting new sourcing activities in the country despite the risks. Finding the right alternative sourcing market is proving complicated and not without its risks and difficulties.

Figure 30

Main barriers to consider when entering a new sourcing market

Share of respondents listing the alternative as one of their perceived top three barriers



Quality risk

49% of companies consider quality risks the most significant barrier when entering a new market. Extensive experience in the same market and long-term relationships with the same supplier facilitate companies' ability to predict the output and quality of their sourcing. Hence, moving to an unknown market brings particular uncertainties and quality risks. Performing extensive quality control assessments of new suppliers is a costly but necessary measure to take in order to ensure that the requirements are met. Quality concerns have risen slightly compared to previous years.

Insufficient knowledge about the new sourcing market

Insufficient market knowledge is the second most common concern for businesses when entering a new sourcing market, maintaining the same position as last year. Cultural differences, insufficient experience of market behaviours, lack of knowledge of the market's capacities, available resources, strengths, weaknesses and the like are just some examples of challenges companies face when entering new markets. Expectations that Southeast Asian countries will behave similarly to China is also a possible misconception that may cause problems further on. Many companies might lack the resources to perform the research necessary to understand the market, as it can be both time-consuming and complicated without a local presence.

Production capability risk

Concerns over production capability increased by 45.5%, making the factor the 3rd most concerning barrier amongst the respondents. China's production ecosystem and integrated supply chains still stand as the most competitive compared to alternative markets. Many companies might have experienced this when attempting to relocate larger parts of their sourcing activity out of China during the year, which could explain the decrease in 2021 and the rise in 2022.

Worth noting is that training cost of new suppliers decreased significantly compared to previous years, indicating that companies might have familiarised themselves with the markets and found more knowledgeable suppliers. In addition, alternative markets may also be improving their manufacturing environment.

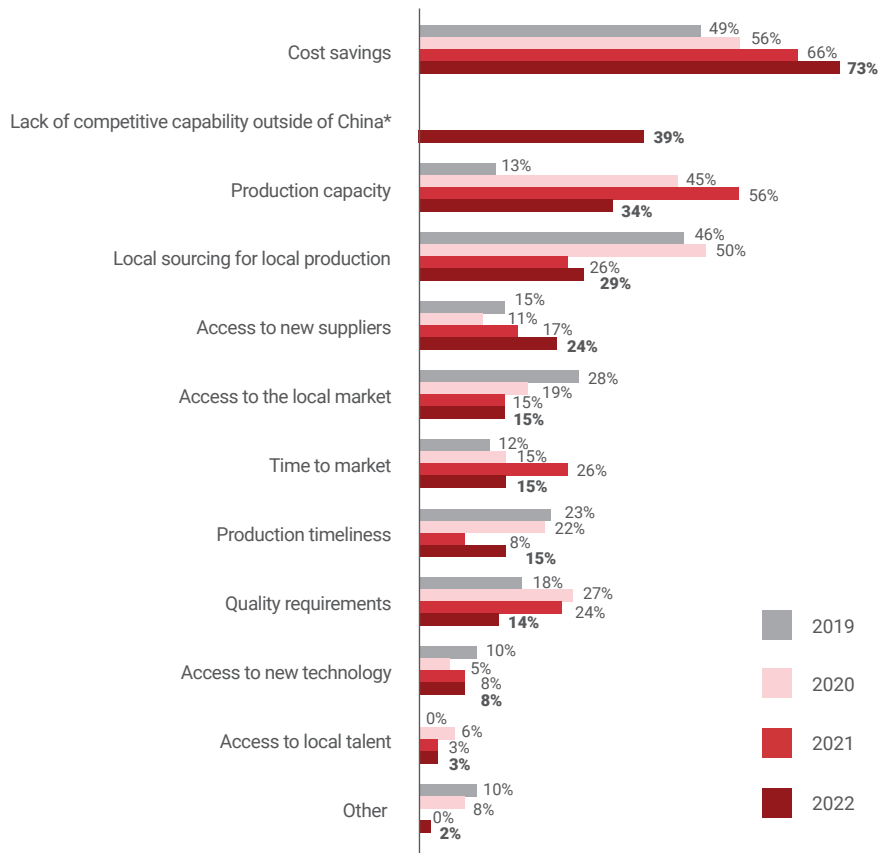
The many supply chain disruptions of the past years were largely related to logistics and the companies' sourcing's distance to the consumer market. Therefore, the surveyed companies with existing sourcing in the regions were asked to list the top three reasons they believed were the main reasons for keeping their sourcing in China or Southeast Asia.

Overall, it is clear that China is starting to lose its competitiveness in many factors compared to previous years, implying that alternative sourcing markets are improving the production environments and are of lesser concern when deciding on moving out of China.

Figure 31

Reasons for keeping sourcing in China

Share of respondents listing the alternative as one of their top three reasons to keep their sourcing in China



*"Lack of competitive capability outside of China" was not included in the previous surveys.

Cost saving

Figure 31 shows that despite the rising costs, China remains competitive in terms of cost savings for the fourth consecutive year. The country's comprehensive supply chain ecosystem and experience allow economies of scale, cost efficiency, and cheap supply chain scalability within the country.

Lack of competitive capability outside China

39% of respondents stated that their reason for continuing to source in China is due to difficulties in finding competitive capability in alternative markets. As discussed throughout the report, while other markets may be specialised and advantageous in certain aspects of sourcing, their sourcing environments are not mature enough for some companies' needs. China's developed and comprehensive industry, cost and production efficiency, and role in the global supply chains make it difficult for other markets to compete.

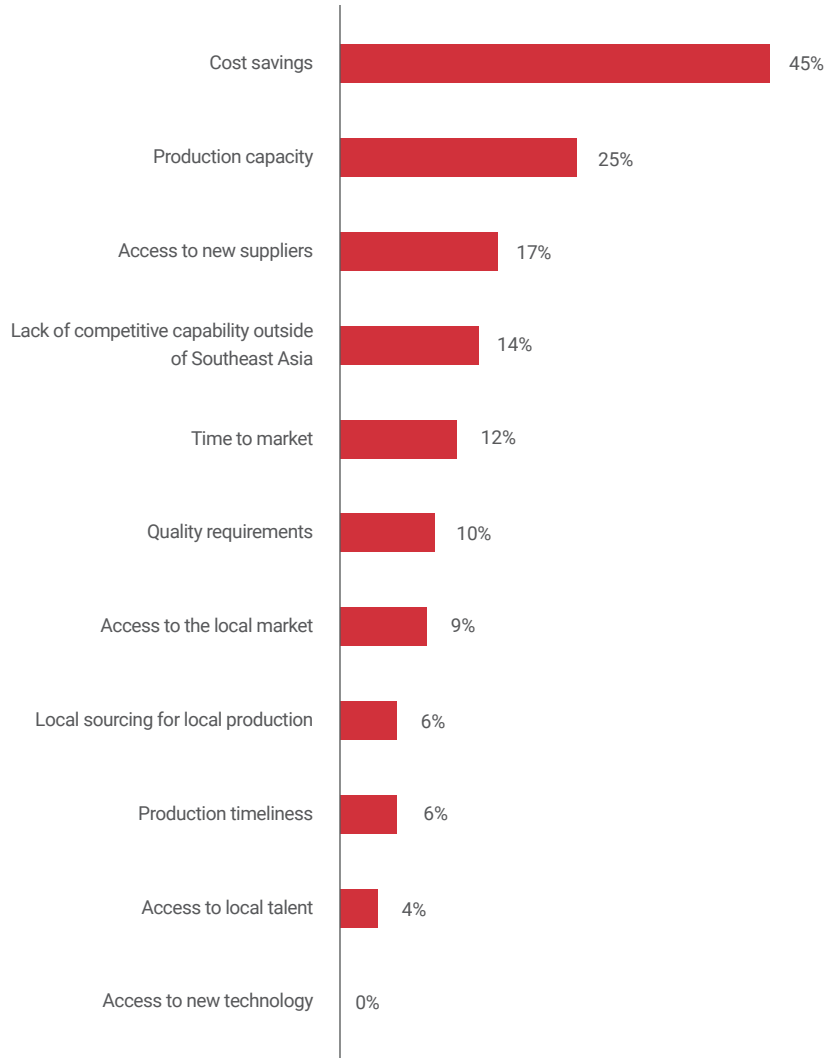
Production capacity

China is still highly regarded for its manufacturing capacity, advanced technology, and well-established industrial base. Nevertheless, only 32% of companies stated this as one of their main reasons, a sharp decline from 56% in the report 2021.

Figure 32

Reasons for keeping sourcing in Southeast Asia

Share of respondents listing the alternative as one of their top three reasons to keep their sourcing in Southeast Asia



Similar to China, cost savings and production capacity top the list of reasons why companies choose to stay in Southeast Asia. However, access to new suppliers stands as the top third reason. The same number only accounted for 3% of the responses in China, indicating that companies are relocating at least parts of their sourcing activity out of China and into Southeast Asia. Having new suppliers is beneficial for diversifying one's supplier base and providing opportunities to discover new innovations and products. New suppliers can also introduce more favourable contract terms, communication alternatives, and improved quality and sustainability factors.

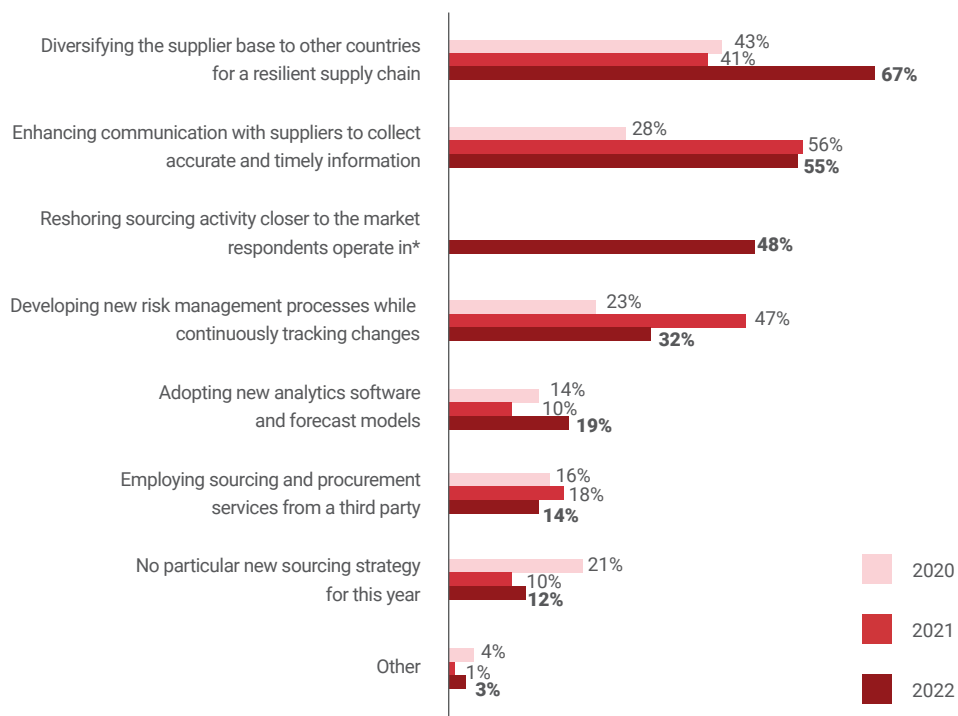
5 Future of sourcing

International businesses are realising that while alternative sourcing markets might not hold the same competitive advantages as China, diversifying their supplier base is still essential to hedge against risks and disruptions affecting specific regions. This chapter examines what we can expect from the sourcing environment in the future. Companies were asked to answer what strategies they are going to focus on looking ahead, as well as how important they perceive different sourcing markets in their future operations.

Figure 33

Risk mitigating strategies for companies sourcing 2022

Share of companies choosing the alternative as risk mitigation strategies they will implement in 2022



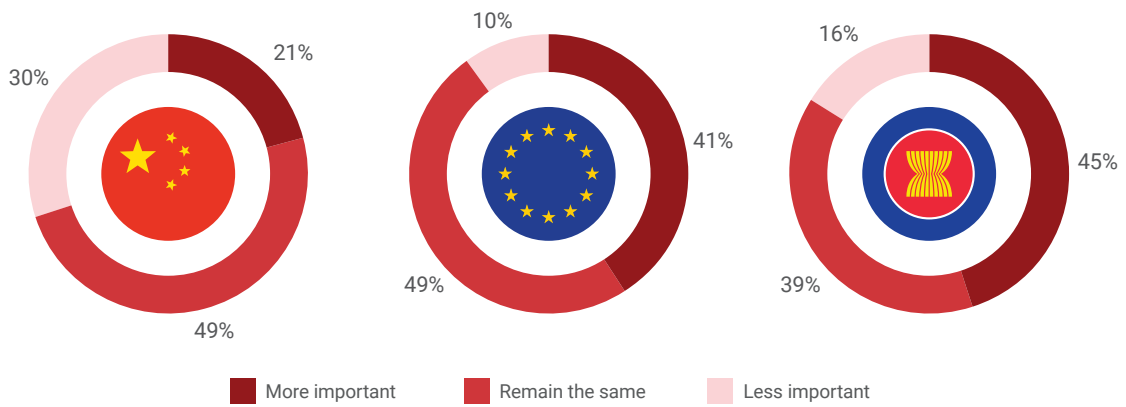
*"Reshoring sourcing activity closer to the market we operate in" was not included in the previous surveys.

In 2022, 67% of companies plan on diversifying their supplier base to another country as a risk mitigation strategy, a sharp increase compared to 41% and 43% in the previous two years. The Covid-19 pandemic certainly contributed to many companies realising the importance of a wide supplier base. The sharp increase this year could be explained by countries just starting to reopen, allowing businesses to access the previously restricted markets during the pandemic. Additionally, companies have now had time to familiarise with alternative markets and are thus more secure and ready to establish new sourcing activities in the chosen destination. The second most common strategy is improving communication with suppliers. Clear and proactive communication with current suppliers helps ensure that orders are fulfilled and prepare for any risks that might be approaching. Thirdly, 48% of companies will be reshoring to countries close to the original market. Due to the many logistical issues and delays, reshoring closer to home helps mitigate those issues.

Figure 34

Expectations on China's, Europe's and Southeast Asia's importance as a sourcing market in the future

Share of respondents' perception of regions' importance as a sourcing market in the future



As shown in figure 34, 70% of respondents believe China will be more important or remain of the same importance in the future overall. 30% believe that China will be less important in the future, a much larger share than those who believe it will be more important and compared to the same figure for Southeast Asia and Europe.

Correspondingly, the majority of the surveyed companies believe that both Southeast Asia and Europe will rise in importance, with quite similar percentages for both. It is also apparent that more respondents believe Europe will remain the same importance, compared to those who believe the same for Southeast Asia. While Europe already has a developed and established sourcing market, Southeast Asia is just starting to grow as a major sourcing destination. Hence, its future is still less certain.

When asked which regions the surveyed companies believe will be the most important for their future sourcing in figure 35, East Asia continues to hold the most importance. However, compared to previous years, Eastern Europe surpasses Southeast Asia in perceived importance this year as companies are now looking to source closer to home. Southeast Asia holds the same rating as before, while The Nordics and Western Europe have increased in perceived importance. Apart from North America, all markets outside of East and Southeast Asia are seeing noticeable increases in perceived importance.

Figure 35

Perceived importance of geographic areas for future sourcing

Respondents rate the importance of different geographic areas for future sourcing from 1 to 3

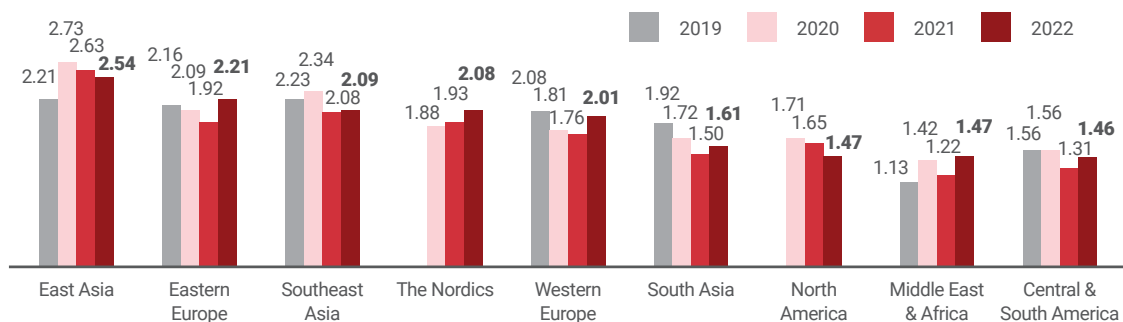
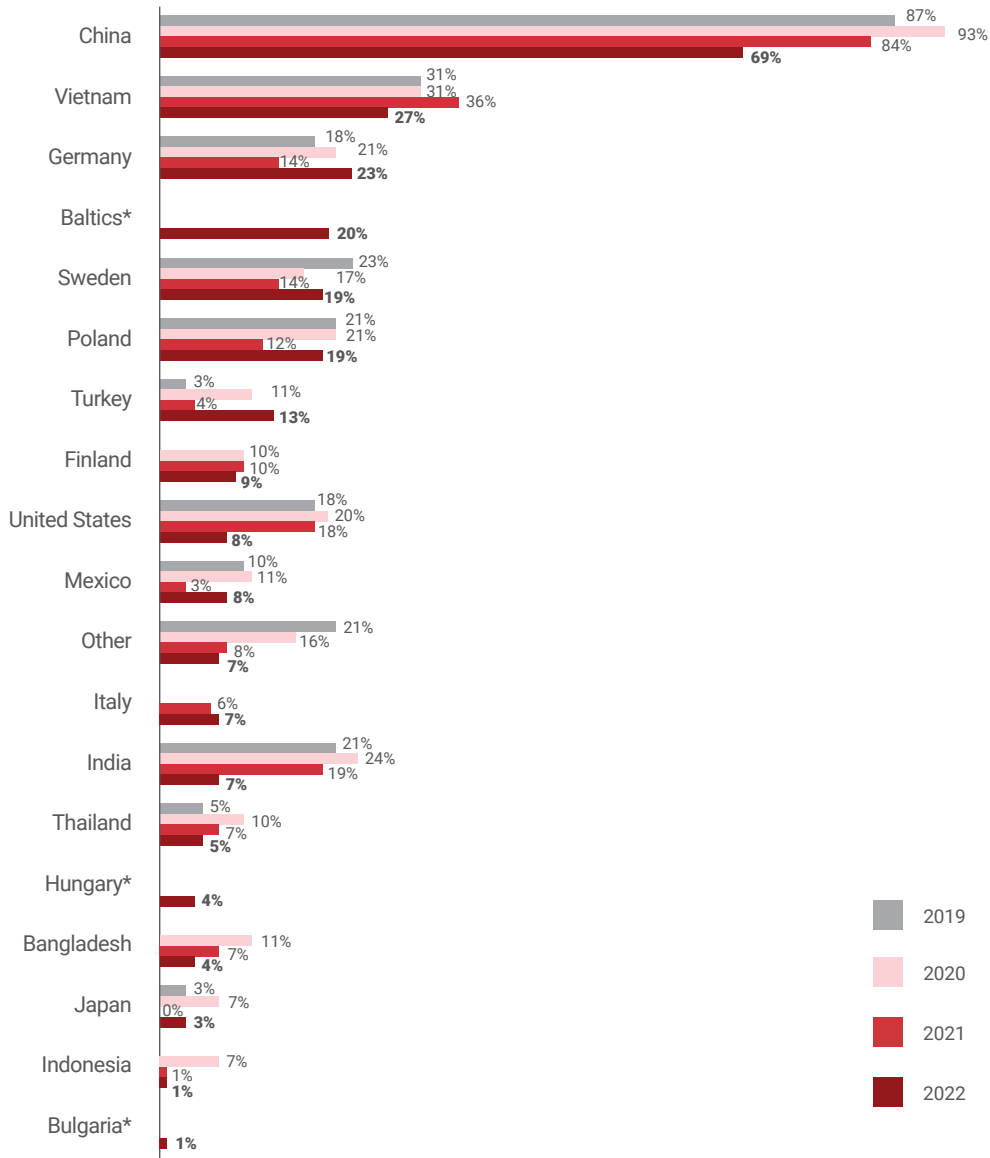


Figure 36

Perceived importance of sourcing locations in the future

Respondents shared the three most important sourcing countries for their company in the future



*"Baltics", "Hungary", & "Bulgaria" were not included in previous surveys.

In general, the top two most important countries for companies' future sourcing remain the same as in previous years. China is still recognised as the most important sourcing destination, with 69% of the survey respondents ranking it as one of the most important markets, followed by Vietnam with 27%. However, both countries' importance has reduced significantly compared to the general trend of the previous survey results. In addition, India, which was previously ranked as the third most important location, fell to 11th place in favour of European countries, Mexico and the United States, a probable direct consequence of companies looking to source closer to home. The Baltic states emerged as the fourth most promising sourcing destination. The region's economies have had steady and high growth, and major investments have been made in favour of the manufacturing industry and trade-promoting activities. In addition, the three states are ranked in the top 20 of the World Bank's Ease of Doing Business ranking. The states are evidently perceived as emerging sourcing markets with the added benefit of being geographically closer to European companies.

6 Conclusion

China has held the position as the most important sourcing hub over the last decade. A comprehensive supply chain ecosystem, cost-efficient production, and experienced manufacturers strengthen China's competitiveness in the global sourcing market. On the other hand, the insecurities of the last years, with increasing costs, disrupted production and logistics reliability, and rising political tensions, have shown companies the importance of clear sourcing strategies and a diversified supplier base.

Although companies are reconsidering their sourcing activities, China is still highly regarded as an important sourcing market today. Even so, the report reveals that an increasing amount of companies are starting to lose faith in the country and reducing their reliance on China. The most prevalent concerns that companies have had with sourcing in China relate to increasing costs, external factors, and unstable supplier performance. Although the surveyed companies have and are implementing strategies to combat these issues, the report's results indicate that reshoring is a trend that will be increasing.

At the same time, markets outside of China are not yet mature enough and ready to replace China as a sourcing market. Apart from risk mitigation, the respondents' main reasons for looking at alternative sourcing markets are cost savings and improved logistics and distribution capabilities. As of now, however, looking at alternative markets for such benefits also requires compromising on quality or efficiency. While companies are evidently looking and wanting to move out of China, the share of companies that source in China remains similar to previous years. In fact, most of the surveyed companies that had established new sourcing activity in the past 12 months did so in China. There is an apparent discrepancy between companies' alleged preferred sourcing destination and their actual sourcing decisions.

It is obvious that more companies favour alternative markets as, when asked about their future sourcing, companies were more likely to establish in Southeast Asia and Europe. Whether or not this trend will be realised in the future will be highly dependent on both regions' ability to develop and meet sourcing demand. Companies will also have to be willing to adapt to sourcing environments different from China's. There is no apparent favourite between Europe and Southeast Asia. The ultimate decision on which market to choose depends on whether the company is mainly motivated by logistics or cost-related issues, as both markets hold their respective strengths and weaknesses.

Southeast Asia has grown as a promising alternative sourcing market to China with many similarities; however, the market still faces several challenges. Less developed supply chains and high reliance on Chinese suppliers makes the region a choice with challenges related to entering new markets. Nevertheless, the countries in the region have made extensive efforts to improve their sourcing markets, and many have given quick results. The biggest challenge is gathering sufficient knowledge about the region and each country's sourcing capabilities and strengths for the most optimised sourcing strategy. In contrast, Europe has more experience in sourcing and manufacturing but does not hold the same cost-related advantages and lacks profitable parts of the supply chain.

It is unlikely that China will lose its strength as a sourcing destination and that companies will find a replacement market anytime soon. Even so, companies are looking to reduce their dependence on China and relocate parts of their sourcing activities to alternative markets. Conversely, Europe and Southeast Asia hold disadvantages that are difficult to ignore, with a lack of sufficient raw material availability and limited sourcing activities. It is not yet apparent if the regions will be able to live up to the standards China has held. Still, the many problems related to logistics and delays have had a lasting effect on companies' sourcing strategies, and near-shoring is seemingly rising in popularity compared to previous years. Therefore, it is likely that China will remain a key sourcing destination, while Southeast Asia and Europe will also grow as sourcing destinations as companies aim to create a wider supplier base.

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