



ARC Consulting: Sourcing Survey 2024

From Global to Regional

Uncovering the trends in sourcing:

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

www.arc-group.com



About Us



ARC Consulting, an ARC Group Company, is the most trusted and well-recognized partner and service provider for European companies in Asia.

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

Our approach has always been to offer realizable advice and hands-on support –getting our hands dirty on the ground and implementing the strategies and plans that we develop for our clients. We offer both project-based advisory to help develop your business, and ongoing business services to unburden you from setting up and managing your own sales, operations, sourcing, or production in Asia. With decades of experience in the region, we have supported European market leaders in reaching their business goals and visions. We now count many of them among our recurring clients

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Our expertise



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Executive Summary

ARC Consulting, part of ARC Group, has been conducting sourcing surveys annually since 2013. These surveys aim to gather opinions and perspectives on global sourcing activities and how they have evolved. The research is based on a survey distributed to over 150 executives and purchasing managers worldwide, reflecting changing attitudes and beliefs, rather than quantifiable sourcing changes, for which there is already ample data. This report aims to provide insight into future trends by measuring intangible changes in perception that often precede tangible pattern shifts.

In 2024, the geopolitical landscape remains complex, with ongoing disruptions from the War in Ukraine, heightened trade tensions between NATO and Russia, the continuous conflict between Israel and Palestine, increasing trade tensions between major global economies like the US and China, and the risk of expanding conflict in the Middle East region. These factors, coupled with the lessons from how COVID-19 disrupted supply chains, have reinforced the importance of supply chain resilience, and risk mitigation. As a result, businesses are increasingly looking to diversify their sourcing locations beyond China.

The trend towards regional sourcing has gained momentum due to its numerous benefits, including reduced transportation costs, shorter lead times, and enhanced supply chain agility. Southeast Asia and Europe have emerged as key alternative sourcing regions, offering attractive options for businesses seeking to mitigate risks associated with over-reliance on a single country. Additionally, the diversification strategy aligns with the growing emphasis on supply chain sustainability, as shorter supply chains often result in lower carbon footprints.

This report serves as a continuation of our yearly analysis, providing a comprehensive view of the ongoing changes and movements in global sourcing strategies. By comparing the current data with previous findings, the report highlights the shifts in business strategies as companies navigate the complexities of the modern geopolitical environment. It seeks to shed light on the extent to which companies are relocating sourcing activities, their chosen regions, and the motivating factors behind these decisions. Furthermore, the report examines the increasing importance of regional sourcing and its benefits in enhancing supply chain resilience and sustainability.

The Study at a Glance:

- What are the key global sourcing countries, and how have sourcing strategies evolved towards regionalization?
 - What are the major problems and difficulties faced in global sourcing, and what are risk mitigation strategies?
 - What regional differences exist between Europe, China, and Southeast Asia?
 - How is Environmental, Social, and Governance (ESG) compliance integrated into each regional sourcing strategy, and what are the motivations behind these efforts?
 - What are the key drivers and barriers influencing the shift from global to regional sourcing?
 - What are the future outlooks and relocation plans for different regions?
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*Global Sourcing
Strategies Shift Towards
Regionalization for
Enhanced Resilience,
Cost Efficiency, and
Sustainability*

Amid ongoing geopolitical tensions and economic disruptions, this year's survey highlights a significant shift towards regional sourcing, with businesses increasingly diversifying their supply chains to Southeast Asia and Europe. The focus is on reducing transportation costs and lead times, enhancing supply chain resilience, and addressing challenges such as rising costs, logistical disruptions, and the growing trend of rigorous ESG compliance driven by international demand.

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

Key findings from the report include:

- China remains the dominant sourcing market, maintaining strongly after disruptions, while Vietnam emerges as a significant alternative due to competitive advantages. Western European countries like Germany and Sweden show varied trends in sourcing importance, reflecting a shift towards diversified and regionally resilient strategies.
 - Challenges include rising costs, long lead times, and logistics disruptions, driven by geopolitical tensions and supply chain issues. Mitigation strategies focus on diversifying supplier bases, improving supplier communication, and adopting localized sourcing approaches such as reshoring and nearshoring. Advanced techniques like enhanced risk management processes and the adoption of analytics are also pivotal in optimizing global supply chain operations amidst uncertainties.
 - The current sourcing strategies reflect distinct trends and proportions in each region. Europe has seen a shift away from localized sourcing, with fewer companies relying heavily on European markets for their purchasing spend. In contrast, China maintains its stable global supply chains while actively diversifying sourcing activities. Southeast Asia, on the other hand, is increasingly becoming a favored destination for global sourcing, despite regional challenges such as supplier performance and skills availability. These differences highlight varying maturity levels and strategic priorities in each region's sourcing landscapes.
 - Europe leads in transparency and assessment in ESG compliance, driven by stringent regulations and market pressures. China shows notable improvement influenced by regulatory changes and international demands. Southeast Asia lags, indicating a need for stronger regulatory frameworks and corporate accountability.
 - Strategies include on-site visits for direct observation, increasing reliance on third-party audits for independent verification, and reviewing suppliers' data and documents. There is a decreasing reliance on media reports and expert interviews, but more structured and measurable verification methods are being favored. Motivations have shifted towards achieving financial performance and leveraging tax incentives, indicating a broader integration of ESG into business objectives.
 - Companies are increasingly favoring regional sourcing strategies, driven by cost savings and production capacity. While Europe has seen a decline due to rising costs and regulatory complexities, China retains its position with a robust manufacturing ecosystem, and Southeast Asia is gaining importance despite challenges in scalability and infrastructure development.
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1. Introduction

In the late 2010s and early 2020s, a series of crises, including the US-China trade war, the COVID-19 pandemic, the Russia-Ukraine conflict, the Suez Canal obstruction, and ongoing Houthi attacks on vessels in the Red Sea, exposed the vulnerabilities of global supply chains. These events introduced trade barriers, disrupted transportation, and triggered energy crises, driving home the risks of over-reliance on global sourcing. The semiconductor crisis, in particular, underscored the fragility of supply chains reliant on specific regions, while the Suez Canal blockage and attacks in the Red Sea demonstrated the susceptibility of critical maritime routes to unexpected disruptions. As a result, businesses are now gradually shifting towards regional sourcing to enhance supply chain resilience and stability.

China has been a pivotal hub for global manufacturing, sourcing, and processing for decades. Western countries, including the US, have heavily relied on China due to its low-cost advantages, strong domestic market, extensive supply chain infrastructure, favorable trade policies and agreements, robust manufacturing ecosystem, and high growth potential. After a significant downturn between 2020 and 2022 due to lockdowns in major manufacturing hubs disrupted operations, China has gradually regained its attractiveness and returned to its position as a key sourcing hub globally.

However, the geopolitical and trade tensions witnessed in recent years, along with the disruptions between 2020 and 2022, have highlighted the uncertainties in the global supply chain and the risks of over-dependence on a single sourcing market. The need to develop alternative sourcing markets to China to mitigate risks and reduce companies' vulnerability to potential disruptions, therefore, is increasingly highlighted as a strategic approach to enhance their operational resilience.

The China Plus One strategy has emerged as a viable solution for Western countries seeking to balance cost efficiency with risk mitigation. This strategy involves maintaining sourcing activities in China while simultaneously establishing additional sourcing and manufacturing locations in other countries. Europe and ASEAN-6, which includes Vietnam, Indonesia, Malaysia, the Philippines, Thailand, and Singapore, have emerged as the most promising regions for supply chain diversification. Southeast Asian countries offer several advantages, including geographical proximity to China, low labor costs, and high growth potential. Europe, on the other hand, presents a strong rule of law and legal frameworks, developed infrastructure, skilled workforces, and geographic proximity to Western companies' headquarters.

As we move into 2024, there is cautious optimism for a global economic recovery. This anticipated upturn will likely drive increased consumer demand and, consequently, global sourcing activities. Businesses must stay ahead of these trends, leveraging the strengths of diverse regions to reduce risks and capitalize on growth opportunities.



Daniel Karlsson
Managing Director, ARC Consulting

2. Methodology

The survey was conducted by ARC Consulting in the summer of 2024. The dataset used in this survey was collected through an online questionnaire consisting of 62 questions, covering the following topics:

- Overview of global sourcing practices
- Sourcing markets across Europe, China, and Southeast Asia
- Transitional trend from global to regional sourcing
- Drivers and barriers to sourcing strategies
- The outlook of future global sourcing and strategic recommendations

The majority of the survey participants are located in Asia and Europe. Most operate in manufacturing, retail, automotive, textile, electronics, or machinery industries. Over 50% of the survey respondents have a purchasing value of over 100 million USD per year.

Figure 1
Survey participants by main locations

The main geographical locations of the surveyed companies

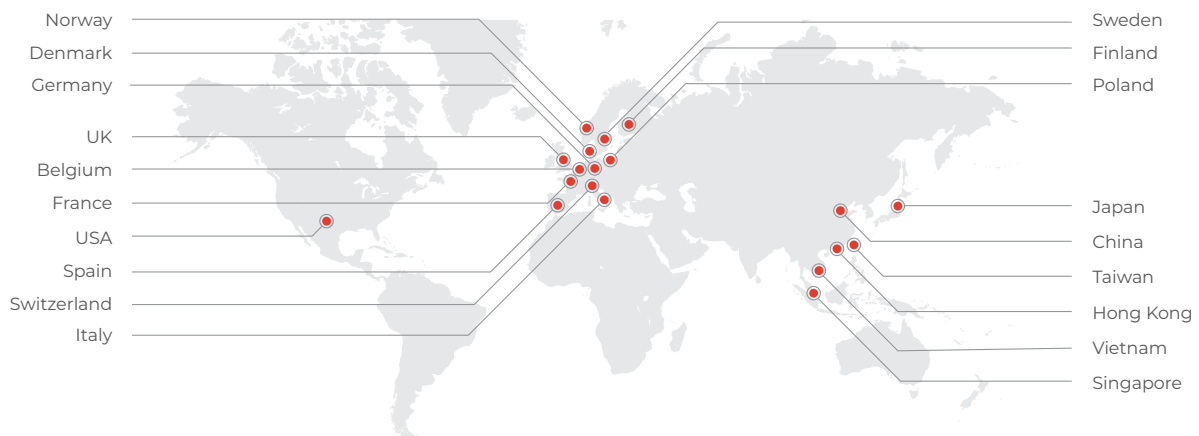
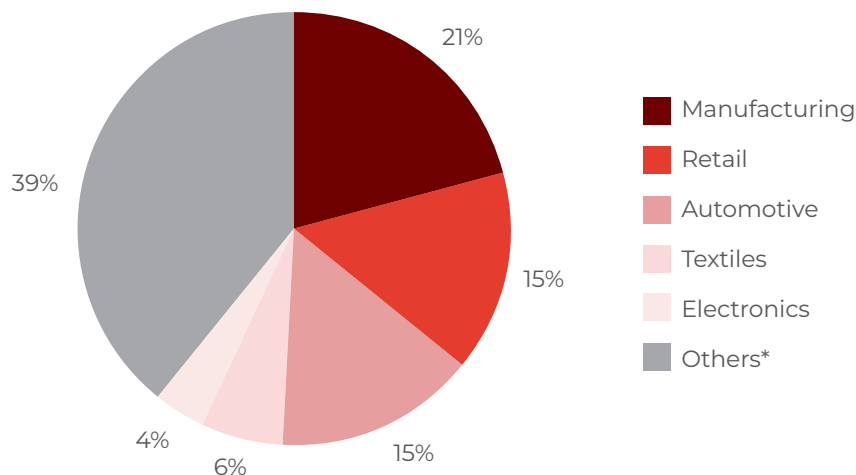


Figure 2
Survey participants by industry

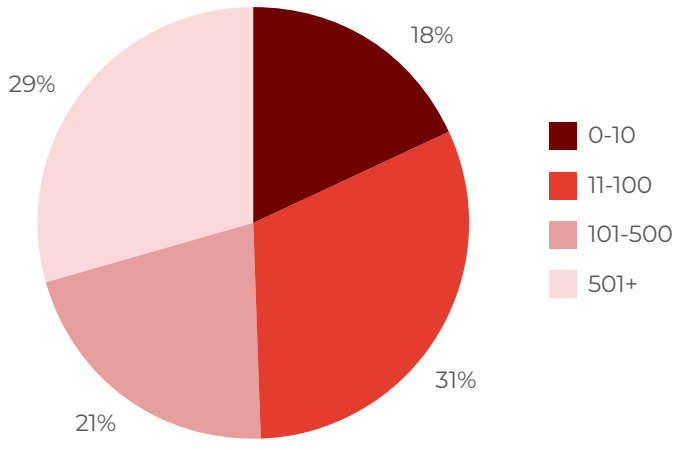
Share of the respondents belonging to different industries



*Others include Machinery, Energy/Resources Material, Telecommunications, Technology, Chemicals, Construction, Financial Services, Food & Agriculture, MedTech, and other industries.

Figure 3
Survey participants by global purchasing amount in 2023 (Million USD)

Share of respondents categorized by total global purchasing amounts in 2023



3. Global Sourcing Situation Overview

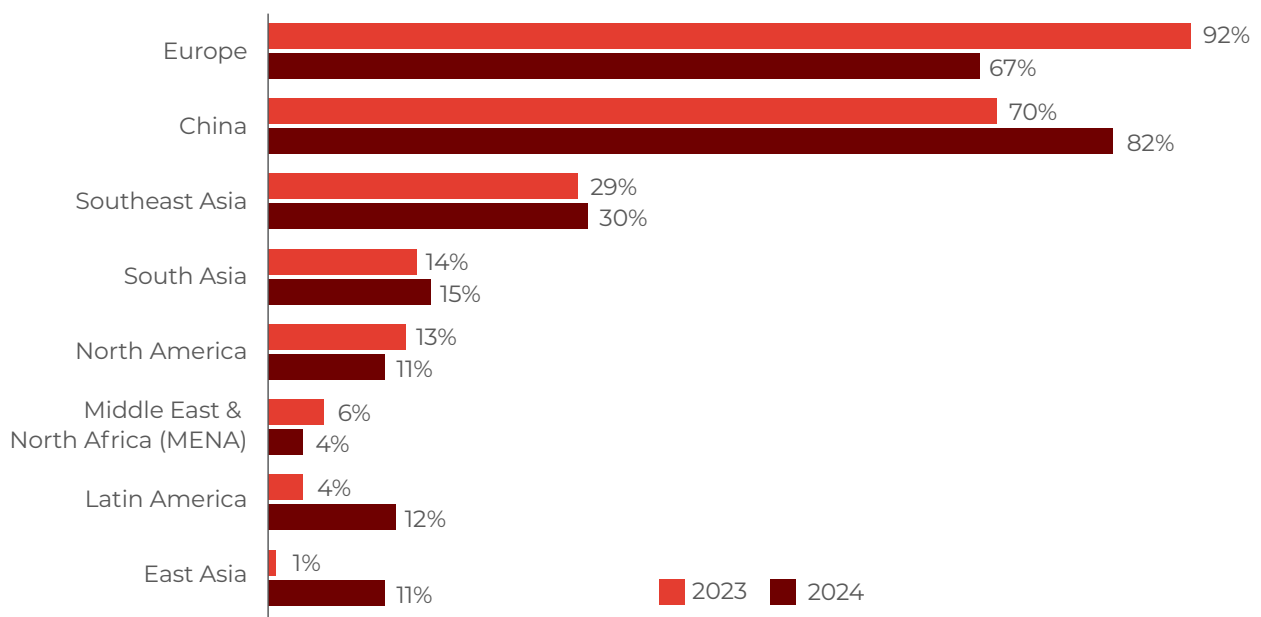
The global sourcing landscape is undergoing a significant transformation as businesses adapt to evolving market dynamics and geopolitical factors. Businesses are likely to continue exploring and investing in diverse sourcing markets to navigate the complexities of the global trade environment. This chapter delves into this transformation, driven by businesses' responses to these shifts.

This chapter seeks to answer the following questions:

- Which are the most important sourcing countries for companies at the moment?
- How has the company's sourcing strategy evolved in the past two years in response to global supply chain disruptions due to conflict in Europe and the Middle East?
- What have been the sourcing activities' biggest problems/difficulties in the past 12 months?
- What risk mitigation strategies have been planned and implemented in 2024?

Figure 4
Important sourcing regions/countries compared to the previous years

Share of respondents who chose each region/country as their important sourcing country



When asked about important sourcing countries for their companies, Europe saw a significant decrease, dropping from 92% in 2023 to 67% in 2024. Despite this overall decline, Germany and Italy experienced increases in significance, with Germany rising from 21% to 28% and Italy from 5% to 13%. This decline may reflect a strategic shift in sourcing preferences due to evolving economic conditions and the search for cost-effective alternatives. In contrast, China has solidified its position as a critical sourcing market, with its share increasing from 70% in 2023 to 82% in 2024. Despite ongoing geopolitical tensions and trade disputes, China's robust manufacturing capabilities and comprehensive supply chain infrastructure continue to attract global companies.

Southeast Asia experienced notable growth, rising from 29% in 2023 to 38% in 2024. Within this region, Vietnam's importance surged from 13% to 21%, underscoring its emergence as a key alternative to China. This growth is driven by competitive labor costs, improving infrastructure, and strategic trade agreements. Other countries in Southeast Asia also saw a slight increase from 16% to 17%.

South Asia displayed mixed trends. The region's overall share decreased from 14% to 11%, yet within this region, India's significance increased from 8% to 11%. This rise highlights India's growing role in the global sourcing landscape, supported by economic reforms, expanding infrastructure, and strengthened trade relations with Western economies.

North America experienced a slight decrease in share, from 13% in 2023 to 11% in 2024, indicating a shift in sourcing preferences towards other regions. Similarly, the Middle East & North Africa (MENA) region saw a decline from 6% to 5%, reflecting a reduced focus on these areas.

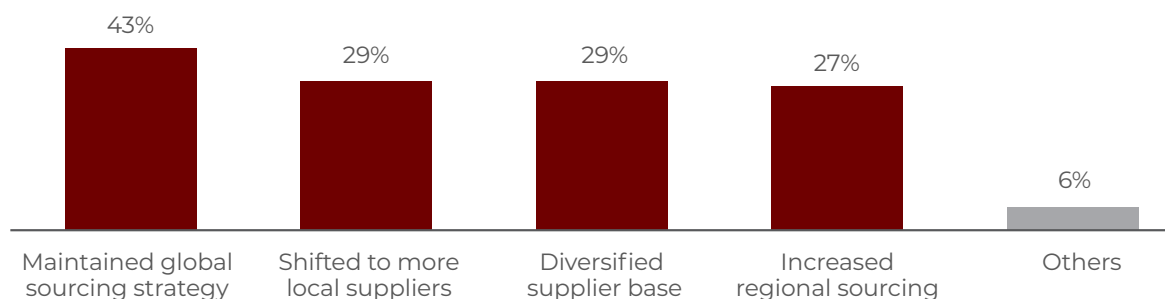
Latin America, however, saw a substantial increase from 4% to 12%, with Mexico itself rising from 4% to 10%. This growth highlights the region's appeal due to competitive costs and proximity to major markets, making it a more attractive sourcing destination.

East Asia, excluding China, also experienced growth, with its share increasing from 1% to 7%. This indicates a diversification trend among companies aiming to mitigate risks and build more resilient supply chains.

Overall, while China remains a dominant force in global sourcing, the trend toward diversification is evident. Companies are increasingly looking to other regions like Southeast Asia, Latin America, and South Asia to balance their sourcing strategies. This shift reflects a strategic move towards more balanced and resilient supply chains, reducing dependence on any single region.

Figure 5
Companies' sourcing strategy in the past two years

Share of respondents who chose each strategy as the evolution or adoption of their companies' sourcing strategy in response to global supply chain disruptions in the past two years



The responses reveal a dynamic shift in sourcing strategies as a result of supply chain disruptions. Chosen by the majority of respondents (43%), global sourcing strategy is still the most important strategy for companies due to its low-cost advantage, allowing companies to save money by leveraging cheaper raw materials and skilled labor from low-cost countries, among other advantages.

However, witnessing recent global disruptions, businesses are also focusing on mitigating risks by shifting towards local suppliers and diversifying their supply chains. A trend towards mitigating risks through supplier diversification is shown through 29% of companies shifting towards more local suppliers, while another 29% diversifying their supplier base. Additionally, 27% increased regional sourcing, reflecting a strategic move to enhance regional resilience. These insights indicate a balanced approach between maintaining global connections and adopting localized strategies to navigate supply chain challenges effectively. Notably, 22% of respondents selected two or more strategies, highlighting the trend of companies employing a mix of sourcing strategies to enhance supply chain resilience. This overlap in strategies illustrates that the answers are not mutually exclusive, as many respondents are sourcing from multiple locations and implementing multiple strategies simultaneously to adapt to the evolving global supply chain landscape.

Furthermore, while the 2023 survey highlighted the China Plus One strategy as an early step towards diversification and risk mitigation, this year's findings offer more specific and quantifiable insights into business perceptions. These results reinforce the attractiveness of global sourcing but also indicate that the intention to diversify remains in its early stages. This comparison underscores the gradual recognition by companies of the need to balance global and local sourcing to effectively mitigate risks.

Figure 6
Major problems/difficulties in sourcing in the past 12 months

Share of respondents who chose each problem/difficulty as their biggest one in the past 12 months

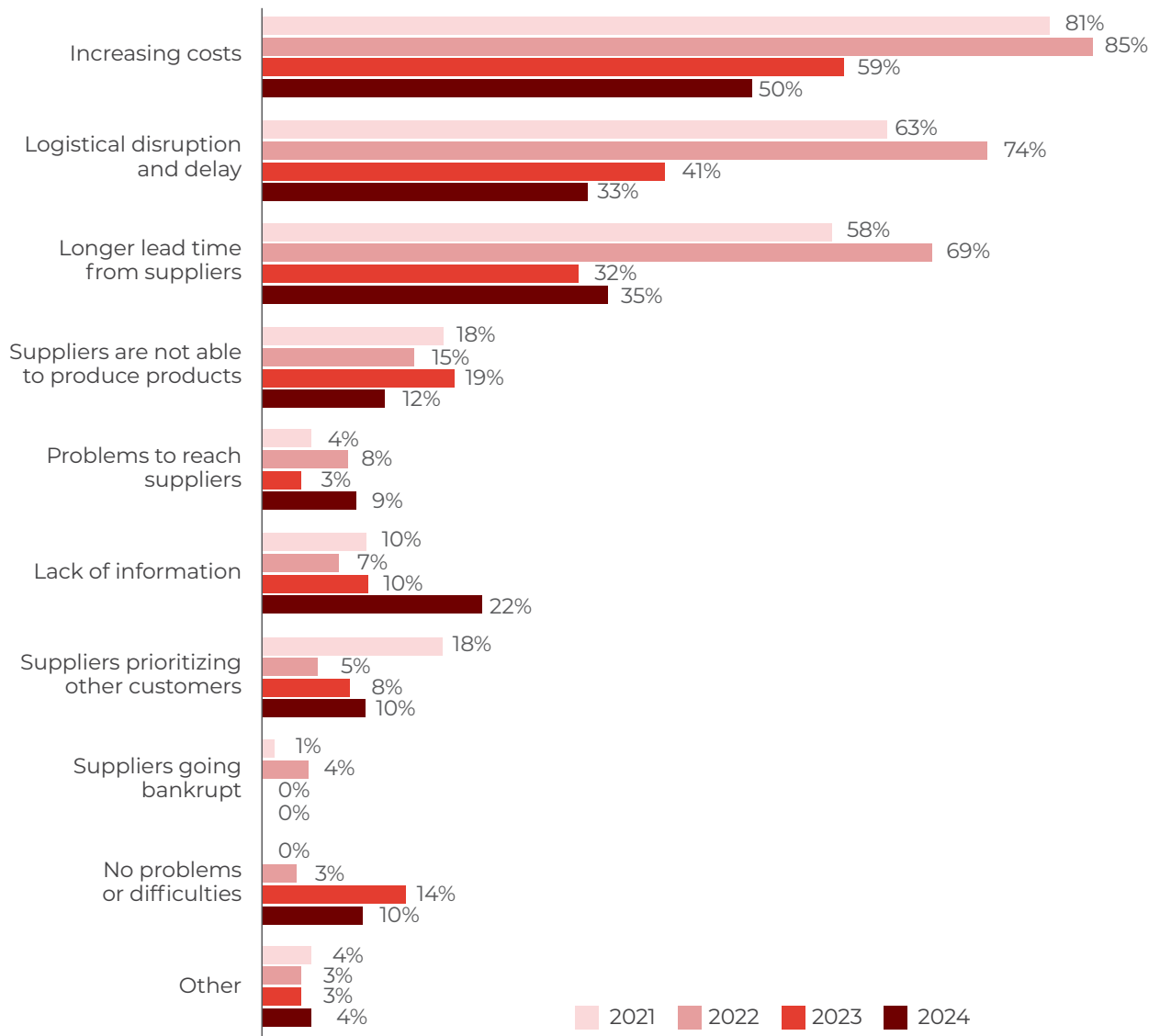


Figure 6 illustrates the difficulties that businesses perceive as the major ones in their supply chains and operations, mirroring the global supply chain disruptions of recent years. The ongoing challenges are evident in the responses, with increasing costs remaining the most significant issue, although it decreased to 50% in 2024 from 59% in 2023 and 85% in 2022. Longer lead times from suppliers are another major challenge, reported by 35% in 2024, up slightly from 32% in 2023 but down from 68% in 2022. Logistical disruptions and delays follow closely, affecting 33% of respondents in 2024, down from 41% in 2023 and 74% in 2022.

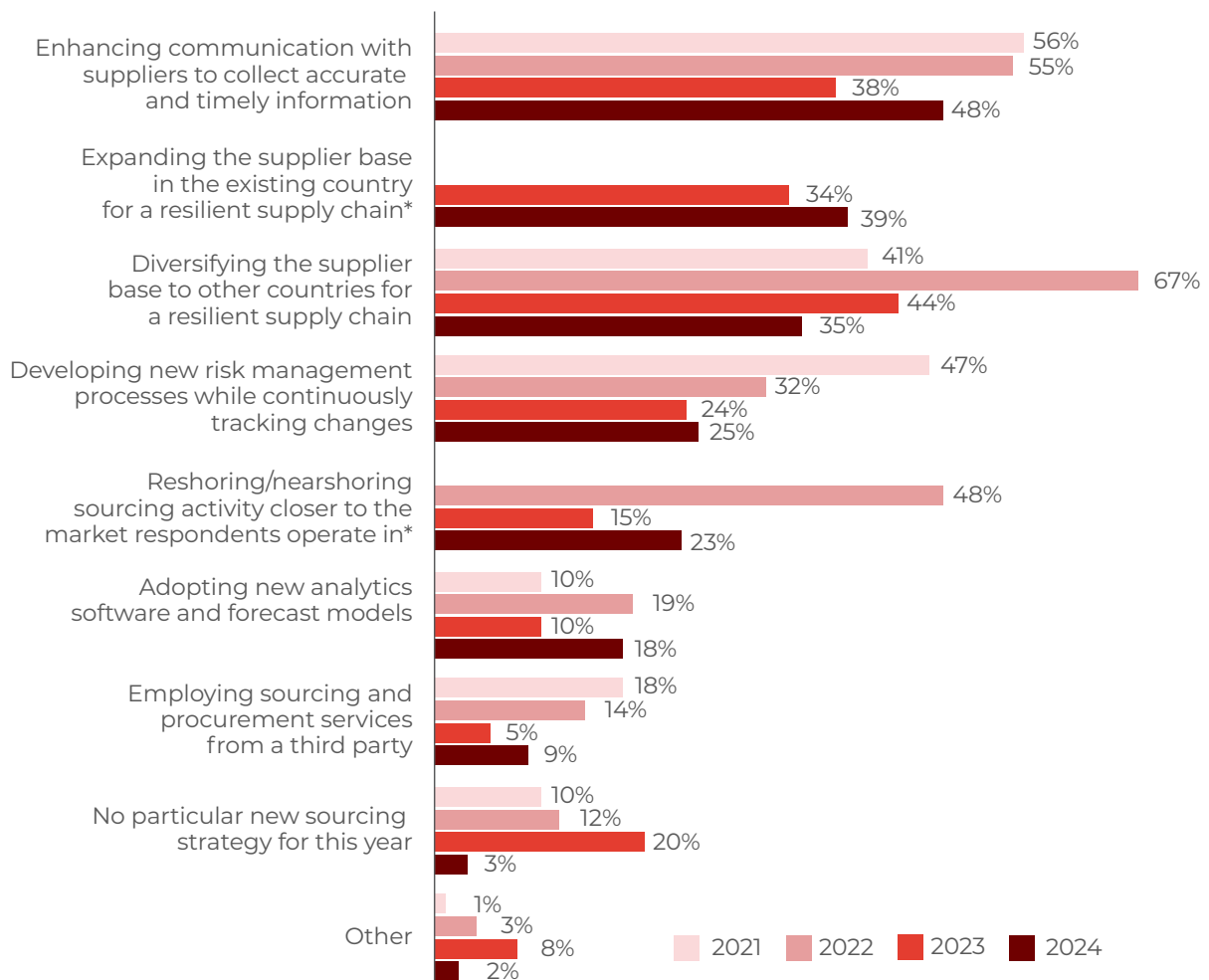
Additionally, problems with suppliers not being able to produce sufficient quantities have slightly decreased, with 12% of respondents reporting this issue in 2024 compared to 19% in 2023 and 15% in 2022. These challenges are compounded by various factors, including geopolitical conflicts, such as the war between Russia and Ukraine, which have led to sanctions and disrupted global fuel supplies, driving up transportation and overall supply chain costs.

While these traditional issues show a decrease, other areas have seen an increase. For instance, 22% of respondents in 2024 cited a lack of information as a major challenge, up from 10% in 2023 and 7% in 2022. Furthermore, 10% of respondents indicated that suppliers prioritized other customers over them, up from 8% in 2023.

These shifts suggest that while companies may be managing cost-related issues more effectively, they are increasingly dealing with information gaps and prioritization challenges. This reflects the competitive nature of securing supply during disruptions and highlights the need for improved communication and data transparency within supply chains to navigate these evolving difficulties. Additionally, the persistence of logistical delays and longer lead times emphasizes the importance of enhancing logistical resilience and supplier relationships to mitigate these ongoing disruptions

Figure 7
Risk mitigation strategies

Share of respondents who chose each strategy as their companies' strategies to mitigate risks they have planned or implemented in 2024



*"Reshoring/nearshoring sourcing activity closer to the market respondents operate in" was not included in the surveys before 2022.

*"Expanding the supplier base in the existing country for a resilient supply chain" was not included in the surveys before 2023.

Building on the previous context, the strategies businesses are adopting to address these challenges are shown in this figure. Enhancing communication with suppliers to collect accurate and timely information is a top priority, selected by 48% of respondents in 2024, up from 38% in 2023. This reflects businesses' acknowledgment of the strategic benefits of maintaining long-term, cooperative relationships with existing suppliers, enabling them to adapt and update plans through accurate and timely communication promptly. Additionally, diversifying the supplier base remains a popular risk mitigation strategy, with 39% of respondents indicating their companies intend to expand their supplier networks within their current sourcing countries, while 35% are opting to diversify their supplier base to other countries to enhance their supply chain resilience. This indicates a focus on building strong adaptability through supplier diversification and better communication.

After the pandemic, most respondents (48%) chose reshoring/nearshoring sourcing activities closer to their markets as one of the key strategies to mitigate risks in 2022. This figure saw a significant drop to 15% in 2023 but rebounded to 23% in 2024, highlighting a rising trend towards localizing sourcing activities in alignment with business operations.

Additionally, many companies are adopting more advanced strategies such as developing new risk management processes and implementing new analytics software and forecasting models to navigate the uncertain global landscape, chosen by 25% and 18% of respondents, respectively.

4. Sourcing Situation Across Europe, China, and Southeast Asia

The following chapter builds upon the exploration of the global sourcing landscape introduced in the previous chapter, offering a detailed analysis of current trends and future outlooks. The chapter aims to provide a comprehensive understanding of the sourcing dynamics across Europe, China, and Southeast Asia.

This chapter seeks to answer the following questions:

- What is the current sourcing status and proportion in each region?
 - What are the important sourcing countries in each region?
 - What are the perceived risks and difficulties in each region?
 - Why is each region chosen as a sourcing destination?
-

4.1 Sourcing Situation in Europe

The past few years have seen significant disruptions in global supply chains due to the COVID-19 pandemic, leading companies to reconsider their sourcing strategies. As Europe faces its own set of challenges, including the energy crisis and the proximity to several regions experiencing geopolitical tensions, the region lost some ground as the critical sourcing hub it used to be in the previous two years.

Furthermore, increased trade tensions between the US and China, such as EV tariffs and the implications of the Biden administration's Inflation Reduction Act (IRA), which favors domestic production and reduces reliance on Chinese supply chains, and the potential for future policies from a possible Trump administration targeting all trading partners, add to the global uncertainty, which also impacts the sourcing situation in Europe.

Currently, respondents reported a significantly reduced reliance on Europe, marked by a drop of 16% in companies sourcing in Europe. Nonetheless, Figure 8 shows a drop in Europe-focused sourcing activities after a modest increase of 5% from 2022 to 2023. This reverses a short-term trend in 2023 in which the EU became a more relevant sourcing hub at China's expense, leading to the assumption that Europe's higher significance since 2022 was to bridge supply chain challenges, especially in China, which have now lessened.

Figure 8

Current sourcing in Europe

Share of respondents sourcing in Europe

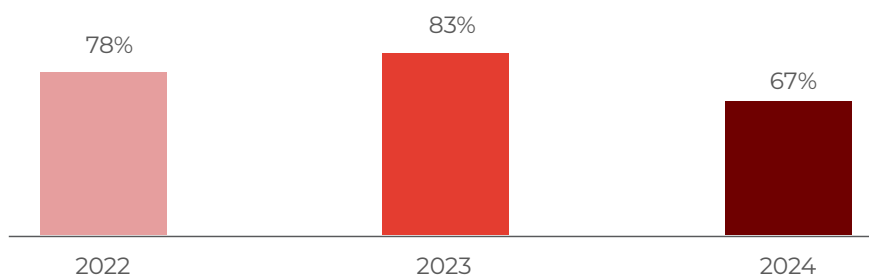
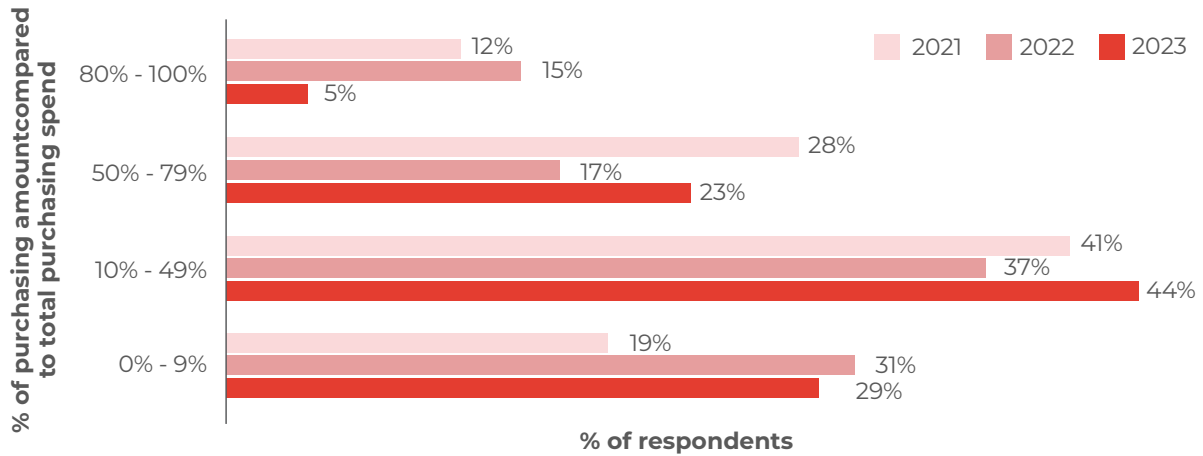


Figure 9

Share of purchasing amount in Europe of global purchasing spend in 2023

Estimation of how large the purchasing amount was in Europe compared to the global purchasing spend in 2022 and 2023



The purchasing spend focused on Europe among surveyed companies has decreased, with only 5% of companies in 2023 maintaining at least 80% of their purchasing spend in Europe, down from 15% in 2022 (Figure 9). Most companies now source between 10% and 49% from Europe. This movement indicates a significant shift in sourcing strategies with growing confidence in sourcing from other regions of Europe over the past two years.

Additionally, the percentage of companies sourcing 50% to 79% of their supplies from Europe has also decreased, dropping to 23% in 2023 from 28% in 2021. Conversely, the number of companies sourcing less than 10% from Europe has increased, rising to 29% in 2023 from 31% in 2022 and 19% in 2021.

As this trend counters the regaining sourcing attractiveness in China, it suggests again that the strong focus on the EU in 2022 was a one-off tactical response to pandemic-related supply chain distortions. During the pandemic, companies likely increased their reliance on European suppliers to mitigate risks associated with global supply chain disruptions. However, as conditions have stabilized, companies are diversifying their sourcing strategies to enhance resilience and reduce dependency on any single region.

Figure 10

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

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

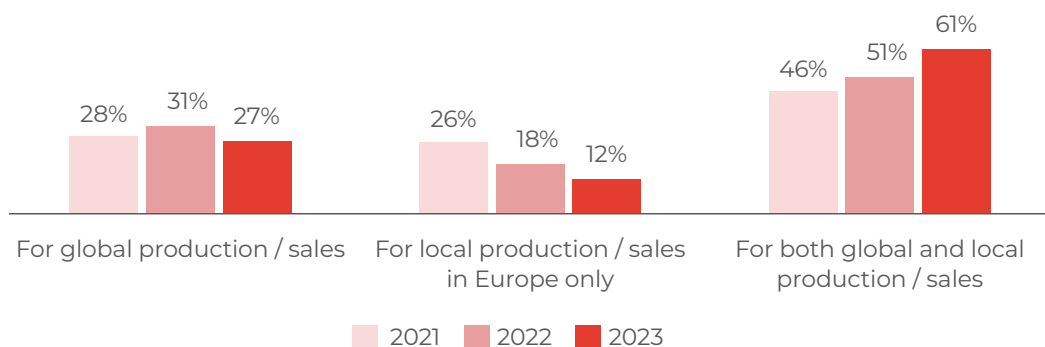


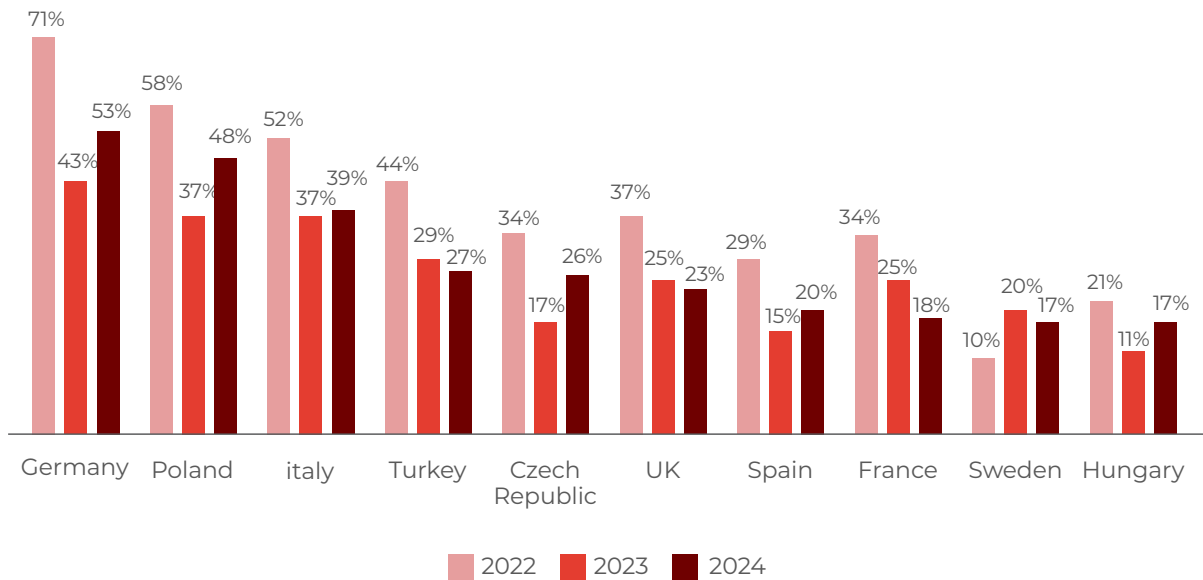
Figure 10 underscores this development. The results show that those who solely chose either local or global sourcing in Europe experienced a slight decrease in 2024, while those who prioritized both global and local activities increased significantly, rising from 46% in 2022 to 61% in 2024. This indicates Europe's growing importance as a dual-purpose sourcing destination, as companies diversify their strategies to reduce dependence on any single region.

This trend can be attributed to several key factors. First, resilience and risk management are crucial, as companies seek to mitigate disruptions from geopolitical tensions and unforeseen events. Secondly, sourcing in Europe ensures compliance with EU regulations like REACH (Registration, Evaluation, Authorisation, and Restriction of Chemicals), GDPR (General Data Protection Regulation), and environmental directives, which align with international standards and facilitate global market entry. Additionally, the EU's extensive network of trade agreements and local incentives, such as subsidies and tax breaks, provide significant economic and trade benefits. Lastly, a dual strategy allows companies to quickly respond to market changes, enhance sustainability efforts by reducing transportation emissions, and support local economies.

Hence, this approach allows companies to leverage Europe's strengths of stability, regulatory compliance, economic incentives, consumer proximity, and sustainability.

Figure 11
Sourcing locations in Europe

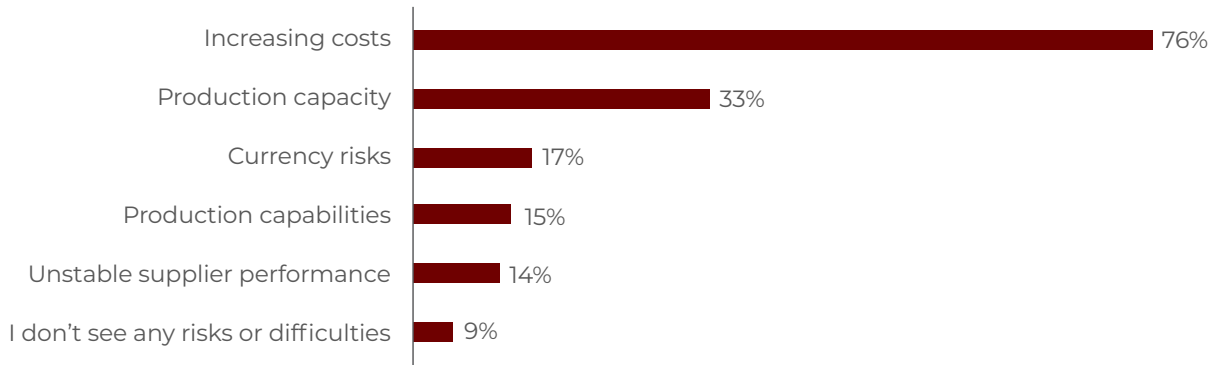
Respondents' current sourcing locations in Europe



When asked for their current sourcing countries in Europe, survey participants chose the top four countries (Germany, Poland, Italy, and Turkey) consistently in the previous two years, as can be seen in Figure 11. Although the overall popularity of European sourcing countries in 2024 is lower than that of 2022, this figure represents slight improvements compared with 2023. Exceptions are Turkey, the UK, and France, which saw a continued decline in 2024, while Sweden's popularity decreased moderately after doubling in 2023, coming from a low level in 2022. Turkey, the UK, and France, meanwhile, saw continuous declines over the past two years.

Figure 12
Perceived risks and difficulties in Europe

Key risks mentioned by respondents

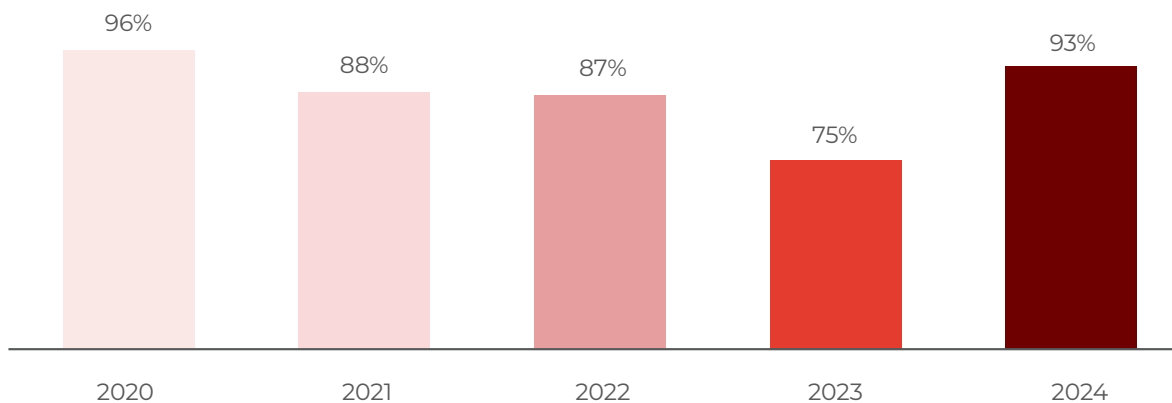


In the context of a slowing global environment, but still significant inflation, the participants' concerns for Europe remain focused on increasing costs overall. This echoes the trend of inflation, which in Europe was the highest among all major economies between 2020 and 2023. Most Asian economies, including China, saw rather moderate increases in inflation over the same timeframe. The sufficiency of production capacity was the second most cited concern in Europe, followed by several secondary factors.

4.2 Sourcing Situation in China

Figure 13
Current sourcing in China compared to the previous four years

Share of respondents sourcing in China

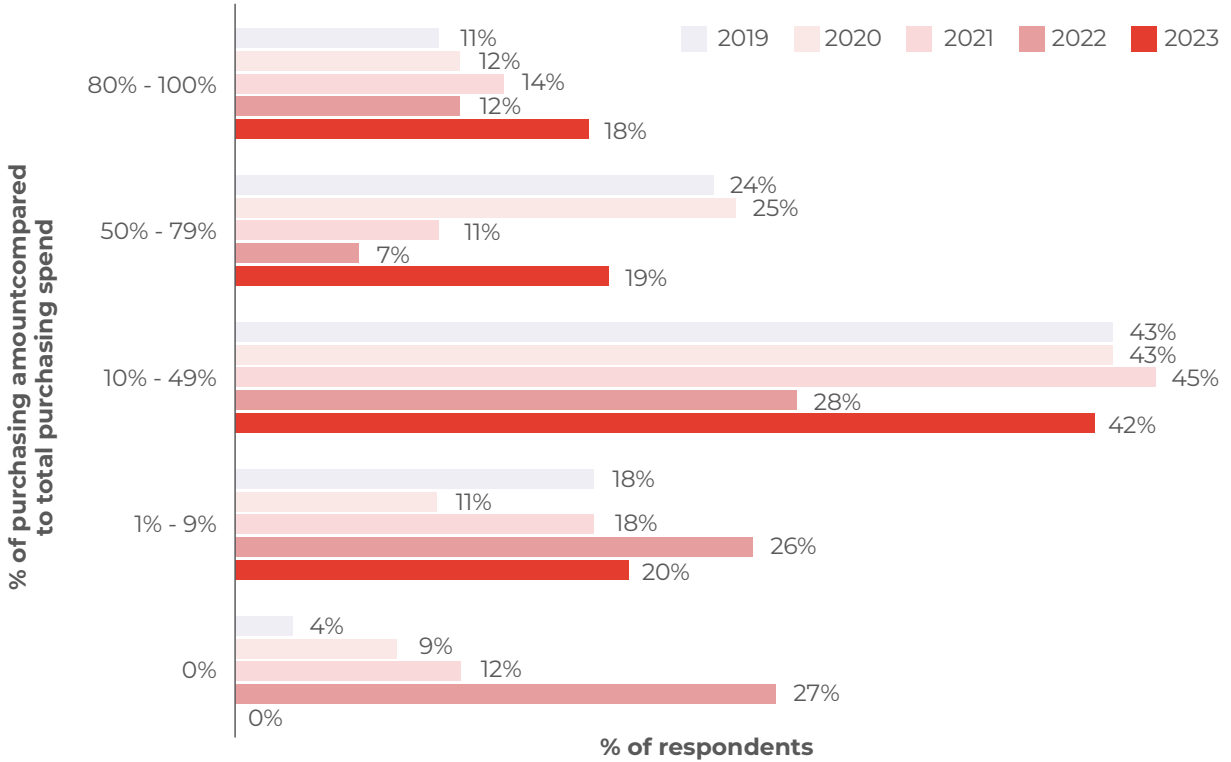


The survey shows that 93% of respondents sourced from China in 2024, reflecting a strong recovery to near pre-COVID levels after a significant drop to 75% over the years up until 2023. This rebound indicates renewed confidence in China as a sourcing destination despite the disruptions caused by the pandemic and trade tensions.

Figure 14

Purchasing amount in China as a percentage of global purchasing spending in 2023

Estimation of how large the purchase amount was in China compared to the global purchasing spend in 2023

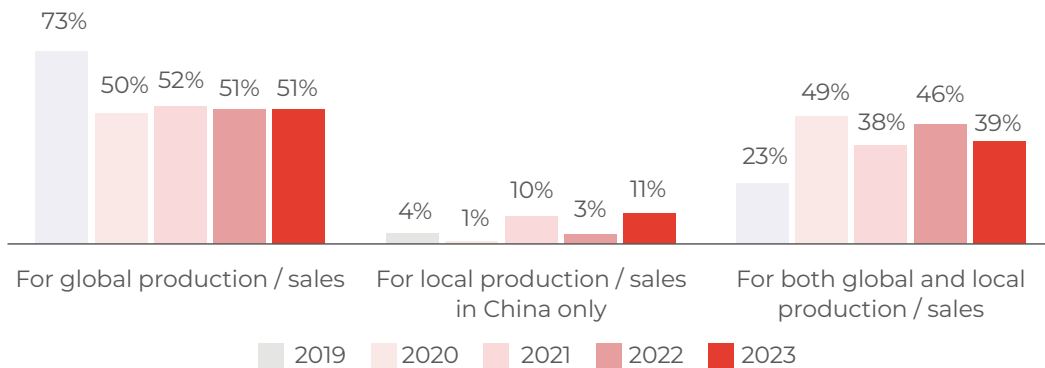


According to Figure 14, in China, the percentage of respondents sourcing from 10% to 49% of their global purchasing spend recovered to 42% in 2023, after an exceptional drop in the previous year. Conversely, there has been a decrease in the proportion of companies sourcing less than this amount, from a combined total of 53% in 2022 to 20% in 2023 for those with 0% and 1%-9% of purchasing spent in China each year. Similarly, the total share of companies sourcing 50%-79% and 80%-100% of their purchasing spend from China has almost doubled over the same period. As a result, 18% of companies now source more than 80% of their purchasing from China, marking the highest level in the past five years.

Figure 15

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

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



Most respondents recognize that China remains a key market for their global supply, with 51% of respondents sourcing from China for global production and sales in 2023. This is consistent with the previous years, showing a stable reliance on China for global supply chains.

In 2023, 39% of respondents indicated they source from China for both global and local production and sales, reflecting a slight decline from 46% in 2022. This suggests that while China is still a significant player, there is a cautious approach towards diversifying sourcing activities. 11% of respondents now source from China exclusively for local production and sales, up from 3% in 2022. This increase indicates a growing focus on leveraging China's market for local demand rather than purely for global supply chains.

Recent trends in China underscore the country's critical role in global sourcing and the growing confidence in local production, driven by great economies of scale, policy incentives, and cost advantages. However, economic disruptions such as the China-US trade tensions are causing companies to be more hesitant to a dual strategy for both global and local production/sales. This reconsideration is also prompting a focus on core markets. Hence, companies should establish a balanced and simplified approach for optimization and efficiency, recognizing that global complexities can create widespread impacts to mitigate risks and enhance operational resilience.

Figure 16
Perceived Risks and Difficulties in China

Key risk mentioned by respondents



In China, increasing cost was called out as the key concern by respondents. However, trade barriers, whether tariff-based or not, followed closely after positions of second and fourth, which is largely a consequence of the trade tensions between China and the US. Additionally, the EU has recently introduced more stringent tariffs on China. Besides, concerns around ESG compliance, unstable supplier performance, and legal environment changes give rise to the impression that China is a less mature market compared to Europe.

4.3 Sourcing Situation in Southeast Asia

The Southeast Asia region continues to strengthen its position as a vital player in global supply chains, especially as companies seek to diversify their sourcing beyond China. The COVID-19 pandemic underscored the importance of flexible and resilient supply chains, prompting businesses to explore new opportunities in Southeast Asia. With its growing manufacturing base, favorable trade policies, and competitive labor costs, the region presents an attractive alternative for global sourcing.

Figure 17
Current sourcing in Southeast Asia

Share of respondents sourcing in Southeast Asia

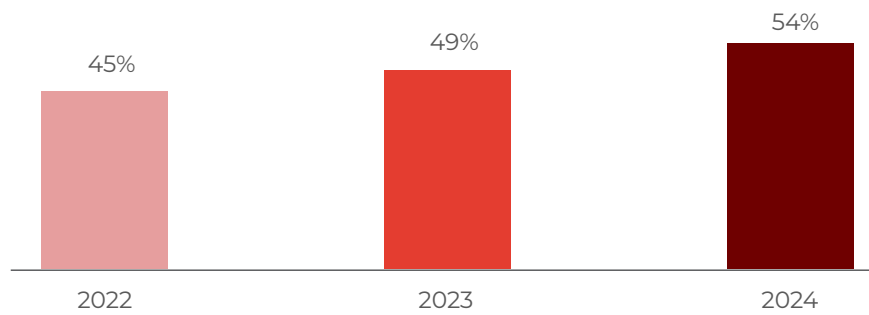
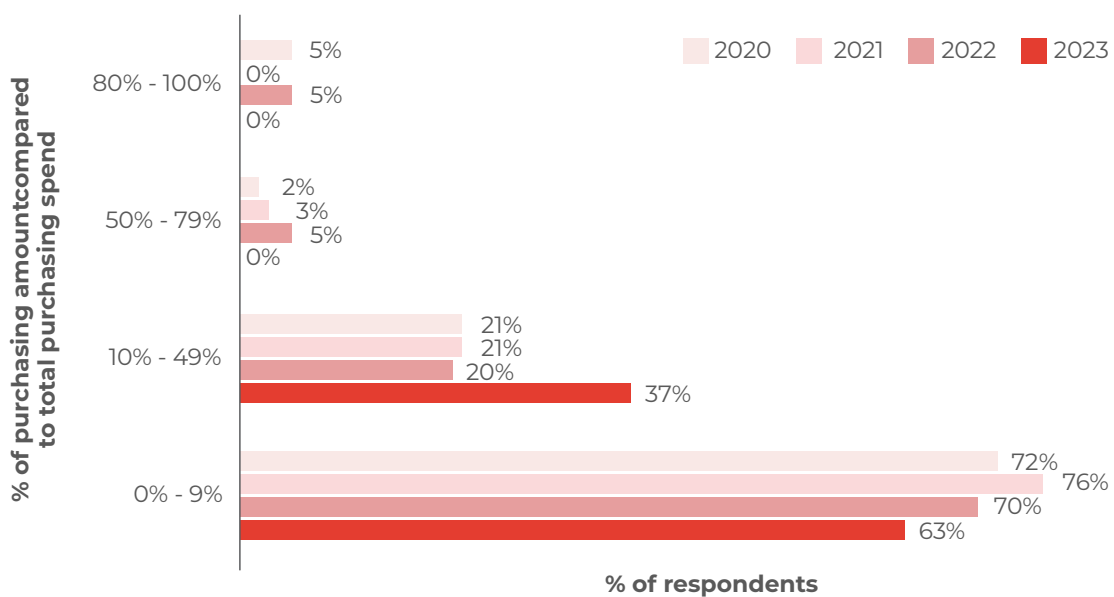


Figure 18
Share of purchasing amount in Southeast Asia of global purchasing spend in 2023

Estimation of how large the purchasing amount was in Southeast Asia compared to the global purchasing spend in 2022 and 2023



The chart shows a significant majority of companies (63% to 76%) allocating only 0-9% of their global purchasing spend to Southeast Asia from 2020 to 2023. This consistency suggests that while many companies are testing or maintaining a minimal presence in the region, they have yet to commit larger portions of their sourcing budgets fully.

There is an increasing share of global purchasing spending allocated to Southeast Asia, with companies spending 10%-49% of their budget in the region rising from 21% in 2020 to 37% in 2023. Additionally, purchasing amounts of more than 50% show a slight decrease from the already low share.

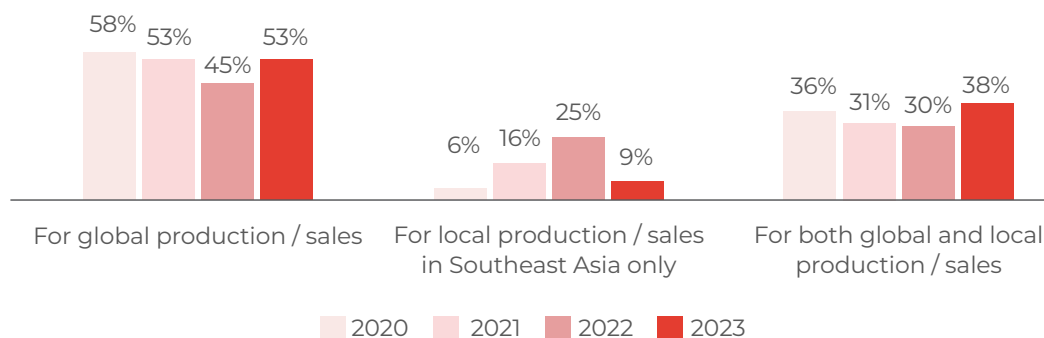
As companies continue to diversify their sourcing to avoid over-reliance on one region, the modest increase in spending in Southeast Asia shows growing interest in its potential. However, concerns about the region's ability to fully support global supply chains remain, and further development of capabilities and infrastructure is needed for Southeast Asia to become a major sourcing hub.

Companies should strategically balance their sourcing to optimize supply chain resilience, cost-efficiency, and operational effectiveness. This approach will allow them to leverage Southeast Asia's growing potential while mitigating risks associated with the region's current limitations.

Figure 19

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

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



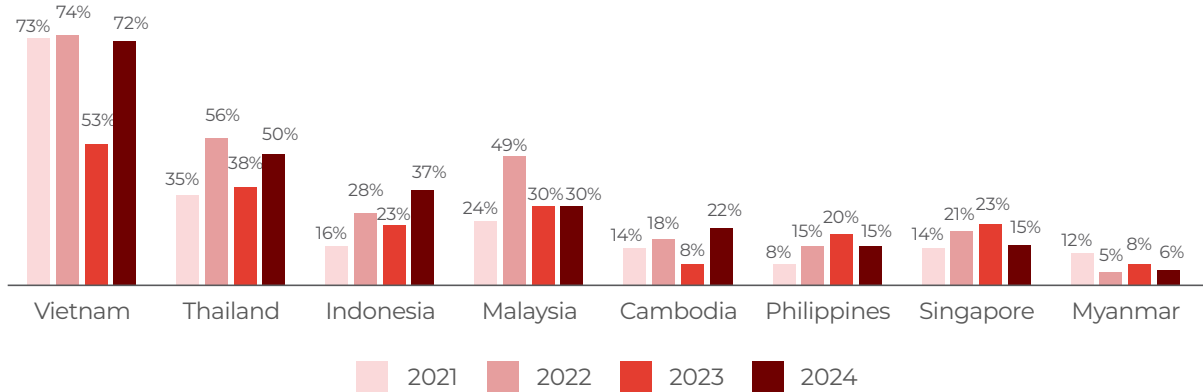
Global production and sales in Southeast Asia rebounded to 53% in 2023, returning to the same level as in 2021, after dropping to 45% in 2022. Following this upward trend, dual sourcing also surged from 30% in 2022 to 38% in 2023, though it grew more gradually compared to solely global plans. In contrast, there was a significant drop in locally focused production, decreasing from 25% in 2022 to 9% in 2023.

These findings suggest that Southeast Asia is regaining its position as a key sourcing hub due to its domestic economic strength and appeal to international companies. This shift encourages the adoption of dual-sourcing strategies, allowing companies to balance risk and efficiency by leveraging both local and global supply chains. Additionally, the decline in locally focused production indicates a strategic move towards more integrated global operations, highlighting Southeast Asia's growing importance in the global supply chain landscape.

Figure 20

Sourcing locations in Southeast Asia

Respondents' current sourcing locations in Southeast Asia



The most favored sourcing locations in Southeast Asia have remained consistent, with Vietnam and Thailand retaining the top two spots. Both countries experienced significant declines in popularity in 2023 but have bounced back to near 2022 levels in 2024.

Indonesia has emerged as a significant winner, overtaking Malaysia. Indonesia's popularity more than doubled from 16% in 2021 to 37% in 2024, partly due to its enhanced image amid the US-China trade war, benefiting from the "China Plus One" strategy adopted by many companies.

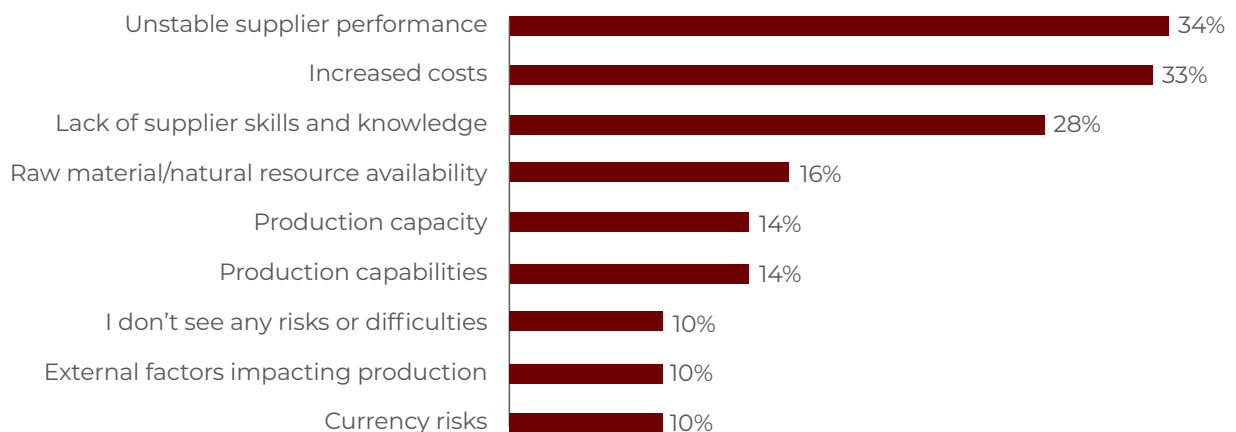
Malaysia's popularity fell sharply from 49% in 2022 to 30% in 2023. Singapore also declined, indicating a regional shift in sourcing preferences. Both the Philippines and Singapore have not regained their previous strengths, while Myanmar continues to struggle with political instability, with only 6% of respondents sourcing there.

Conversely, Cambodia's popularity nearly tripled from the previous year, continuing its rise as a preferred sourcing destination.

Figure 21

Perceived Risks and Difficulties in Southeast Asia

Key risks mentioned by respondents



Overall, while Vietnam and Thailand continue to lead as sourcing destinations, the notable decreases in their popularity, along with the changes in Malaysia, Singapore, Cambodia, and Myanmar, reflect the evolving dynamics and preferences in Southeast Asia's sourcing landscape.

Southeast Asia shows a more distributed profile of risks identified by respondents. Here, the leading concern is unstable supplier performance (34%), which was less prominent in China (16%) and Europe (14%). While cost inflation was a major concern (33%), it was so to a lesser degree than in Europe (76%) and also slightly lower than in China (41%), which speaks for the appealing aspect of the region. Also, the lack of supplier skills, closely following the third criterion (28%), points to the lower maturity of sourcing destinations in Southeast Asia.

Among the top concerns, three of the risks ranked from third to sixth are related to production and resource availability. Participants did not express major concerns about legal stability or trade barriers, as they did with China. Considering trade-related tensions in China and the concerns around cost and capacity in Europe, Southeast Asia has managed to continue to grow its importance as a global sourcing hub. This growth continues despite the trade-offs of this relatively newly industrialized region, particularly in terms of supplier experience, raw material availability, and production capacity.

5. ESG Compliance And Implementation Strategy Across Europe, China, And Southeast Asia

The importance of Environmental, Social, and Governance (ESG) factors in sourcing practices has grown significantly throughout 2023 and early 2024. This trend is driven by increasingly stringent regulations, heightened consumer awareness, and the urgent need to address climate change.

In 2023, the European Union's Carbon Border Adjustment Mechanism (CBAM) entered its transitional phase, requiring importers to report emissions of imported goods. From January 2026, importers will need to purchase CBAM certificates to cover these emissions. Concurrently, the Corporate Sustainability Reporting Directive (CSRD) began its phased implementation in 2024, expanding the scope of companies required to report comprehensive ESG data. In the US, the Securities and Exchange Commission (SEC) is finalizing its climate disclosure rules, expected to be implemented in 2024. These rules will require public companies to disclose climate-related risks and greenhouse gas emissions, including those from their supply chains.

There have been many consumer analyses and research studies conducted in recent years, and one of the most notable outcomes revealed that nearly 60% of consumers now consider sustainability as a key factor in their purchasing decisions (Blue Yonder's report 2024). This significant trend underscores the growing importance of sustainable sourcing practices for businesses, as it directly impacts consumer behavior and purchasing patterns.

These regulatory changes and shifting consumer preferences have made ESG practices a critical factor in evaluating the sustainability of corporate sourcing activities.

Building on the detailed analysis of current findings, this chapter aims to provide a comprehensive understanding of the critical aspects of ethical and environmental compliance aspects of sourcing dynamics across Europe, China, and Southeast Asia (SEA).

This chapter seeks to answer the following questions:

- What is the status of carbon footprint compliance status in each region?
- What is the status of labor standards compliance in each region?
- What is the status of corporate integrity compliance in each region?
- What strategies have been planned or implemented to ensure suppliers' ESG compliance?
- What are the current and future motivations for ensuring suppliers' ESG compliance?

Note: These icons indicate each specific region/ country as



Europe



China



Southeast Asia

5.1 The State Of Carbon Footprint Reporting In Europe, China, And Southeast Asia

The 2024 survey reveals significant progress and persistent challenges in sustainability practices across China, Europe, and Southeast Asia regions. The results highlight a growing awareness of carbon footprint issues but also underscore notable regional disparities.

Figure 22
Suppliers' carbon footprint data sharing percentage
 Share of respondents received carbon footprint data from their suppliers

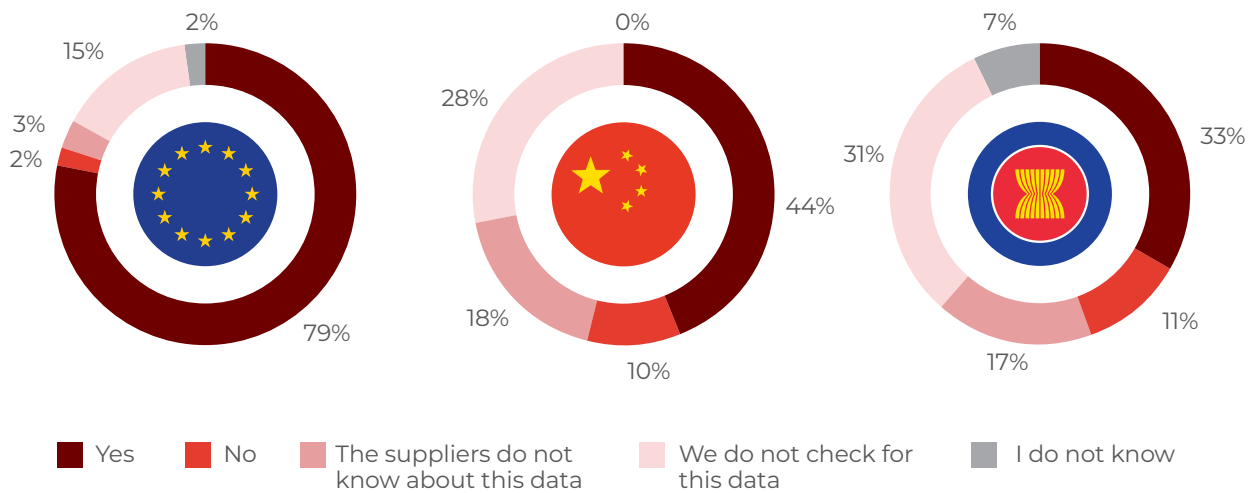
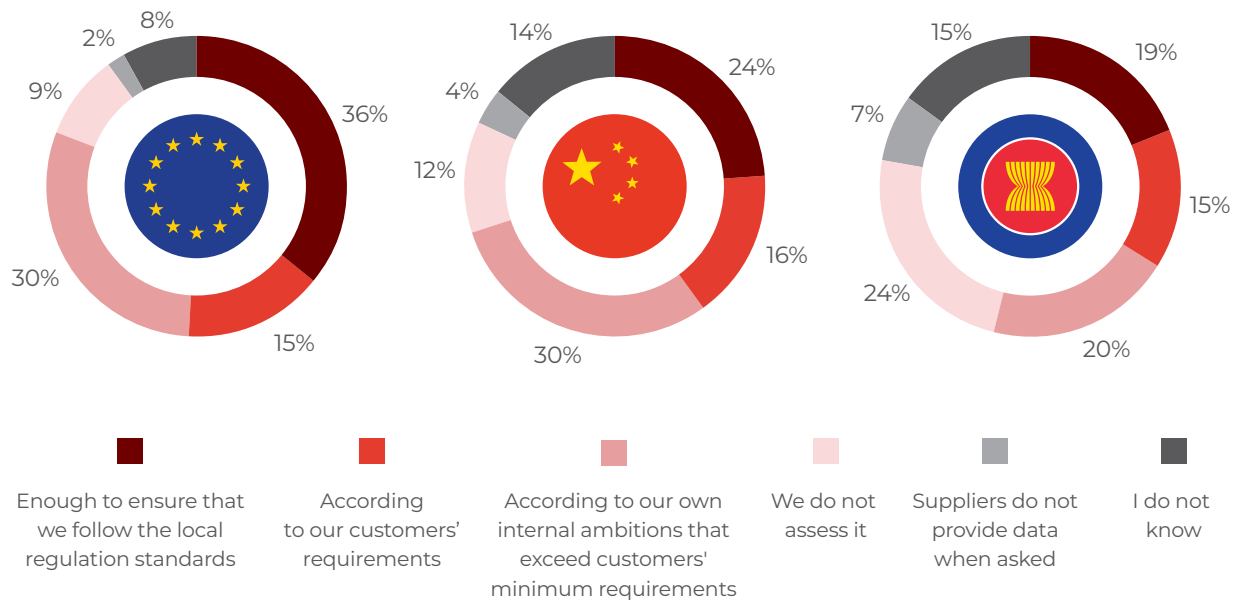


Figure 23
Suppliers' carbon footprint data assessing the percentage
 Share of respondents assessed carbon footprint data of their suppliers



Europe emerges as the clear leader in carbon footprint transparency and assessment. An impressive 79% of European suppliers are willing to share carbon footprint data, and a total of 81% of companies assess this data to some degree (36%, 15%, and 30% in Figure 23). This high level of engagement likely reflects the region's strong regulatory environment and market pressures for sustainability.

China ranks second in both data sharing (44%) and assessment (70%). This suggests a growing emphasis on sustainability in Chinese business practices, possibly driven by a combination of regulatory changes, international market demands, and increasing environmental awareness (Figure 22).

Southeast Asia, however, lags the other regions. Only 33% of Southeast Asia suppliers are willing to share carbon footprint data, and just a total of 54% of companies assess this information (Figure 23). Moreover, Southeast Asia has the highest percentage of 31% of respondents not checking this data at all, indicating significant room for improvement.

These findings underscore the importance of regulatory compliance as a key external driver for carbon footprint assessment. However, a notable portion of respondents, particularly those assessing carbon footprint data for customer demand and internal ambitions from Chinese (46%) and European suppliers (45%), are going beyond regulatory requirements (refer to Figure 23). This trend suggests a growing proactive approach to sustainability in the business world.

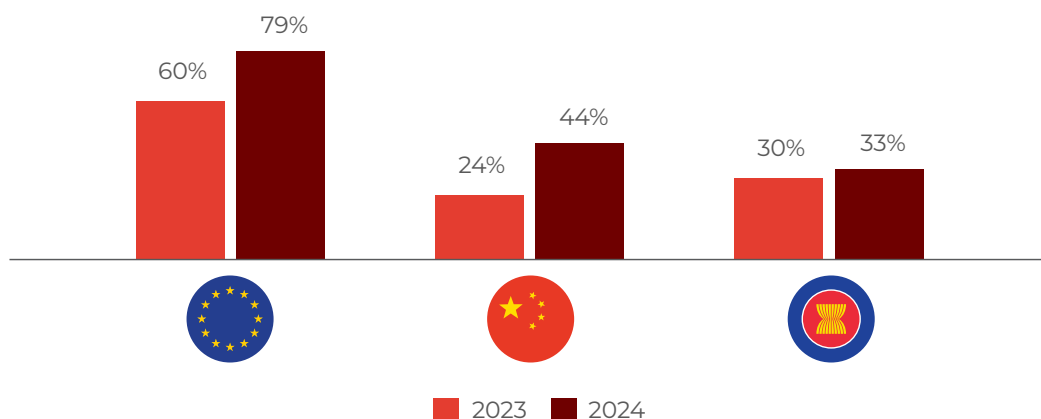
Despite these positive trends, many challenges remain. Knowledge gaps persist, with 8% to 15% of respondents don't know about their company's assessment practices (Figure 23). Additionally, a significant number of companies still do not check for or assess carbon footprint data, particularly in Southeast Asia (24%).

Overall, the survey results underscore the need for continued efforts in promoting sustainability practices. The survey results highlight the importance of ongoing efforts to promote sustainability practices. Companies are increasingly responding not only to minimum legal requirements (especially in Southeast Asia) but also to their clients' demands and internal goals in this regard. By addressing these areas, businesses can contribute more effectively to global sustainability efforts and better prepare for a low-carbon future.

Moreover, in terms of yearly data comparison between 2023 and 2024, it reveals significant progress in carbon footprint transparency and assessment across global supply chains, with China and Europe leading the charge while Southeast Asia countries struggle to keep pace.

Figure 24
Suppliers' carbon footprint data sharing percentage

Share of respondents received carbon footprint data from their suppliers between 2023 and 2024

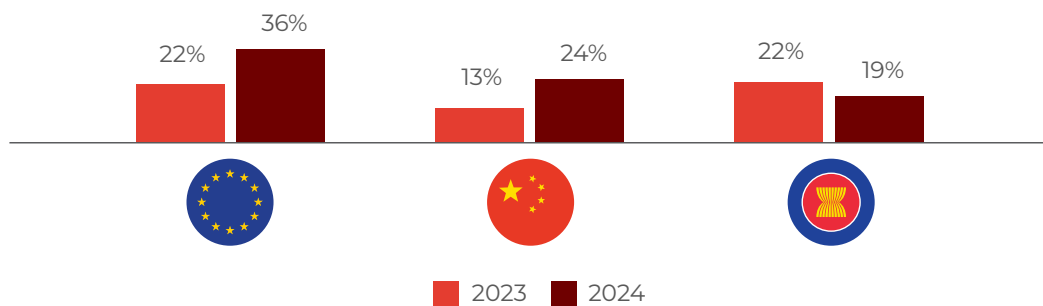


Note: These selected data points highlight significant changes over time, focusing on impactful trends.

Figure 24 shows that China demonstrated remarkable improvement, with suppliers willing to share carbon footprint data jumping from 24% in 2023 to 44% in 2024. Europe reinforced its leadership position, increasing from an already high 60% to 79%. Southeast Asia showed a modest gain, rising from 30% to 33%.

Figure 25
Suppliers' carbon footprint data assessing percentage

Share of respondents assessed their suppliers' carbon footprint data to ensure local regulation standards between 2023 and 2024



Note: These selected data points highlight significant changes over time, focusing on impactful trends.

Figure 25 shows that assessment practices have also evolved, with more respondents assessing carbon footprint data from European and Chinese suppliers to ensure compliance with local regulations. China saw an increase in assessment rate from 13% in 2023 to 24% in 2024, while Europe experienced a jump from 22% to 36%. However, Southeast Asia remained relatively stagnant in this area.

These trends suggest that regulatory pressures and increased awareness are driving improvements, particularly in China and Europe. However, the data also highlights the need for stronger initiatives in Southeast Asia countries to close the growing gap in sustainable practices. As global focus on sustainability intensifies, these findings underscore the importance of continued efforts to enhance carbon footprint transparency and assessment across all regions.

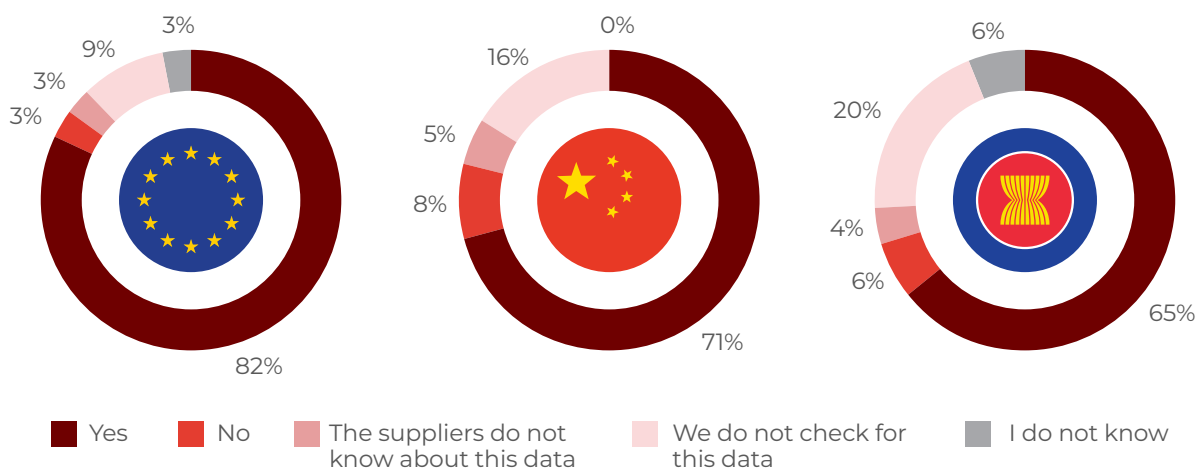
5.2 The State Of Fair Labor Reporting In Europe, China, and Southeast Asia

This section reveals a shifting landscape of corporate responsibility, with significant regional variations that demand tailored strategies for future improvement.

Figure 26

Suppliers' fair labor data sharing percentage

Share of respondents received fair labor data from their suppliers between 2023 and 2024

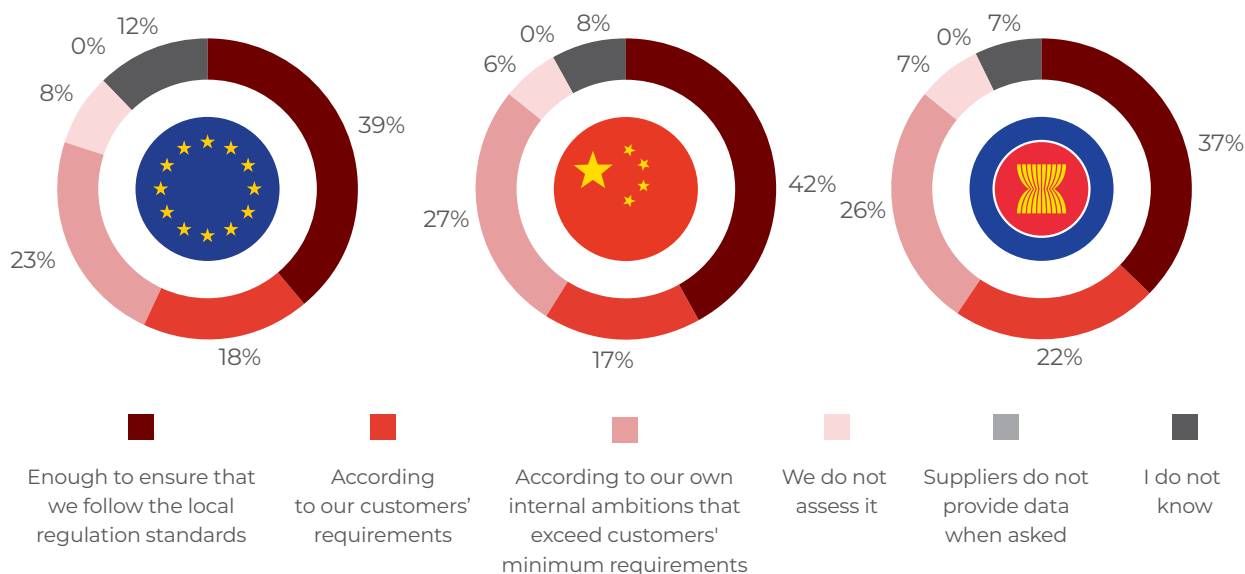


Note: Fair labor includes fair pay, reasonable working hours, prohibition of child labor, and adequate workplace safety.

Figure 27

Suppliers' fair labor data assessing percentage

Share of respondents assessed their suppliers' fair labor data between 2023 and 2024



Note: Fair labor includes fair pay, reasonable working hours, prohibition of child labor, and adequate workplace safety.

Europe leads with 82% of suppliers willing to share fair labor data and 80% of companies assessing this data to some extent. Europe is followed by China with 71% and 86%, then Southeast Asia with 65% and 85% for data sharing and assessment respectively. Notably, 16% and 20% of companies in China and Southeast Asia do not check for this data, indicating a significant area for improvement.

Within the companies assessing data to some extent, there is a higher proportion in China and Southeast Asia than in Europe. This is due to distinct regional patterns. Companies sourcing from China place a greater focus on meeting legal obligations (27%) compared to other regions (26% in Southeast Asia and 23% in Europe). In terms of meeting customer requirements, companies in Southeast Asia show a higher focus (22%) compared to those in China (17%) and Europe (18%). Although these categories differ, they both reflect external client requirements, which appear to be the primary driving factor in these regions.

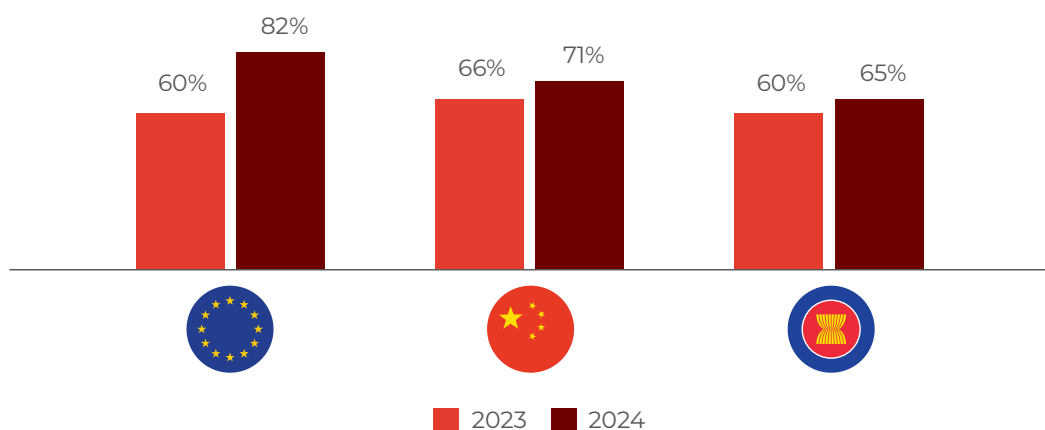
A unique challenge has emerged in Europe, where 12% of respondents reported that they do not know about fair labor data. This issue is not reported in China or Southeast Asia, suggesting a specific obstacle to data collection in the European context.

Overall, the 2024 data reveals a strong required commitment to fair labor practices across China, Europe, and Southeast Asia. However, challenges remain, particularly in data collection in Southeast Asia and data provision in Europe.

Moreover, in terms of yearly data comparison between 2023 and 2024, it reveals significant progress in fair labor data transparency and assessment across global supply chains.

Figure 28
Suppliers' fair labor data sharing percentage

Share of respondents had their suppliers willing to share fair labor data across three regions between 2023 and 2024



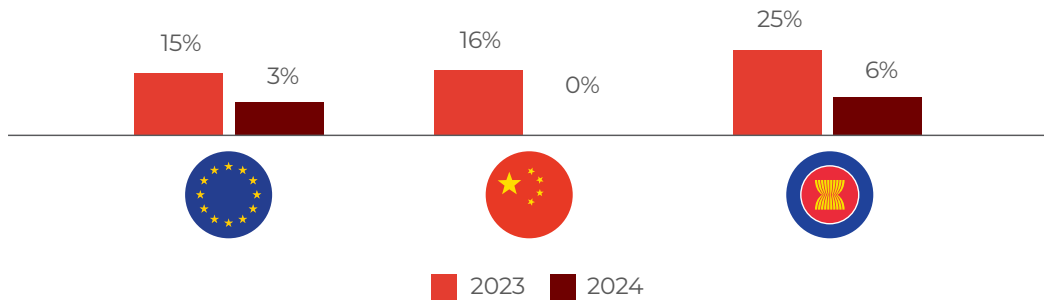
Note: These selected data points highlight significant changes over time, focusing on impactful trends.

The progress over the years reveals significant shifts in fair labor practices across Europe, China, and Southeast Asia. Transparency has improved markedly, with Europe showing the most dramatic increase in willingness to share data (from 60% to 82%). China and Southeast Asia also saw improvements, reaching 71% (from 66% in 2023) and 65% (from 60% in 2023), respectively.

Figure 29

Suppliers' fair labor data sharing percentage

Share of respondents not knowing of fair labor data across three regions between 2023 and 2024



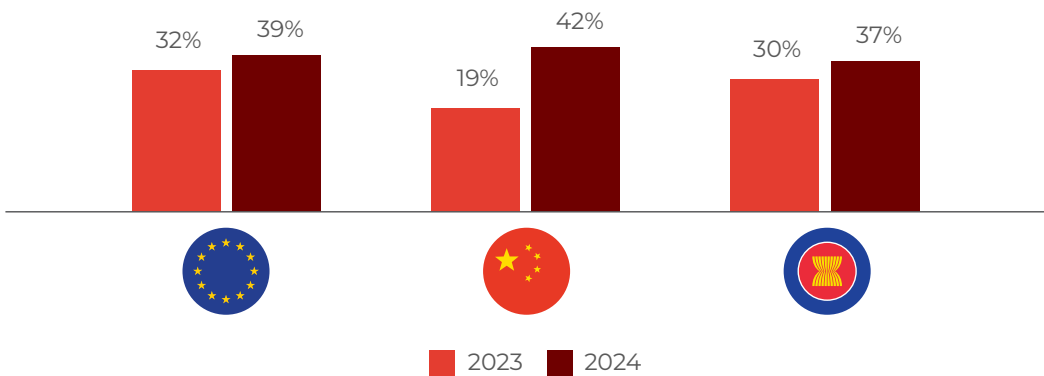
Note: These selected data points highlight significant changes over time, focusing on impactful trends.

The marked decrease in the percentage of respondents unaware of fair labor data in Europe (from 15% to 3%), China (from 16% to 0%), and Southeast Asia (from 25% to 6%) suggest an overall improvement in the understanding of fair labor practices.

Figure 30

Suppliers' fair labor data assessing percentage

Share of respondents assessed their suppliers' fair labor data to ensure local regulation between 2023 and 2024



Note: These selected data points highlight significant changes over time, focusing on impactful trends.

Assessment practices have evolved, with a notable increase in focus on local regulation compliance. China leads at 42% (up from 19% in 2023), followed closely by Europe (39%; up from 32% in 2023) and Southeast Asia (37%; up from 30% in 2023), as shown in Figure 30.

Overall, these trends suggest a move towards standardization and baseline compliance, potentially at the expense of more ambitious fair labor goals. Future efforts should focus on encouraging leadership in fair labor practices while addressing region-specific challenges, particularly in data collection and transparency.

5.3 The State Of Corporate Integrity* Reporting In Europe, China, And Southeast Asia

Note: Corporate integrity generally refers to the commitment to ethical behavior, transparency, and accountability in all business practices.

This section unveils critical regional variations in data transparency and compliance assessment, offering strategic insights for global supply chain management

Figure 31
Suppliers' corporate integrity data sharing percentage
 Share of respondents received corporate integrity data from their suppliers

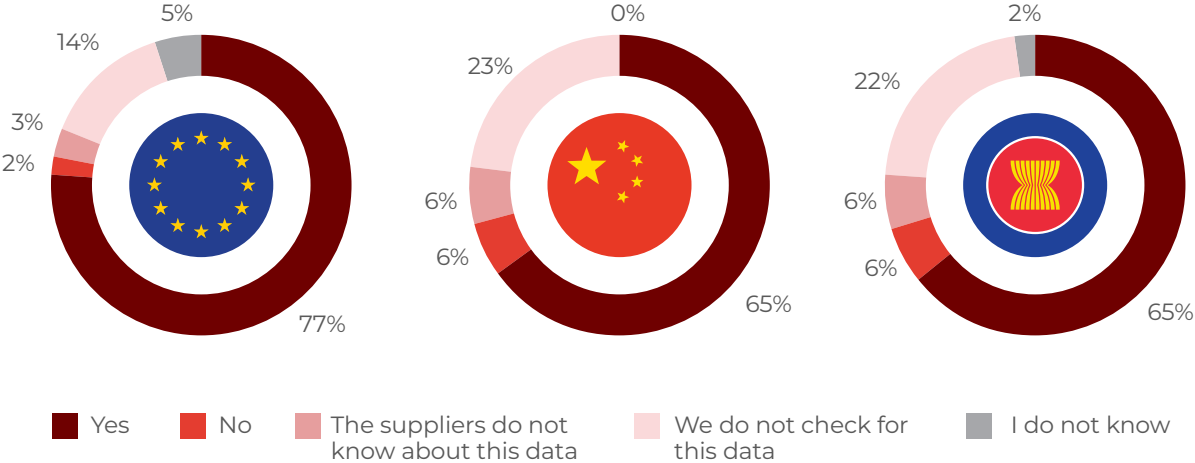
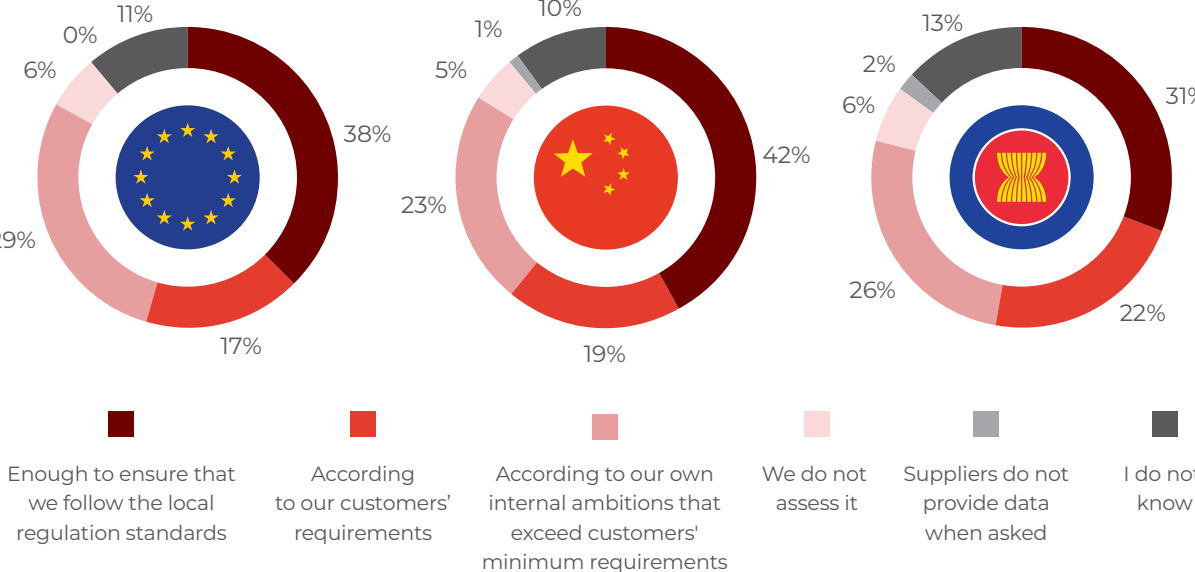


Figure 32
Suppliers' corporate integrity data assessing percentage
 Share of respondents assessed their suppliers' corporate integrity data



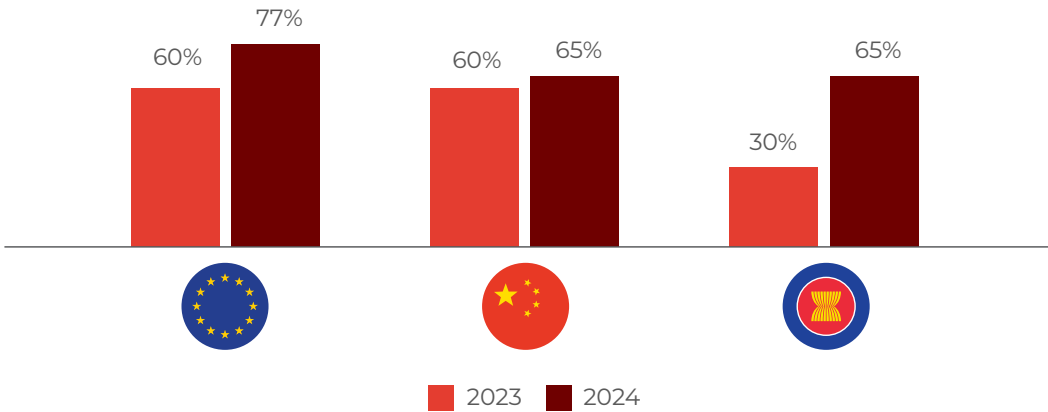
In terms of suppliers' willingness to share corporate integrity data, Europe leads with 77% of respondents receiving such information, followed by China and Southeast Asia at 65%. Notably, a consistent 14% to 23% of companies across all regions do not check for this data, indicating a significant area for improvement in due diligence practices (Figure 31).

Regarding compliance assessment, Chinese companies show the highest rate (42%) of adherence to local regulation standards, closely followed by Europe (38%) and Southeast Asia (31%). Southeast Asia leads in assessing compliance according to customer requirements (22%), compared to Europe (17%) and China (19%). This underscores the previous statement in fair labor data that the emerging region's compliance is affected by external pressure.

The corporate integrity surveys from 2023 to 2024 reveal significant shifts in transparency and compliance practices across China, Europe, and Southeast Asia regions.

Figure 33
Suppliers' corporate integrity data sharing percentage

Share of respondents had their suppliers willing to share corporate integrity data across three regions between 2023 and 2024



Note: These selected data points highlight significant changes over time, focusing on impactful trends.

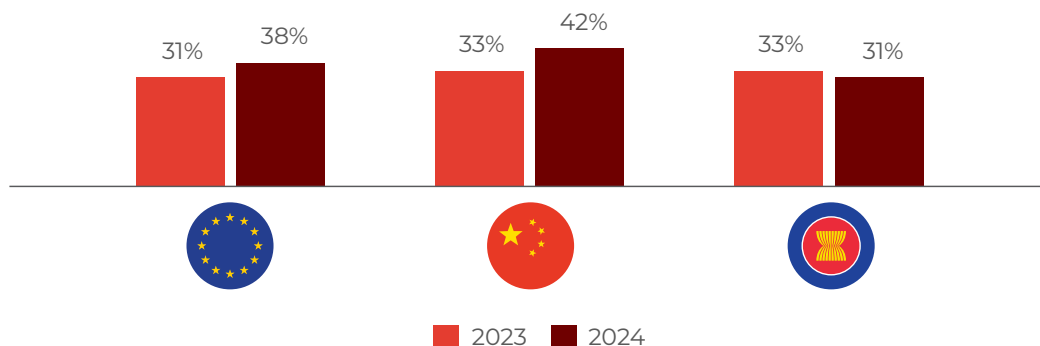
Corporate integrity practices have evolved significantly from 2023 to 2024 across China, Europe, and Southeast Asia regions. Europe, despite being the leading region in sharing data of all time, also has a strong rising trend. In the least mature region, Southeast Asia, surging 30% from last year. This surge highlights a growing trend toward transparency and reflects increased regulatory pressure and enforcement by Southeast Asian governments. Efforts are underway to implement advancements in three key areas: Corporate Disclosure, Fund Disclosure, and Taxonomies.

Regarding the compliance assessment in Figure 34, all regions show shifts in their approaches to ensuring local regulation standards. China increased in basic compliance from 33% in 2023 to 42% in 2024. Europe maintained high standards, with compliance rising from 31% to 38%. Southeast Asia, although previously reported with the rising trend in data sharing, showed a slight decrease in basic compliance, from 33% to 31%.

Figure 34

Suppliers' corporate integrity data assessing percentage

Share of respondents assessed their suppliers' corporate integrity data to ensure local regulation standards between 2023 and 2024

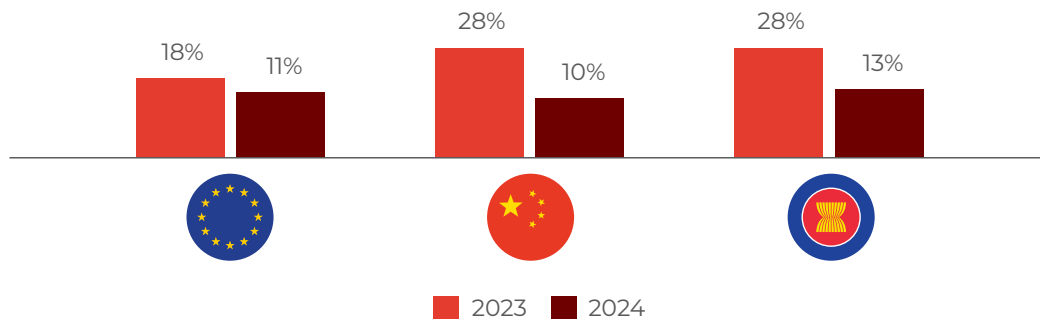


Note: These selected data points highlight significant changes over time, focusing on impactful trends.

Figure 35

Suppliers' corporate integrity data assessing percentage

Share of respondents not knowing their suppliers' corporate integrity data between 2023 and 2024



Note: These selected data points highlight significant changes over time, focusing on impactful trends.

Notably, the "I don't know" responses decreased across all regions in Figure 35 as China (28% to 10%), Europe (18% to 11%), and Southeast Asia (28% to 13%), suggesting improved awareness and engagement with corporate integrity issues.

This nuanced shift indicates that while companies are generally maintaining the same level of integrity practices, there is a slight recalibration in approaches across regions, potentially reflecting evolving regulatory landscapes and business priorities in the global marketplace.

The survey results from three ESG categories across different regions reveal varying maturity levels in sustainable and compliance practices. Europe appears to lead in transparency, while China demonstrates a strong commitment to meeting local standards. Southeast Asia, though slightly behind in some respects, shows more responsiveness to customer requirements.

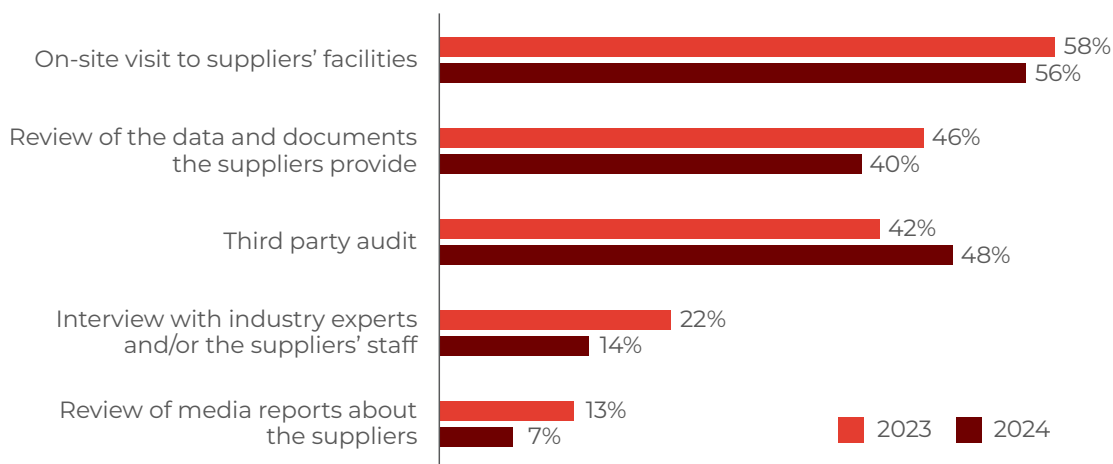
5.4 Strategies For Suppliers' ESG Compliance

While progress is evident, there is substantial room for improvement across all regions. Companies should consider different strategies for strengthening due diligence processes, enhancing supplier engagement, and fostering a culture of transparency and compliance.

Figure 36

Strategies for ensuring suppliers' ESG compliance

Share of methods for ensuring ESG compliance of suppliers



To shed light on how companies ensure ESG compliance among their suppliers, the survey polls the methods that companies are utilizing for their suppliers to comply with ESG standards. In 2024, on-site visits remain paramount, although their prevalence has slightly decreased from 58% in 2023 to 56% in 2024, indicating sustained reliance on direct observation of suppliers' operations. Concurrently, third-party audits have increased in prominence, rising from 42% to 48%.

Conversely, the review of suppliers' data and documents, which was robust at 46% in 2023, has marginally decreased to 40% in 2024, possibly suggesting a focus on optimizing data-driven approaches.

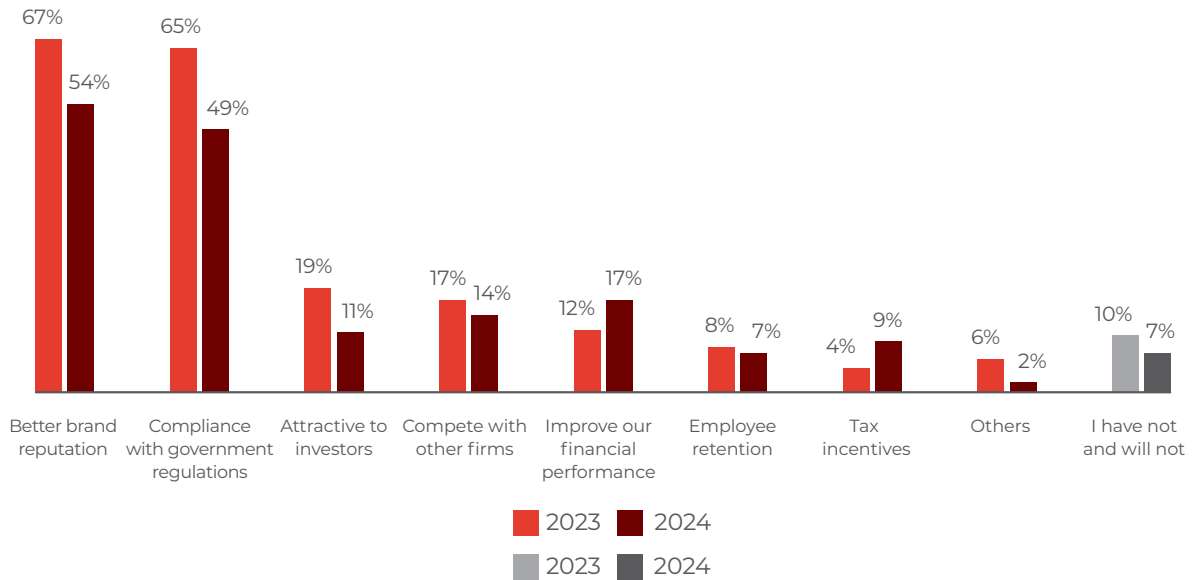
The survey also reveals a notable decline in the reliance on media reports, plummeting from 13% in 2023 to 7% in 2024. The decreases underscore concerns regarding the depth and reliability of media coverage in providing comprehensive insights into suppliers' ESG performance. Similarly, interviews with industry experts or suppliers' staff have decreased from 22% to 14%, potentially.

Overall, companies continue to employ a multifaceted approach of more structured and measurable, independent compliance verification methods to ensure robust ESG compliance among suppliers. The evolving preference for rigorous methods such as audits and sustained reliance on direct assessments through on-site visits illustrate a commitment to enhancing transparency and accountability within supply chains.

Figure 37

Motivations for ensuring suppliers' ESG compliance

Share of reasons for ensuring ESG compliance of suppliers now and in the future



As a result of some of the converse movements in strategic approach, companies in 2024 have also exhibited a noticeable shift in their motivations for ensuring suppliers' ESG compliance compared to 2023. While better brand reputation continues to be the leading motivator, it has declined from 67% in 2023 to 54% in 2024. Compliance with government regulations, another key driver, has also dropped from 65% to 49%. The attractiveness to investors has decreased from 19% to 11%, indicating a potential shift in investor priorities or increased scrutiny of genuine ESG efforts versus greenwashing.

In compensation for the reduction above, there is a significant incremental emphasis on financial performance, which rose from 12% to 17%. This suggests that companies recognize the direct economic benefits of strong ESG practices, such as cost savings, improved efficiency, and enhanced profitability. Similarly, the rise in tax incentives from 4% to 9% highlights a growing awareness and utilization of governmental financial benefits associated with ESG compliance.

Comparatively, the 2024 results signify a revolution of ESG's impact, that businesses are becoming more proactive in their ESG strategies, moving beyond compliance to embrace broader benefits blending brand reputation with tangible financial benefits. As consumer and investor expectations continue to rise, businesses must maintain a balanced focus on compliance, reputation, and financial performance to stay competitive and resilient in an increasingly ESG-conscious market.

The diminishing emphasis on brand reputation and regulatory compliance suggests a maturation of ESG integration, moving beyond external pressures. This data underscores a broader trend towards a holistic approach to ESG compliance, where companies not only meet external expectations but also embrace the inherent value of sustainable practices. This strategic adjustment enables companies to align with evolving regulatory standards, investor demands, and consumer preferences, thereby ensuring long-term sustainability and competitive advantage.

6. Transition From Global To Regional Sourcing

Continuing our analysis of global sourcing strategies, this chapter delves into the reasons behind companies' decisions to maintain or shift their sourcing activities in the face of various risks.

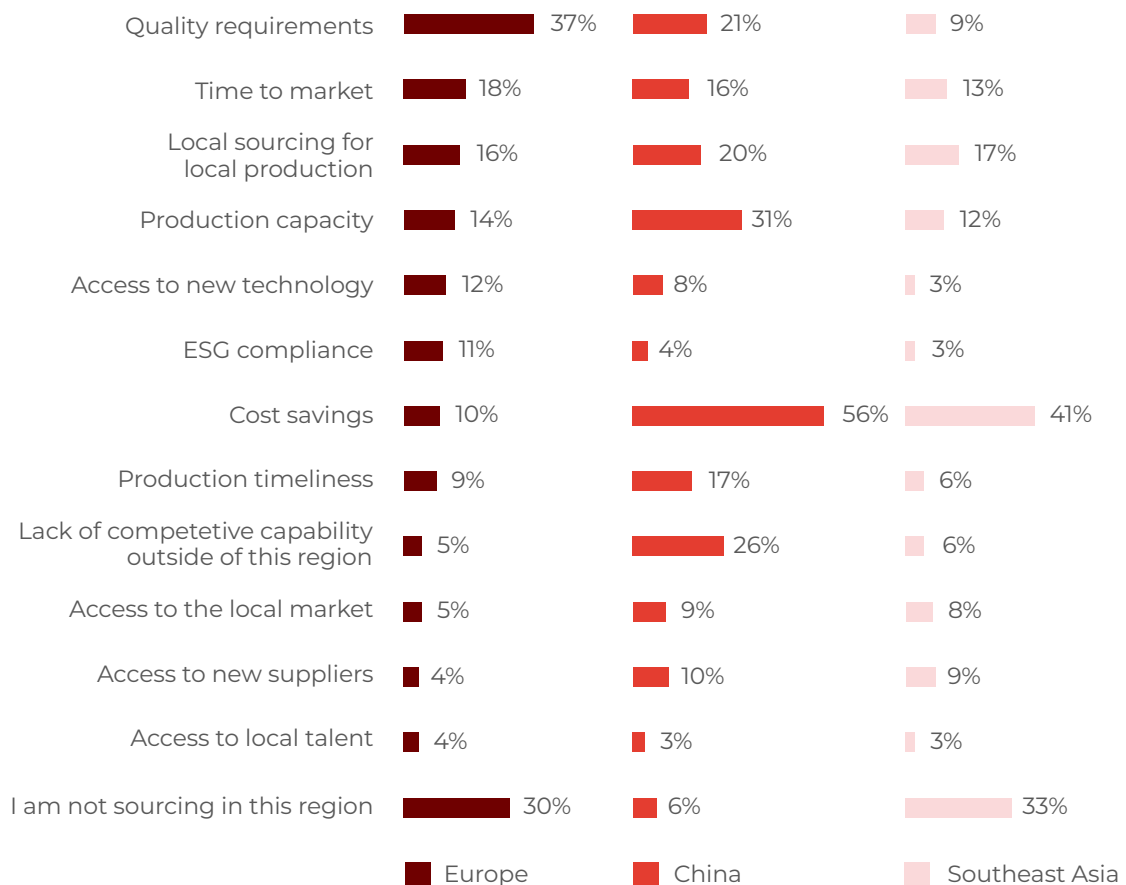
This chapter seeks to answer the following questions:

- What are the reasons for maintaining sourcing despite risks in each region?
- What is the likelihood of sourcing relocation in each region?
- What are the new sourcing activities and future plans?
- What are potential new sourcing markets?

Figure 38

Reasons for maintaining sourcing despite risks

Key reasons for respondents to maintain their sourcing activities in each key region



From a European perspective, in 2024, the key reason for maintaining sourcing activities in the region was quality requirements, by a wide margin. The remainder of the top five reasons, which are time to market, local sourcing for local production, production capacity, access to new technology, and ESG compliance, are balanced quite equally between 11% and 18%, focused on the time to market, intent to source locally in Europe, and considerations around technology and ESG compliance. Additionally, 30% of respondents do not source in Europe.

China, meanwhile, earns the loyalty of purchasers predominantly thanks to cost-saving opportunities and production capacity, as well as sourcing for local needs. Besides, it scores almost on par with Europe in time to market and access to technology, while the gap is larger in criteria such as quality requirements and ESG compliance. Notably, only 6% of respondents do not source in China, by far the smallest share within the unattended option.

Southeast Asia also scores high with potential savings, however, at 41%, this is significantly lower than China's outstanding 56%. Beyond that, further advantages of Southeast Asia are more scattered, with local sourcing for local production at 17%, the second most cited reason in this region, which was at the lower position in China and Europe. Following is time to market at 13%, pointing to its increasingly attractive domestic target markets. Production capacity, finally, is still one of the top five reasons, though still far behind China. Additionally, one in three respondents do not source in the region altogether.

Hence, the findings highlight Europe's advanced manufacturing capabilities and commitment to ESG principles. Cost benefits and production capabilities are highlighted specifically in China. Additionally, Southeast Asia's appeal lies in cost savings and local production advantages. Along with the headwinds for reshoring considerations observed in the market, fueled by events such as the blockade in the Suez Canal since the end of 2023 up till now, these findings pinpoint how fluctuating global supply chains have become.

Figure 39
Likeliness to completely or partially relocate sourcing out of Europe in the near future

Share of respondents' likeliness to relocate their sourcing out of Europe

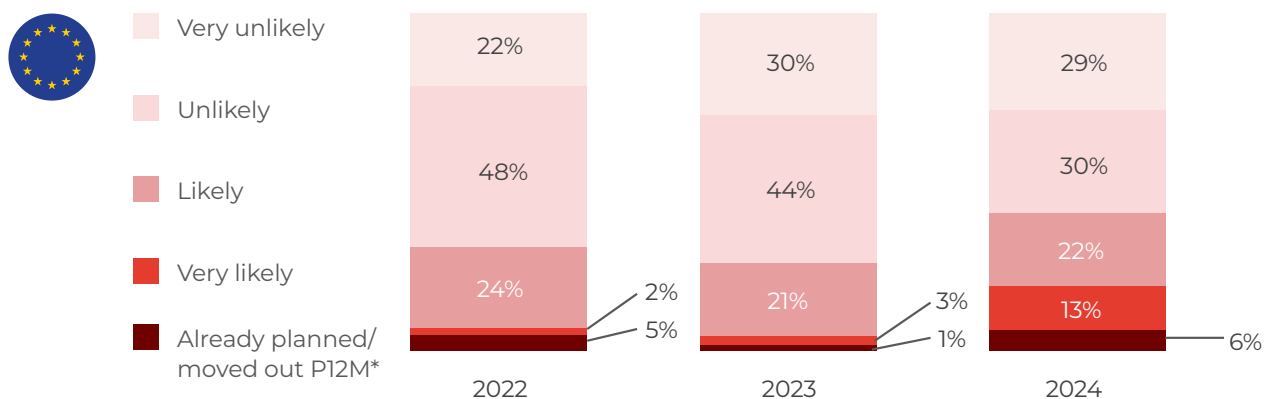


Figure 40
Likeliness to completely or partially relocate sourcing out of China in the near future

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

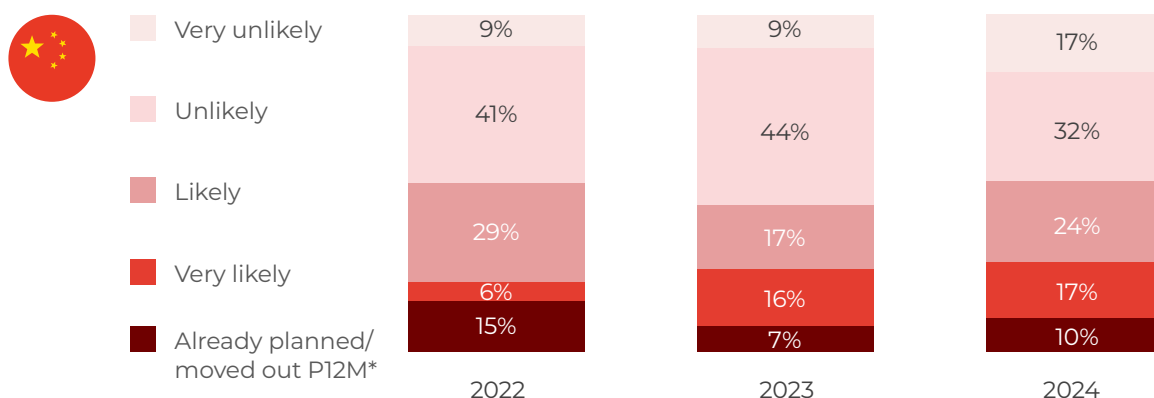
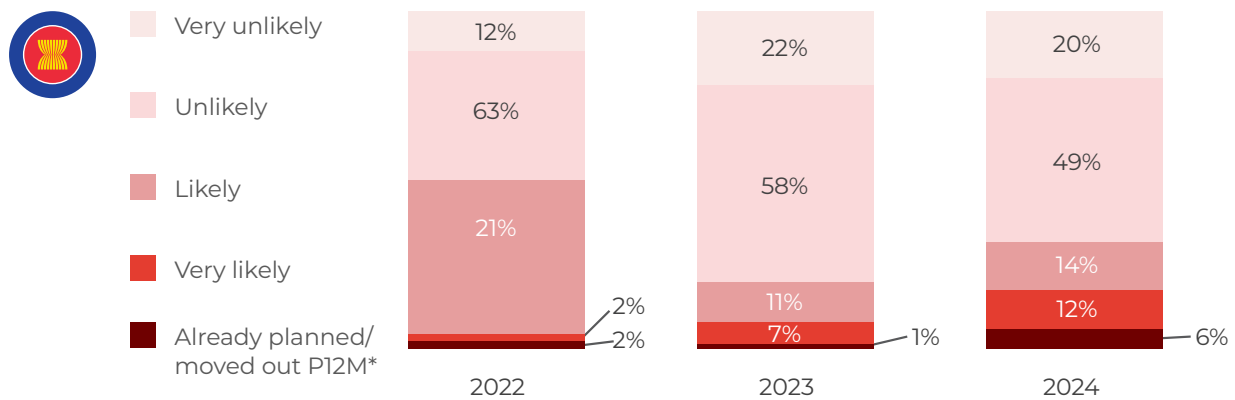


Figure 41

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

Share of respondents' likeliness to relocate their sourcing out of Southeast Asia



Note: *P12M - Past 12 months

Though most businesses intend to stay within their current sourcing areas, year-on-year movements depict existing changing perspectives on sourcing strategy.

Europe and Southeast Asia received a significant increase in the intention to leave among companies. The proportion of companies that moved out or planned to move out increased from 1% in 2022 to 6% in 2023, while respondents who were very likely to move out rose by 13% for Europe and 12% for Southeast Asia. On the other side, these numbers changed in the marginal amount in China, indicating the country as a primary sourcing destination.

Besides, there is a decrease among those who have less intention to leave, who chose unlikely to move out of Europe by 14%, and Southeast Asia by 9%. Despite the less significant movement in China, there is still a 7% increase in businesses likely to leave and an 8% decrease in those unlikely to leave this location.

These findings reinforce the view that China remains a prevalent global sourcing hub with increasing caution due to trade tensions, rising costs, and supply chain disruption. This cautious perception drives a preference for diversification strategies, which help businesses remain adaptable and flexible in their sourcing strategy.

Figure 42

The establishment of new sourcing activities across Europe, China, and Southeast Asia in the past 12 months

Share of respondents who established new sourcing activities across the regions in 2023 and 2024

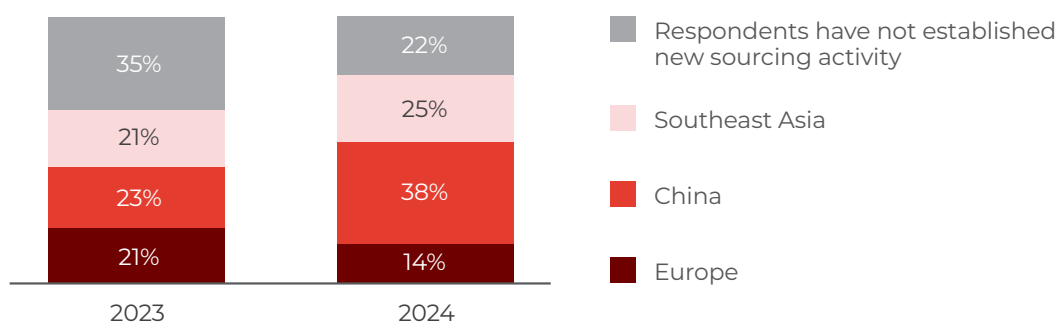


Figure 43

The establishment of new sourcing activities in each specific region in the past 12 months

Share of respondents who are currently sourcing in each specific region have established new sourcing activities

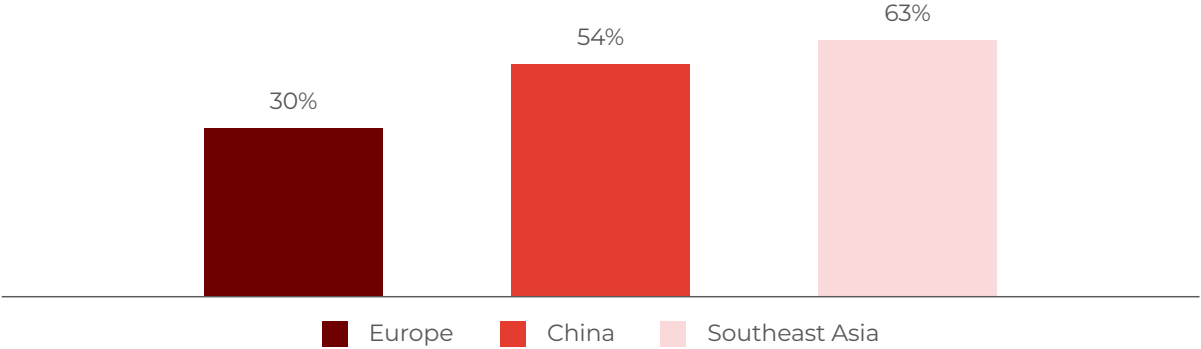
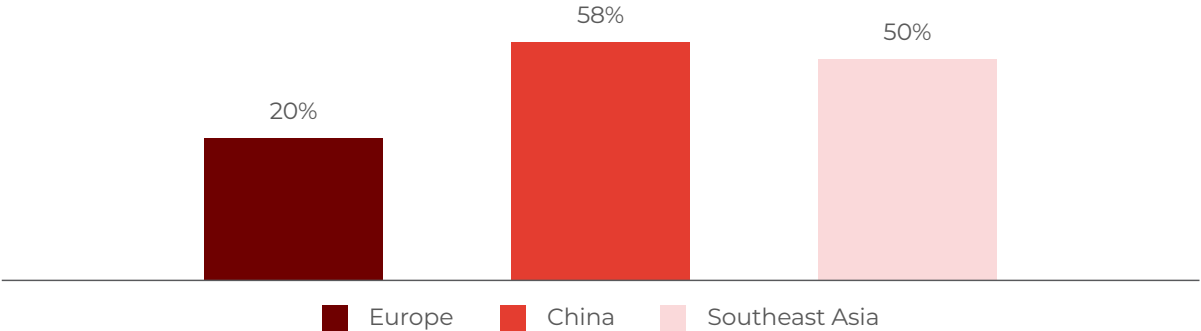


Figure 44

The new sourcing activity establishment is the first time in the region in the past 12 months

Share of respondents who newly established sourcing activity for the first time in the past 12 months in the region



The survey reveals ongoing new activities across regions, primarily from businesses already established in those areas. However, there are distinct differences in sourcing movements across regions.

China has the highest rate of new sourcing establishments among regions, with a notable increase of 15% this year. Businesses currently sourcing from China have shown a significant commitment to the region, with 54% of companies establishing new sourcing activities in the past 12 months despite any intentions to leave the region. Among them, there are 54% of new entrants for first-time sourcing. This underscores China's continued attractiveness as a sourcing destination.

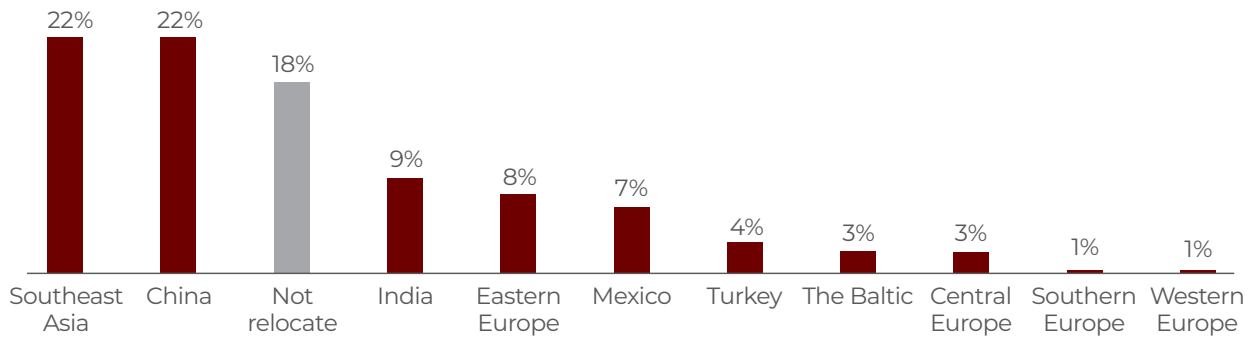
Southeast Asia has seen a slight increase in new activities from 2023 to 2024, with 63% of respondents reporting the establishment of new sourcing operations in the region. Additionally, a minority of newcomers have begun sourcing from Southeast Asia without any prior activities there, highlighting its growing appeal.

In contrast, Europe sees a decline in new sourcing activities, with only 30% having established new sourcing activities in the past 12 months.

Figure 45

Potential locations to relocate sourcing activities

Respondents' potential locations to relocate their sourcing activities

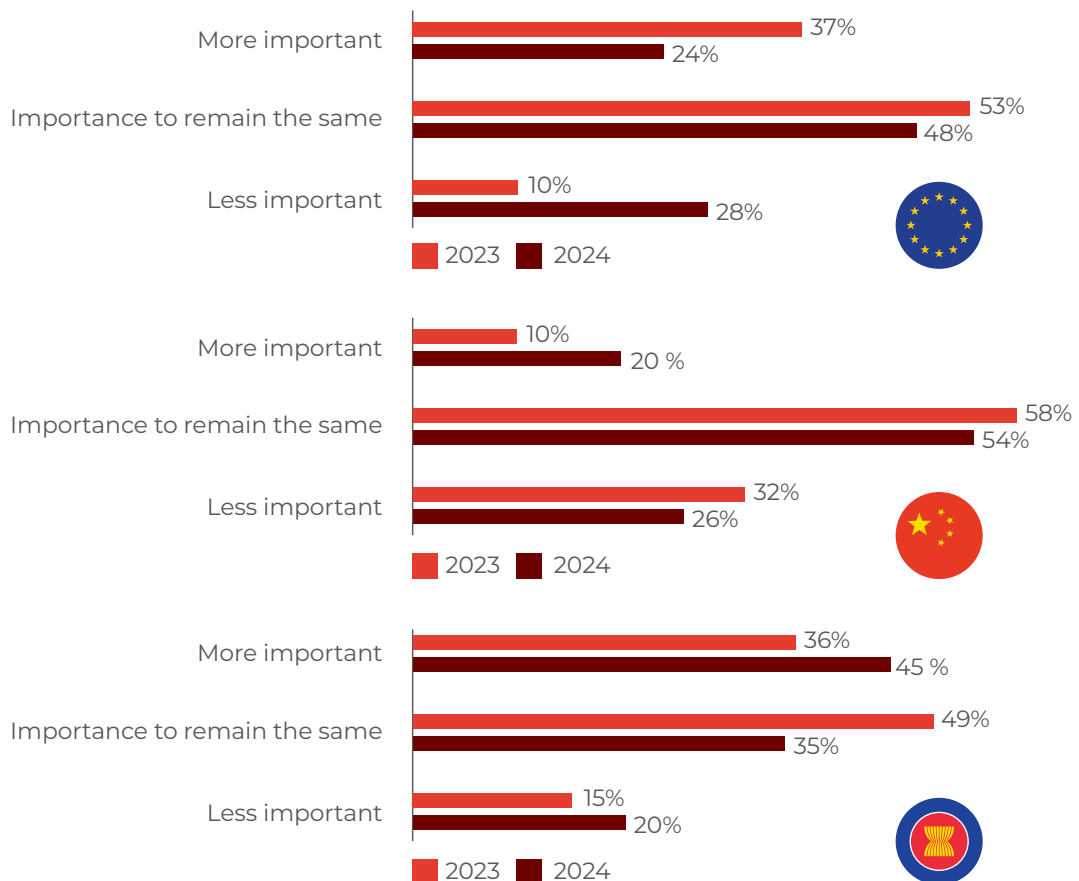


The chart indicates that Southeast Asia and China are the top choices for relocating sourcing activities, with each region being selected by 22% of respondents. This strong preference highlights their established roles as manufacturing powerhouses, characterized by cost efficiencies, mature supply chain infrastructures, and robust manufacturing capabilities. The increasing interest in Southeast Asia and China, combined with their already significant presence in global sourcing, suggests that these regions are expected to gain even more influence in the near future.

Figure 46

Expectations of Europe's, China's, and Southeast Asia's importance as a sourcing market in the future compared with 2023

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



While 18% of respondents are satisfied with their current sourcing setups and do not plan to relocate, the notable interest in India highlights its rising prominence as a sourcing destination. This shift is supported by India's recent trade agreements with Western countries, improved relations with the US, and the ongoing trade tensions between China and the US. These factors, combined with India's continued economic reforms and infrastructure development, suggest that India is poised to gain further influence as a key global sourcing hub in the near future.

There is a noticeable shift between Europe and China: the percentage of respondents who see Europe as less important has increased substantially from 10% in 2023 to 28% in 2024, while in China, this number has decreased from 32% in 2023 to 26% in 2024.

In Southeast Asia, there is a mixed trend, but the region's increasing importance outweighs the decreasing trend. In 2024, 9% more respondents view Southeast Asia as more important, while 5% more see it as less important compared to 2023.

7. Evaluating Drivers And Barriers In Sourcing Strategies

Building on the insights from previous chapters on relocation, this chapter delves into the reasons behind shifting sourcing locations and examines the financial and logistical challenges businesses encounter. It provides a comprehensive analysis of the barriers to entry, cost implications, and primary cost drivers influencing regional and global sourcing decisions.

This chapter seeks to answer the following questions:

- What are the main reasons for switching to new sourcing markets?
 - What are the barriers to setting up new sourcing locations?
 - What are the primary cost drivers?
-

7.1 Drivers to move into new sourcing markets

Over the past five years, companies have consistently prioritized cost savings when selecting new sourcing markets, with 70% of respondents choosing this factor in 2024. This focus highlights the ongoing need to reduce expenses amid material inflation, leveraging lower labor costs, reduced material expenses, and favorable exchange rates.

Following closely is risk mitigation/reduction, which has remained a stable priority, with 39% to 59% of respondents citing it as a key factor from 2020 to 2024. Companies are increasingly adopting diversification strategies to distribute their sourcing activities across various regions, reducing over-reliance on any single market and enhancing supply chain resilience.

The need to avoid import tariffs has seen the most significant increase, rising from 24% in 2023 to 32% in 2024. This reflects the impact of fluctuating trade policies, as companies seek markets with favorable trade agreements to lessen tariff burdens.

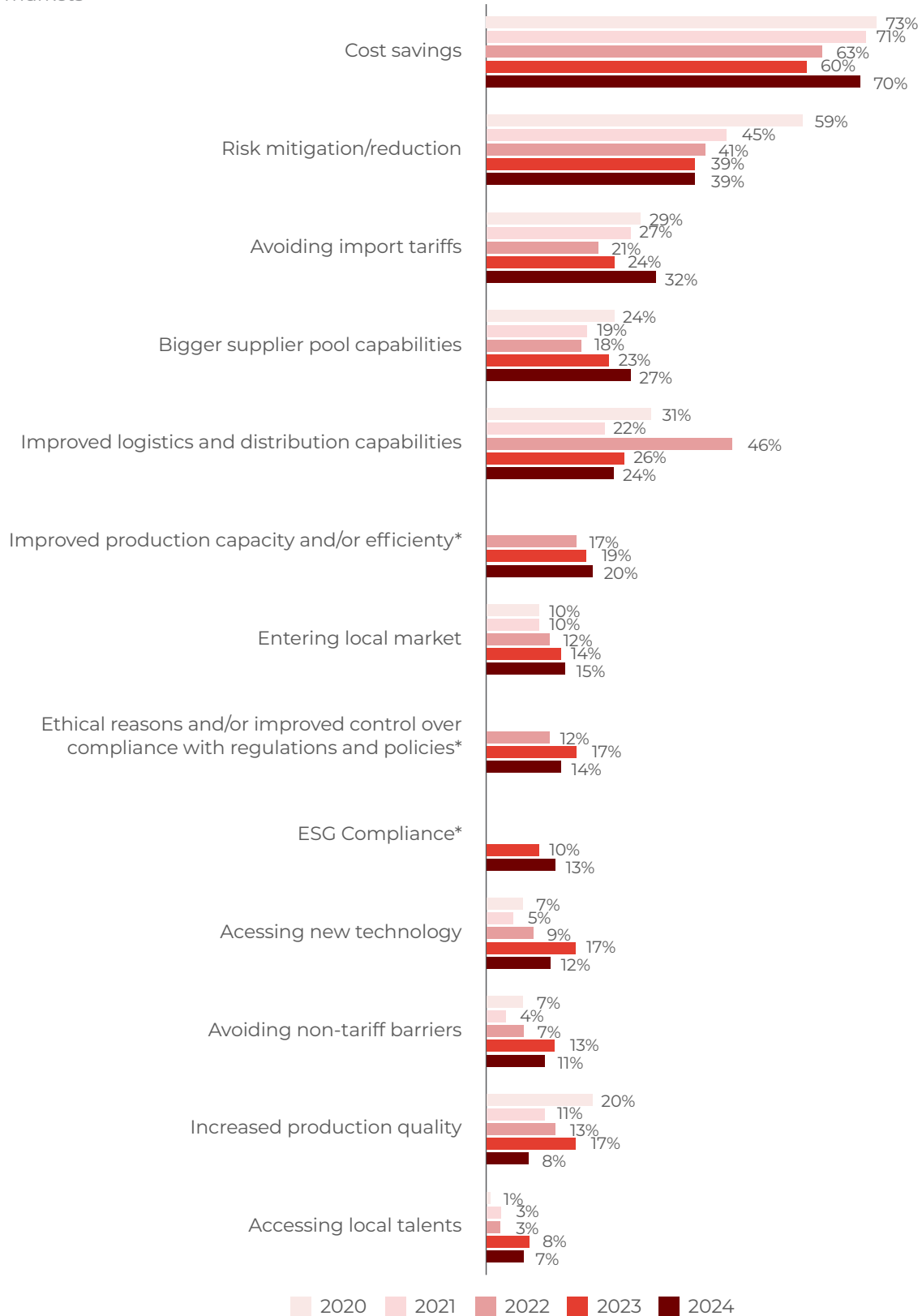
Access to a larger supplier pool has also gained importance, with 27% of respondents in 2024 highlighting this factor. This trend underscores efforts to improve supply chain flexibility and resilience by expanding supplier networks, which facilitates better negotiation terms and ensures higher-quality inputs.

Additionally, entering local markets (15%), ethical reasons and/or improved control over compliance with regulations and policies (14%), ESG compliance (13%), accessing new technology (12%), avoiding non-tariff barriers (11%), increased production quality (8%), and accessing local talent (7%) in 2024 highlight the multifaceted considerations companies weigh when evaluating new sourcing opportunities. Notably, while ethical compliance saw a slight decrease, ESG compliance increased by 3% in 2024, indicating shifting priorities within sustainability practices

Figure 47

Main reasons for switching to new sourcing markets

Share of respondents who chose each factor as one of their main reasons for switching to new sourcing markets



*“Improved production capacity and/or efficiency”, “ESG Compliance”, & “Ethical reasons and/or improved control over compliance with regulations and policies” weren’t included in previous surveys

7.2 Barriers to move into new sourcing markets

Figure 48

Main barriers to new locations

Main concerns in sourcing from new locations



Quality risks are the most significant barrier for companies considering relocating their sourcing markets, with 46% of respondents identifying it as a primary concern for them to switch sourcing markets. Ensuring consistent material quality is paramount, and any deviation can lead to the interruption of the whole supply chain. This highlights the critical need for thorough quality assurance processes and reliable suppliers when moving to new markets.

Following quality risks, set-up costs are the next major barrier, cited by 33% of respondents. Relocating to a sourcing market involves substantial initial investments in infrastructure, equipment, and workforce training, among other factors. These costs can be challenging, especially for small and medium-sized enterprises, making them a critical consideration in the decision-making process.

Production capability risk is the third major concern, with 29% of respondents highlighting it. Any risk to production capacity can lead to delays, and unmet orders, and may cause interruption to the whole supply chain.

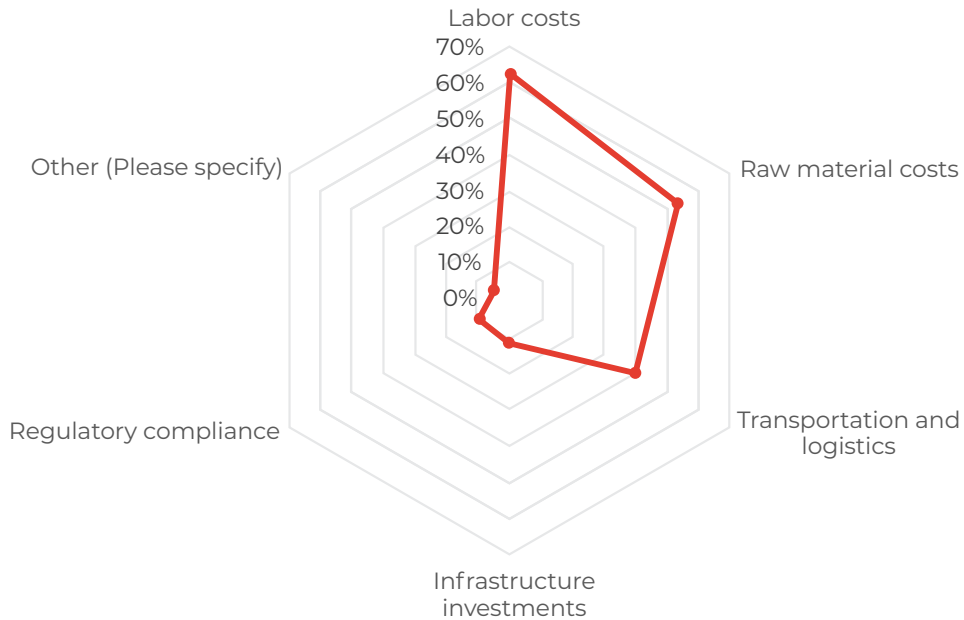
Insufficient knowledge of the new market is a barrier for 20% of respondents causing their hesitation in relocating sourcing markets. Navigating a new market's regulatory environment, cultural differences, and business practices requires significant expertise. Without adequate knowledge, companies risk non-compliance, miscommunications, and strategic missteps.

Other barriers include higher prices at the new location (19%), credit risks (14%), training and learning costs (13%), longer lead times (12%), extra logistics costs (11%), and low ESG compliance (10%). These factors, while less dominant, still present significant challenges.

By addressing these barriers, companies can better navigate the complexities of relocating their sourcing markets and ensure a smoother transition.

Figure 49
Primary cost drivers

Share of respondents choosing each factor as one of their primary cost drivers when sourcing regionally



The top three barriers to relocating sourcing markets mirror the primary drivers, highlighting concerns about quality (46%), set-up costs (33%), and production capability (29%). While financial savings are one of the primary motivations, quality risk remains a significant concern. Given the emphasis on cost, this year's survey explores specific costs businesses are worried about in more detail.

The radar chart underscores the main factors influencing cost concerns, with labor costs being the most significant criterion, cited by nearly 70% of respondents. Raw material costs follow closely at around 50%, and transportation and logistics are also critical, considered by about 40% of respondents.

Hence, ensuring consistent material quality, managing high set-up costs, and mitigating production capability risks are significant challenges companies face when considering new sourcing locations. These insights imply that while operational and compliance factors are important, the primary focus for companies remains on quality, cost, and production. These elements are both key drivers and barriers in their decision-making processes, emphasizing the need for a balanced approach to sourcing strategy.

In conclusion, the results underscore the growing use of reshoring strategies to save costs, mitigate risks, and reduce dependencies, driven by labor, material, and logistics costs. These strategies reflect an increased willingness to relocate sourcing to Asia and other lower-cost countries. However, the top three barriers - quality, set-up costs, and production capability - highlight the need for companies to balance cost-saving initiatives with maintaining quality and production stability.

8. Future of Sourcing

As we conclude our comprehensive exploration of global sourcing strategies, this chapter focuses on the strategic shifts and long-term goals guiding businesses' sourcing decisions. It provides a forward-looking perspective on how companies plan to balance regional and global sourcing to achieve their objectives.

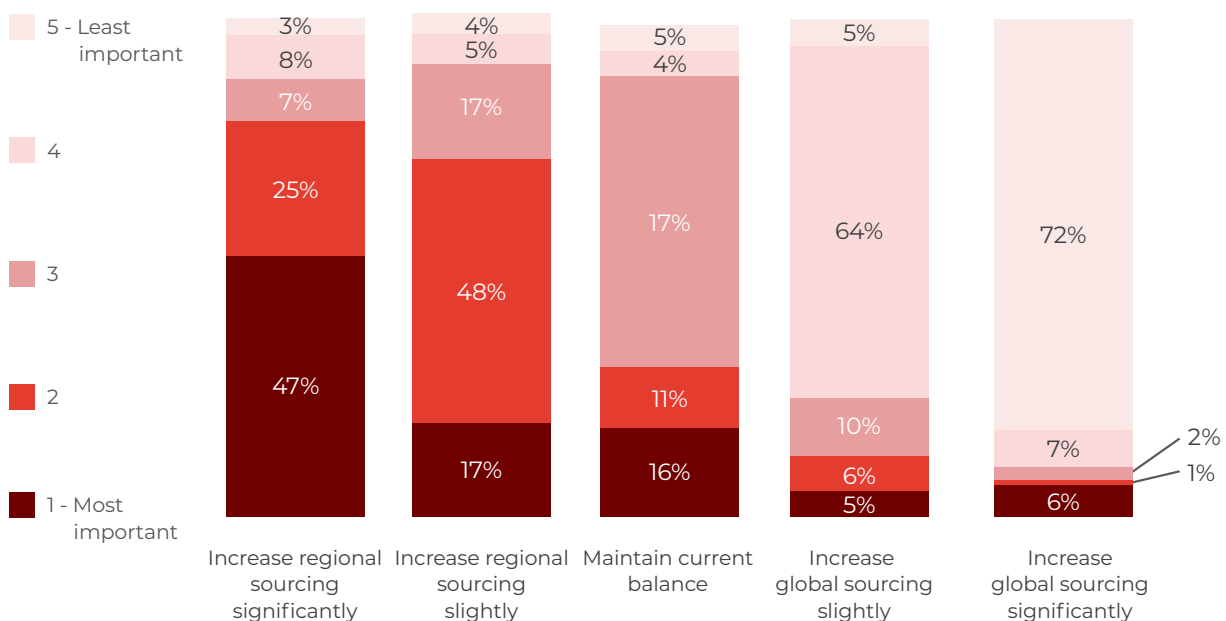
This chapter seeks to answer the following questions:

- How do respondents rank their long-term goals between regional and global sourcing from most to least important?
- What is the cost comparison of regional versus global sourcing?
- What are the important future sourcing countries?

Figure 50

Long-term goals between regional and global sourcing

Share of respondents ranked each goal as their most important goal to their least important goal



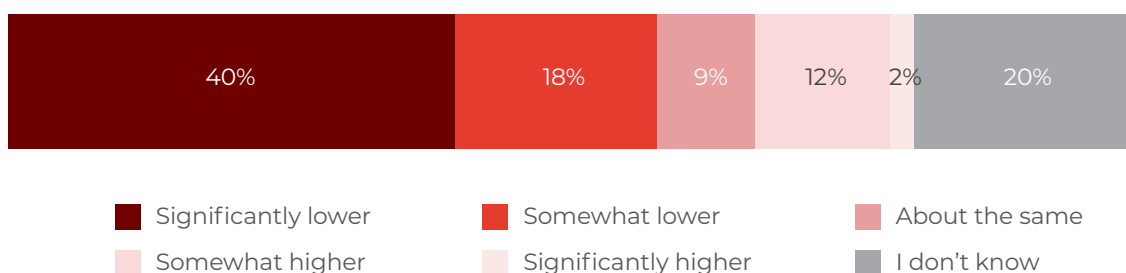
In this question, respondents were asked to rank their long-term goals between global and regional sourcing from first to fifth, aiming to identify the key priorities businesses are focusing on in their sourcing goals.

The chart in Figure 50 reveals a strong preference among respondents for regional sourcing. A significant 47% of respondents identified "increasing regional sourcing significantly" as their most important goal, while an additional 25% ranked it as their second most important priority. Additionally, "increasing regional sourcing slightly" was also a priority, with 48% of respondents considering it as their second top priority, indicating a clear inclination toward enhancing regional sourcing capabilities. This data underscores a strategic shift towards regionalization to improve supply chain stability and mitigate risks associated with global sourcing.

At the same time, low priority has been given to increasing global sourcing. Notably, "increasing global sourcing significantly" was deemed the least important goal by a substantial 72% of respondents. Similarly, "increasing global sourcing slightly" was considered the second least important by 64% of respondents, highlighting a reluctance to expand global supply networks. These findings indicate that companies are becoming increasingly cautious of the uncertainties and risks associated with distant supply chains, potentially leading to more stable and manageable regional sourcing approaches to ensure reliability and efficiency.

Figure 51
Cost comparison of regional versus global sourcing

Share of respondents' rank of cost regionally versus global

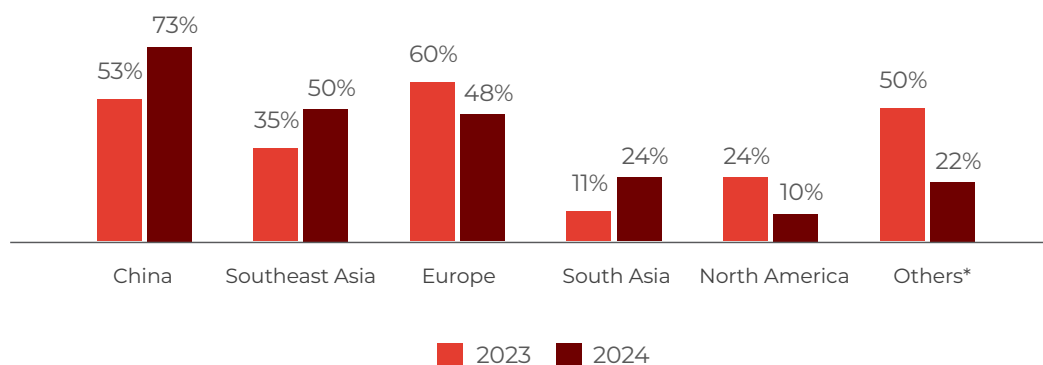


The chart in Figure 51 shows a comparison of regional versus global sourcing costs, with 40% of respondents indicating that regional sourcing is significantly lower in cost, and 18% suggesting it is somewhat lower. Conversely, 9% believe regional sourcing is somewhat higher in cost, and 2% think it is significantly higher, while 12% see it as about the same. Notably, 20% of respondents are unsure.

This data underscores a growing belief in the cost advantages of regional supply chains, likely due to lower transportation costs, reduced tariffs, and proximity to markets. However, the significant proportion of neutral and uncertain responses highlights the need for companies to carefully evaluate their unique supply chain dynamics to determine the most cost-effective strategy.

Figure 52
Important future sourcing regions

Share of respondents who chose each region as their important sourcing market in the future



Others* in 2023 include Argentina, Chile, Turkey. Others* in 2024 include Mexico, Brazil, Turkey, Japan

The role of the Chinese market as a key sourcing hub has fluctuated in recent years due to uncertainties from rising costs and the ongoing US-China trade war, which shows no signs of abating. Regardless of who becomes president after the 2024 US election, the US is likely to continue tightening tariffs on Chinese exports. Despite these challenges, China remains the most crucial future sourcing market, with its importance increasing from 53% to 73% according to respondents. This is due to the immense benefits the country offers businesses, solidifying China's position as a top sourcing market for decades.

Southeast Asia is emerging as one of the most prominent destinations for companies to develop alternative sourcing markets to China, thanks to competitive costs, improving industrial capabilities, and geographical proximity to China. This is evident from a notable increase in importance, with 50% of respondents choosing it as a crucial sourcing region in 2024, up from 35% in 2023. Specifically in the previous findings sourcing locations in Southeast Asia, Vietnam, and Thailand have shown a strong rebound, while Indonesia has been on a strong upward trend over the past four years.

Europe remains a significant sourcing market, with 48% of respondents choosing it, although its importance declined from 60% in 2023. Similarly, European countries like Germany, Poland, and Italy were reported to remain at the top locations in this region, despite the downtrend in this region.

South Asia, where India has received the most attention, is gaining traction as an emerging sourcing option, with the percentage of respondents selecting it as an important market more than doubling from 11% in 2023 to 24% in 2024. This increase underscores the region's potential as a viable alternative, with India being the dominant location in respondents' perceptions, as revealed in earlier survey findings.

Additionally, the data shows that, on average, each respondent selected more than two countries. These findings imply that companies are increasingly adopting diversified sourcing strategies to mitigate risks associated with geopolitical tensions, trade disputes, and other global disruptions. By spreading their sourcing activities across, businesses can enhance supply chain resilience and reduce dependency on any single market.

All in all, China remains the primary critical location for sourcing. This is followed by significant growth in Southeast Asia, aligning with the "China Plus One" strategy where businesses diversify their sourcing to mitigate risks associated with heavy reliance on China. Despite a current downtrend, Europe still ranks among the top three important sourcing hubs, underscoring its continued relevance.

9. Conclusion

The 2024 Sourcing Survey reveals a strategic pivot from global to regional sourcing, driven by recent global challenges and evolving market dynamics. These insights underscore the strategic pivot from global to regional sourcing, highlighting the need for businesses to enhance supply chain resilience and mitigate risks effectively.

China's Continued Dominance: China remains a cornerstone in global supply chains, thanks to its competitive costs, vast manufacturing capabilities and capacities, and well-established infrastructure. These strengths make China an attractive sourcing destination despite rising labor costs, regulatory complexities, and geopolitical tensions. To navigate these challenges, businesses should adopt a balanced approach, leveraging China's robust supply chain while also exploring alternative sourcing options to mitigate the risks of over-reliance.

Increasing Importance of Southeast Asia: Southeast Asia is rapidly emerging as a key sourcing region, offering competitive costs and proximity to China. The region benefits from improving infrastructure, favorable trade agreements, and low labor costs, driving growing confidence in its potential. However, challenges in supply chain reliability and scalability persist, indicating that Southeast Asia's market is still developing. To fully realize its potential as a major sourcing hub, continued efforts to strengthen infrastructure and capabilities are essential.

Europe's Role in Regional Sourcing: Despite a decline in its global sourcing prominence, Europe remains crucial for regional strategies. Companies are focusing on establishing strong supply chains within Europe to counter global uncertainties, emphasizing control and responsiveness. Europe's regulatory compliance, economic incentives, and sustainability make it an attractive destination for both regional and global sourcing. The region's strict regulatory environment, such as REACH (Registration, Evaluation, Authorisation, and Restriction of Chemicals) and GDPR (General Data Protection Regulation), ensures high standards of product safety and data protection, while economic incentives like subsidies and tax breaks further enhance its appeal.

Rising Prominence of Other Sourcing Locations: India in South Asia, Vietnam in Southeast Asia, and Mexico in Latin America are becoming increasingly important sourcing destinations. India is gaining traction as an alternative sourcing market, supported by ongoing economic reforms and expanding infrastructure, although challenges in regulatory and infrastructure areas need to be addressed. Vietnam is emerging as a significant alternative to China, driven by competitive labor costs, improving infrastructure, and strategic trade agreements like CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and EVFTA (EU-Vietnam Free Trade Agreement). Meanwhile, Mexico's proximity to major markets like the United States, along with competitive costs, enhances its appeal, although security and regulatory consistency remain concerns.

Hence, based on the key insights at each region, the survey suggests the need to mitigate risks associated with geopolitical tensions, logistics disruptions, and rising costs is propelling the adoption of regional sourcing strategies. Companies are embracing the "China Plus One" approach, maintaining a presence in China while establishing additional sourcing locations in regions such as Southeast Asia and Europe. This approach provides a safeguard against over-reliance on a single market.

The trend towards regional sourcing is anticipated to persist, driven by the imperatives of cost savings, production capacity, and reduced risk exposure. Diversification of sourcing markets is essential for constructing more resilient supply chains. Furthermore, addressing challenges such as long lead times and logistics disruptions is prompting businesses to adopt mitigation strategies, including diversifying supplier bases, improving supplier communication, and embracing localized sourcing approaches like reshoring and nearshoring.

Additionally, ESG considerations are increasingly influencing sourcing decisions. Regions that offer strong ESG credentials, such as Europe, with its stringent regulatory frameworks, are becoming more attractive to companies committed to sustainable and ethical practices. Southeast Asia and other emerging regions are also making progress in improving their ESG standards to attract global businesses.

Overall, the transition from global to regional sourcing represents a strategic response to contemporary challenges and market demands. By prioritizing regional sourcing and proactively addressing associated challenges, businesses can cultivate more robust and flexible supply chains, enhancing efficiency and positioning themselves to navigate future uncertainties effectively. This strategic shift not only ensures sustained stability but also fosters growth in the face of evolving global landscapes.

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