CPG

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CPG Quarterly Newsletter

Editor: Jesse Alterman
Operations & Insights

A Word From Our CEO

By Michael De Clercq
CPG CEO

I was so distracted by the US elections that I was late for this newsletter. My apologies.

The upside is that I can now comment on it and share with you my thoughts about the potential changes coming for China importers. Many have asked me about the impact of the threatened 60% tariffs on China goods. Some importers feel that they now must pull out their supply chain from China. Others think they must wait.

Not so fast. As we all know, reliable supply chains take time and effort to set up and maintain. Changing them is easy to say but hard to do. Moreover, the fundamentals have not changed much. Think back to 2016 and the first Trump administration. The tariffs then made importers think that China was no longer a viable supplier and that it was time to move on. Further back, during the days of dispute over MFN (Most Favored Nation status), importing from China seemed a very risky thing to do. But those who persevered did very well for themselves.

What we must keep in mind is the fundamentals. Why is China a good source for so many products? What are the alternatives? We know Chinese suppliers are creative, hard-working, and supported by decades of infrastructure painstakingly put together to deliver excellent results. We know they are driven by the same vision most of us share: making money by keeping customers happy. We also know that China is cheaper than ever: factory-gate pricing has been falling, year on year for 25 months in a row. That profile is marred by geo-political forces, arbitrarily imposed tariffs over which we have no control — but which could change rapidly.

On the other hand, China's competitors (Vietnam, Bangladesh, Pakistan) tend to have higher first costs, unproven long-term reliability, and are politically unstable. They, too, are subject to unpredictable geopolitical whims. Mexico for example, the best near-shoring alternative, is the target of potentially even higher tariffs than China. How does one navigate such a complex equation?

Waiting and watching what happens seems like the smart thing to do. In a few months, things will be clearer. Maybe the 60% tariffs will not happen, maybe other solutions will surface. But the markets don't wait. Your competition does not wait. Waiting seems to present higher risks than rewards.

My view is that the impact of high tariffs will be substantial both for China and for the US economy. And if tariffs of 10% to 20% are applied to the whole world, then costs will inevitably go up for the consumer. But Chinese suppliers will most likely find ways to remain competitive, and savvy US importers will find ways to benefit. They will take steps to not only survive but thrive in this changing environment.

We can't control geo-politics but we can use our knowledge and analysis. What matters in the end is how well we compete.

As we end what was by all accounts a turbulent 2024, we hope the rest of Q4 will prepare you well for a strong 2025.

Did You Know?

China has specialized regions for different industries! They are called product clusters where numerous factories for the same industry are located, often next door to each other.
For example, Shenzhen is known as the "Silicon Valley of Hardware," producing most of the world's electronics, while Guangzhou excels in textiles and fashion. Changchun has an automotive cluster and Shantou is where you would go to buy toys.

Vietnam: A Competitive Alternative for China Sourcing

By Laura Dow
Business Director

As geopolitical tensions rise and tariffs increase, companies are turning to the "China + 1" strategy to diversify supply chains beyond China. Vietnam has emerged as a popular alternative due to its low labor costs, strategic free trade agreements, and proximity to China.

However, businesses must balance these advantages against potential risks, such as a less sophisticated supply chain, political instability, and corruption.

While Vietnam offers improving infrastructure and key industry support, thorough due diligence and continued diversification are essential for long-term success. Read more here.

ARE YOU GETTING THE MOST OUT OF YOUR CHINA TRIP?

By Chris Volz
Client Sucess Manager

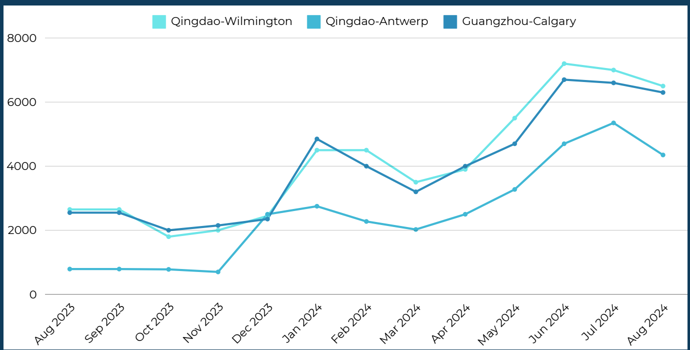
As the veil of COVID lifted from China after its policy shift in late 2023, companies wasted no time traveling to their key suppliers to fortify relationships. These visits always provide a unique opportunity to share vision and goals with supply chain partners, discuss details, and see for themselves the factory where the goods are manufactured.

China visits are a significant investment of time and money, and so they are carefully planned.

Our Beijing team was involved in numerous client visits lately, and they took care of every aspect of the trip—from pre-trip preparation and scheduling appointments to organizing meeting agendas and travel logistics. Our clients appreciate the in-person support at each meeting. Perhaps most of all, they love the detailed trip reports they receive after they get home because what matters most is the follow- up after the trip is over.

UPCOMING CHINA TRADE SHOWS

- November 21*23: The 29th Shenzhen International Garment Supply Chain Expo
- December 4-6: International Electronic Circuit (Shenzhen) Exhibition
- December 18-20: The 44th Shenzhen International Medical Device Exhibition



SEA FREIGHT TREND

- Freight rates have continued to decline, prompting some shipping companies to announce a mid-month General Rate Increase (GRI) to stabilize rates.
- Conditions at the Panama Canal have improved.
- Many shipping companies have lifted weight restrictions for routes from the U.S. to the East.
- The Ocean Alliance deployed additional vessels to increase capacity.
- The Shanghai Container Freight Index (SCFI) continues to drop, and Freight of All Kinds (FAK) rates at European ports have also decreased.

REBAR & HOT-ROLLED COIL TRENDS

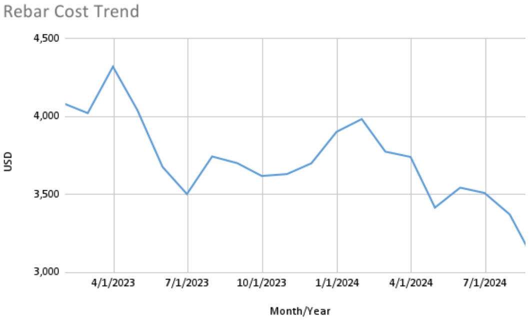
By Yolo Huang
Sourcing Associate

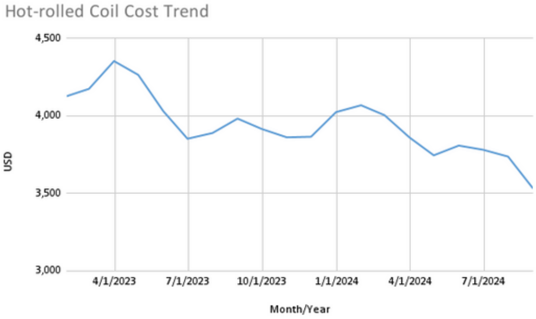
Anybody buying a lot of steel product pays attention this product category. Here is our latest update:

From January to September 2024, the rebar market showed considerable volatility due to several factors:

- **Demand Fluctuations:** Demand was weak in the first half of 2024, primarily due to a sluggish real estate sector. It began to recover in the second half.
- **Supply Adjustments:** In response to low demand, many steel mills reduced production or scheduled maintenance in the early months, helping to stabilize supply as demand picked up later in the year.
- **Price Trends:** Rebar prices were low in early 2024 due to weak demand and excess inventory. Prices rebounded in Q3 as demand improved.

The hot-rolled coil market also experienced significant fluctuations in 2024, shaped by macroeconomic factors and shifting market dynamics. Weaker-than-expected demand in the construction and manufacturing sectors led to downward pressure on prices in the first half of 2024. Demand began to recover as the year progressed, fueled by supportive economic policies from the Chinese government, including infrastructure investments and stimulus measures. This upward trend is expected to continue into Q4, bolstered by domestic policy adjustments and favorable global market conditions.





EMPLOYEE SPOTLIGHT: DORA LI

Position:
Sourcing Specialist

How long have you been at CPG?
2 years

What do you do in your role?
I manage and execute projects for clients in China.

What do you love most about your job?
I enjoy helping clients find qualified and reliable suppliers, improving communication, and building strong, transparent relationships.

What are some notable achievements during your time at CPG?

1) Assisting clients in developing new projects—from the initial concept to identifying specialized manufacturers for samples, and finally facilitating the transition to bulk orders.

2) Addressing any issues that clients face to ensure they are satisfied with our work and that CPG continues to add value at every step.