



Q3 2020 BAROMETER

COVID-19 Impact: China Sourcing Suggests W-Shaped Recovery While Manufacturing Struggles in Rest of Asia

The QIMA barometer is a quarterly synopsis on global supply chains' quality, compliance and trade trends published since 2012 by QIMA

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YOUR EYES IN THE SUPPLY CHAIN



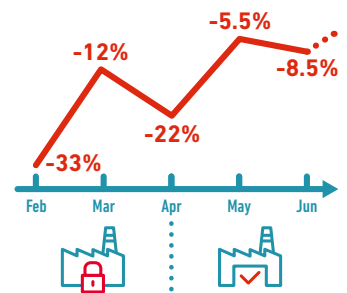
Throughout Q2 2020, global supply chains have remained in the grip of the COVID-19 pandemic. Lockdowns in buying and manufacturing regions are triggering dramatic yet erratic drops in demand and supply. As global trade enters the second half of 2020, it is emerging that the pandemic has not redrawn the maps of global sourcing – but it has **accelerated and deepened a number of pre-existing trends**. Among them are decreased reliance on China, diversification of supplier portfolios and more advanced use of digital and remote tools to manage quality and compliance.

China Sourcing in W-Shaped Recovery Following Lockdown and Demand Shock

QIMA data on inspection and audit demand in China shows that so far in 2020, China sourcing has followed a distinct **W-shaped pattern of decline and recovery**. After the initial stall during the Covid-19 lockdown (-33% YoY in January-February 2020), manufacturing showed signs of recovery in March (-12% YoY), followed by another downturn in April (-22% YoY) as demand from Western buyers collapsed. With restrictions easing in the West, it would appear that China sourcing is due for another – potentially more lasting – rebound. **Demand for inspection and audits picked up from May onward** (-5.5% YoY in May, +1% YoY in June).

EU buyers have played an important part in China's rebound, with demand for inspections and audits spiking by +16% YoY in May and +28% in June. Meanwhile, many US buyers are finding it hard to make a clean break from China: inspection demand in Q2 was down -12%, far from the expected cliff edge drop. Indeed, in a July QIMA survey that polled 200+ businesses globally on their sourcing patterns, 87% of US respondents still cited China among their top three sourcing geographies, and 60% did more than half of their sourcing from China. Furthermore, QIMA data suggests that in some sectors, US brands continue to rely heavily on China and, in some cases, increasingly so. For example, Electrical and Electronics inspections in China for US-based buyers recorded an uptick of +7.5% YoY in May and 15% in June 2020.

INSPECTION AND AUDIT DEMAND IN CHINA (YOY)



For 87% of US businesses, **China remains among their top three sourcing geographies.**

Source: Covid-19 Epidemic and Global Supply Chains QIMA Survey



Manufacturing Throughout Asia Decimated by Cascade of Lockdowns

Sourcing in Asia's manufacturing hubs outside of China was decimated in the first two months of Q2 as Covid-19 related lockdowns set in. Across Southeast Asia, including Vietnam, Cambodia, Indonesia, Myanmar and others, demand for inspections and audits collapsed -52% YoY in April. During the same period, sourcing came to a virtual standstill in South Asia, with inspection demand **down -96% in April and -74% in May** as the region instituted even more dramatic lockdowns than China in an attempt to contain the virus.

June marked the start of a rebound for Asian manufacturers outside of China, with volumes picking up again in the Philippines, Malaysia and Myanmar. **Vietnam** enjoyed renewed popularity among US brands, with inspection demand **+42% YoY in June**. Meanwhile, in South Asia, **Bangladesh** saw the start of a recovery with an influx of orders from EU and US buyers alike (**+49% YoY in June**). However, given the region's continued struggle with the Covid-19 pandemic, the road to recovery promises to be bumpy.

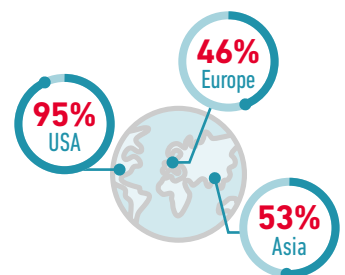
US Businesses Among the Most Likely to Diversify Sourcing

While sourcing diversification remains a prominent trend, results of the QIMA survey reveal a correlation between where a business is headquartered and how likely it is to change up its suppliers in 2020. For instance, **over half of EU based respondents indicated that they have no immediate plans to further shift their sourcing**; the same was true for almost a third of respondents based in Asia (outside of China).

By contrast, almost **95% of US based respondents had plans to change suppliers due to the Covid-19 pandemic and the ongoing concerns around the US-China trade war**, with top destinations of choice being Vietnam (cited by half of all US respondents) and South Asia (30% of respondents expressed a preference for Bangladesh or India).



PLANS TO SWITCH TO SUPPLIERS IN OTHER REGIONS DUE TO THE COVID-19 EPIDEMIC



Source: Covid-19 Epidemic and Global Supply Chains QIMA Survey





PPE Production Helps Keep Global Supply Chains Afloat While Propping Up the Struggling Apparel Sector

Throughout the first and especially the second quarter of 2020, PPE production has helped mitigate some of the pandemic's impact on multiple links of global supply chains, ranging from raw materials and manufacturing to logistics and quality control.

Furthermore, PPE has also proved a much-needed life raft for the Textile and Apparel sector, which has been battered by store closings, manufacturing delays and shifting demand (inspections and audits in H1 2020 -21% YoY). By now, a number of countries, including China, Vietnam, Bangladesh, Cambodia and Myanmar, have repurposed a share of their apparel manufacturing capacities for PPE production.

Between January and May 2020, QIMA inspection volumes on PPE items increased 30-fold, with **over 1.2 billion face masks inspected in Q2.**



Factories' Sanitation and Hygiene Efforts May Increase Risks of Worker Exploitation

Restarting manufacturing in a safe manner has been this quarter's central challenge for any region where lockdowns were being lifted, triggering a host of **worker safety issues**. A prominent example is Bangladesh, where factories showed low compliance with government-mandated health and safety guidelines, increasing the risk of exposure. In response to such challenges, QIMA has seen increased demand for sanitation audits.

Furthermore, increased hygiene and sanitation procedures in factories, while necessary, create potential compliance challenges: such as the risk of exploitation if relevant duties are assigned to regular factory staff as mandatory or as unpaid overtime. Given these new risks, brands are recommended to place extra scrutiny on working hours and wage compliance, an area in which QIMA auditors recorded **critical violations in 7.1% of factories** audited in H1 2020.





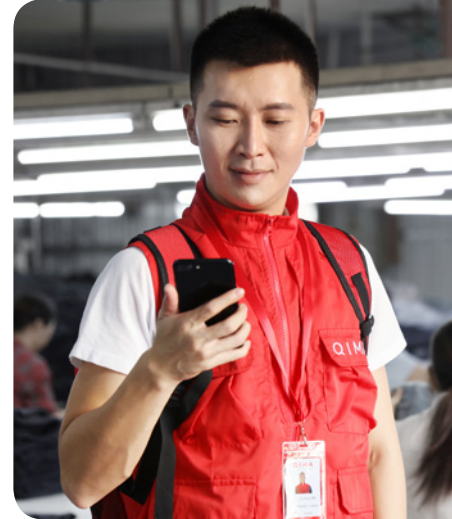
Flexible, Agile, Highly Digitized Supply Chains Are Key to Continued Survival in Turbulent Sourcing Landscape

The ongoing, truly seismic impact of the Covid-19 pandemic on global supply chains has kicked a number of major pre-existing trends into overdrive, with an added slew of new risks. The supply chain landscape is likely to remain turbulent until the pandemic is contained, with any existing or reinstated lockdowns causing sharp fluctuations in both production and demand.

To respond to such fluctuations quickly, it is now more important than ever for brands and retailers to evolve their supply chain strategies for maximum flexibility and agility, as well as step up the use of digital supply chain solutions to manage quality and compliance remotely. Indeed, **almost two-thirds of respondents of the QIMA survey reported that the pandemic has accelerated their company's resolve to digitize their supply chain in 2020**, including the use of new digital and remote solutions.

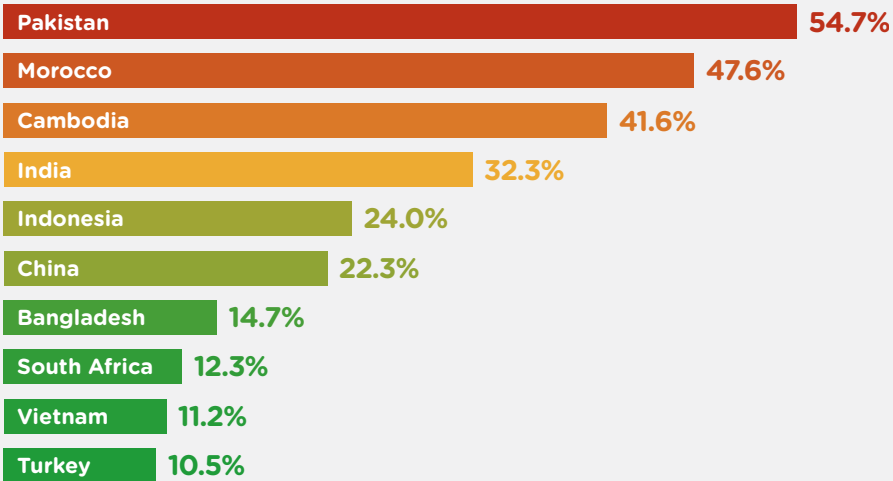
Press Contact

Courtney Terrey
(+852) 3543 1684
press@qima.com





Inspection Reports Beyond AQL % - 2020 YTD



Average Ethical Audit Scores - 2020 YTD



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About QIMA

QIMA is a leading provider of supply chain compliance solutions, that partners with brands, retailers and importers to secure and improve the quality of their global supply network.

QIMA combines on-the-ground experts in 85 countries for quality inspections, supplier audits, certification and lab testing, with a digital platform that brings accuracy, visibility and intelligence for quality and compliance data.

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