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The Big Take

# How Trump's Trade War Built Shein, China's First Global Fashion Giant

With thousands of new, ultracheap outfits every day, Shein is winning the world's teens and pushing the limits of fast fashion

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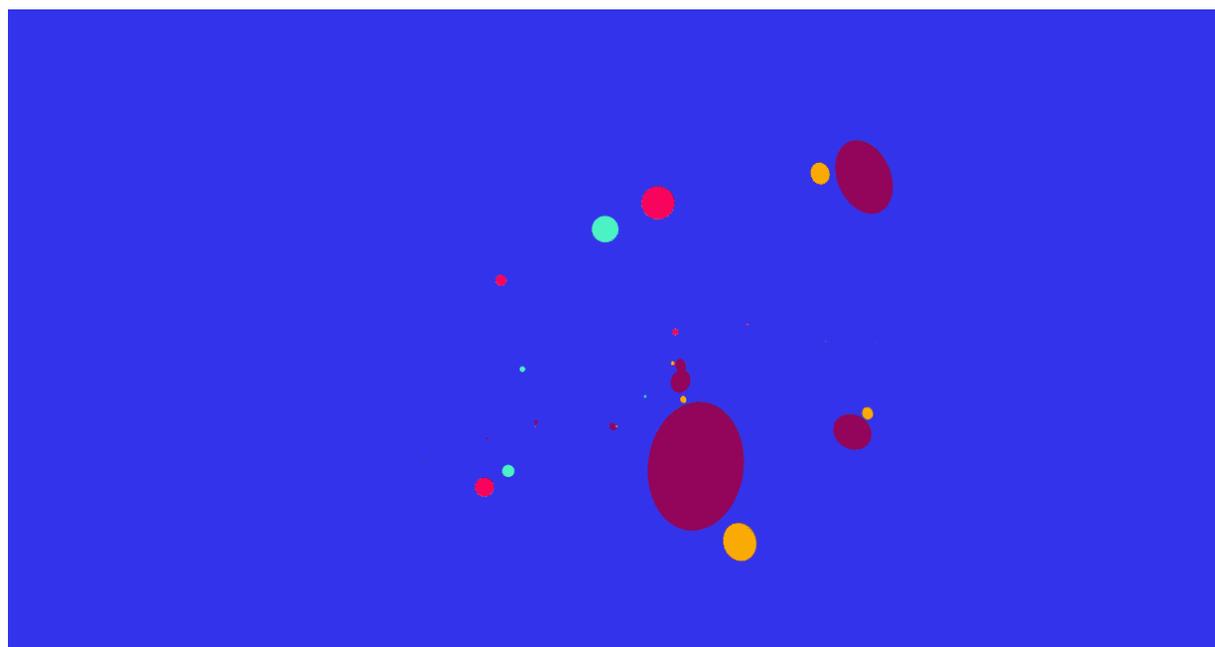


Illustration: Simon Fuller; Photography: Getty Images/Getty Images for Shein

On May 17, Shein — pronounced “she-in” — ended Amazon’s 152-day streak as the most downloaded shopping app in the U.S., a remarkable feat for any seven-year-old clothing brand, let alone one most Americans over 30 still haven’t heard of.

The kids, though, are all over it. As with so many online phenomena, Gen Z and young millennial shoppers have propelled Shein’s rise, in thrall to the company’s never-ending, always-changing catalog of clothes at prices that stretch even the most meager allowance.

One recent Thursday, the app debuted 6,239 new items, including a floral backless halter top (\$5), purple dinosaur-print PJs (\$10), and a prom-perfect fitted butterfly-sleeve dress with pearl trim (\$22). Earlier this year, a U.K. blogger crowded that she’d paid just £100 for more than 30 Shein bikinis, a clearly impractical number of swimsuits until you remember that social media audiences demand novelty above all.

Anything you want at prices so low you can afford two (or 30). That’s a rush approximating freedom for most people, especially fiscally constrained teens. Their enthusiasm has made Shein the first big fashion success from China, though its origins are nowhere to be found on the app. After doubling in 2019, its annual sales took off during the pandemic, more than tripling last year to make Shein the biggest web-only fashion brand in the world, according to the most recent data from Euromonitor.

Global investors like IDG and Sequoia have already piled in. A person familiar with its funding says Shein is valued at as much as \$30 billion, and last year, it hired Goldman Sachs Group Inc., Bank of America Corp. and JPMorgan Chase & Co. as advisors on a potential initial public offering, according to others acquainted with its plans. The company itself is vague, saying reports about it are “often incorrect” and putting its valuation at “several billions of dollars” last year. In the short term, there are no IPO plans, a spokeswoman told Bloomberg on May 28.

What is clear is that Shein has ambition. In January, it was one of the bidders for iconic British clothing retailer Topshop, and while it lost to Asos Plc’s £295 million offer, the move was a “red flashing light for existing brands,” said Jonathan Reynolds, academic director of the Oxford Institute of Retail Management at the Saïd Business School.

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Shein has occasional pop-ups, like this one in London in 2019, but no permanent physical stores. Photographer: David M. Benett/Getty Images

As it is, Shein is upending a \$36 billion industry by beating the likes of Inditex SA's Zara and Hennes & Mauritz AB at their own game, supercharging the fast-fashion phenomenon that they invented (and have been roundly criticized for). To do that, it's using a seemingly ingenious combination of supply-chain savvy, data-driven clothing design, and, most intriguingly, tax loopholes in the U.S. and in China that came to the fore during the trade war. The very offensive aimed at reining in Chinese dominance has instead helped create a giant.

China doesn't have anywhere near the same global fashion cachet as Italy, France or Japan, which is one reason Shein divulges almost nothing to customers about its origins. Anyone interested in learning more — where, say, Shein sources its materials, how one might get a job there, or even where “there” is — hits one dead-end after another on its slick app. One clue to its geography is buried at the bottom of the “About Us” page on its website, in a picture of a warehouse loading dock. The logo on the truck parked there is written in English and Chinese.

But Shein owes its success to China. In particular, a trade-war era change to China's tax code that dramatically reduces costs for the company and its suppliers, allowing them to undercut their global competition, one pair of \$4 bike shorts at a time.

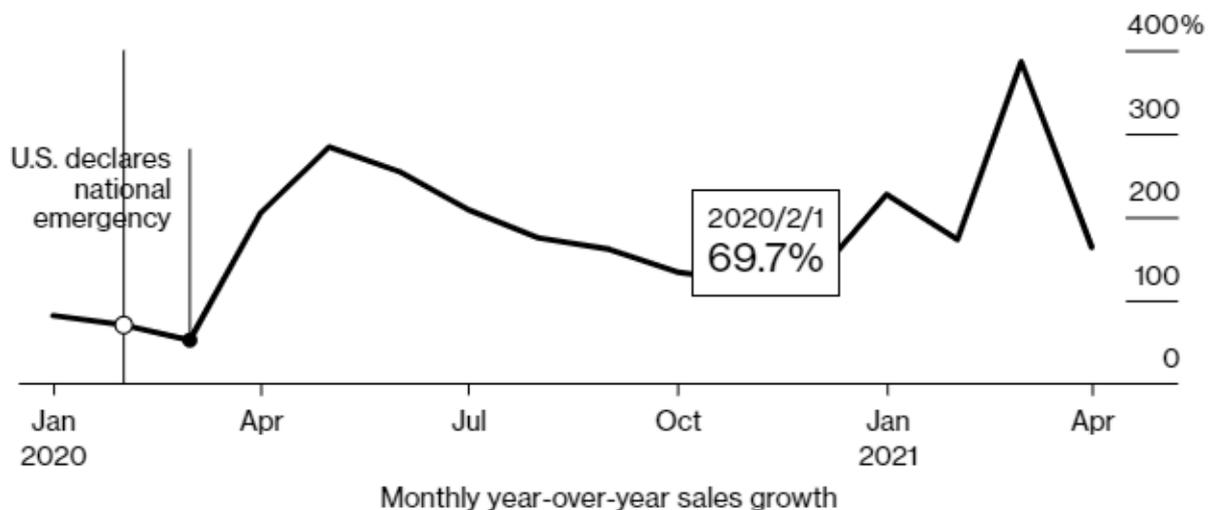
In 2018, as trade relations between the world's two biggest economies were deteriorating, China responded to a new round of U.S. tariffs by

effectively waiving export taxes for direct-to-consumer companies. Because Shein ships most orders from its warehouses in China, it was already in a good position in the U.S., where packages worth less than \$800 have been able to enter the country duty-free since 2016. When the Trump administration later imposed tariffs to make Chinese products more expensive, the small-value shipments remained exempt.

For Shein, China's tax support on top of the U.S. loophole was like adding Mentos to Diet Coke. From 2018 to 2019, the company's sales nearly doubled, according to a Shein investor presentation reviewed by Bloomberg. The next year, sales jumped again. With the added lift from shoppers stuck at home because of the virus, Shein's sales rose 250% year-over-year to a staggering \$10 billion, according to people familiar with its operations, well ahead of what Zara brought in through its online channels last year.

## Dressed Up to Stay In

Shein's U.S. sales more than doubled each month during the pandemic



Source: Bloomberg Second Measure

Today, Shein pays neither export taxes on most of its products nor, in the case of the U.S., import taxes, an advantage that tilts the playing field heavily against its rivals, particularly as consumers shift to and stay online. It's also not the only Chinese retailer to benefit from the trade war, and won't be the last. Thanks to the government's support, China's online retail exports — known as “cross-border e-commerce” — jumped 67% in 2018, according to Chinese customs data. The sector has swollen beyond \$265 billion and is growing faster than before former President Donald Trump's assault began. As of now, it'd be close to impossible for international rivals to compete, said Michael Horowitz, formerly a senior executive at Global Brands Group Holding Ltd., an affiliate of Hong Kong trading and supply chain specialist Fung

Group. Technically, any company willing to register a subsidiary in China and ship products directly to U.S. consumers in small-value packages could get the same tax advantages as Shein. But that's unlikely to happen, he said.

"If you're Zara, there's no way you're going to get around U.S. import duties, because you're not shipping to individuals, you're selling to stores, and importing in bulk," said Horowitz, now a partner at Retail ROI Ltd., a consulting firm based in Hong Kong. "They have too much of a physical presence — they can't get away with it."

According to one of the company's rare press releases, Shein was founded by Xu Yangtian in 2008. Also known as Chris, or as Sky, Xu didn't start his career in fashion or retail but in search-engine optimization at a digital marketing consultancy that worked with exporters. He initially called his site Sheinside, then shortened and rebranded it as Shein in 2014. Xu declined repeated requests from Bloomberg for an interview.

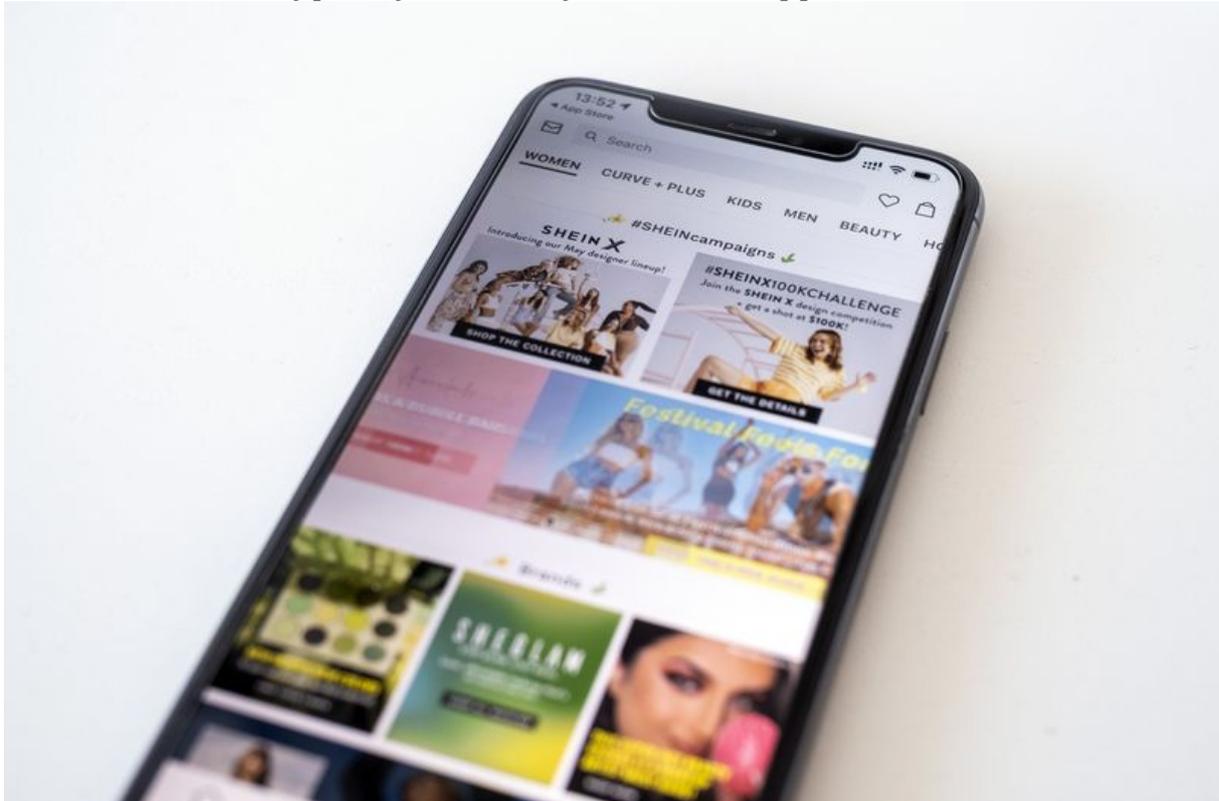
The years immediately before Shein's launch were painful for Chinese apparel brands with ambitions beyond their shores. Sportswear company Li Ning Co. opened a flagship store in Portland, Oregon, in 2010, only to close it down two years later. In London, down-jacket maker Bosideng International Holdings Ltd. opened a Mayfair emporium in 2012, but within five years it too had retreated to the domestic market.

Unlike those brands, Shein didn't start out popular in China. In fact, its clothes aren't available there at all. Shein's customers have always been elsewhere, attracted by a network of influencers and celebrity tie-ups. Katy Perry and Lil Nas X headlined a virtual concert for the brand during the early days of the pandemic. Instagrammers now throw up a plethora of hashtags; some 850,000 posts are tagged #sheingals. On its app, product shots are styled as social media selfies with indeterminate backdrops. As a company, it appears as native to the internet as its customers.

That's deliberate, said Charles Shen, founder of Shanghai-based Meetsocial, which works on Shein's social media marketing. "It takes national confidence to show where you're from," Shen said. "The competitiveness of a Chinese brand image, or the capability of building a brand, is still not there."

But the company makes the most of its proximity to the world's most vast and well-developed supply chain. Shein requires the manufacturers contracted to make its clothes to be located no more than a five-hour drive from its sourcing hub in the southern Chinese city of Guangzhou, according to company documents seen by Bloomberg. Suppliers must also be able to complete the design and production process in around 10 days, faster than Zara's

famous three-week turnarounds and significantly quicker than the three-to-six months lead time typically needed by traditional apparel makers.



Nothing on the Shein app betrays the company's Chinese origins.  
Photographer: Justin Chin/Bloomberg

Shein has also developed proprietary technology that harvests customers' search data from the app and shares it with suppliers, to help guide decisions about design, capacity and production. It generates recommendations for raw materials and where to buy them, and gives suppliers access to a deep database of designs for inspiration. For their part, apparel makers are eager to work with the company, which has a reputation for paying its invoices more frequently and promptly than is industry standard.

All this — plus not having store inventory to worry about — means Shein can respond almost immediately to shopper preferences, a process one business newsletter dubbed “real-time fashion.”

“If something works, you know about it really quick,” said Horowitz, the supply chain specialist. “If something fails, you only have a couple of hundred units, so how much are you really going to get hurt?”

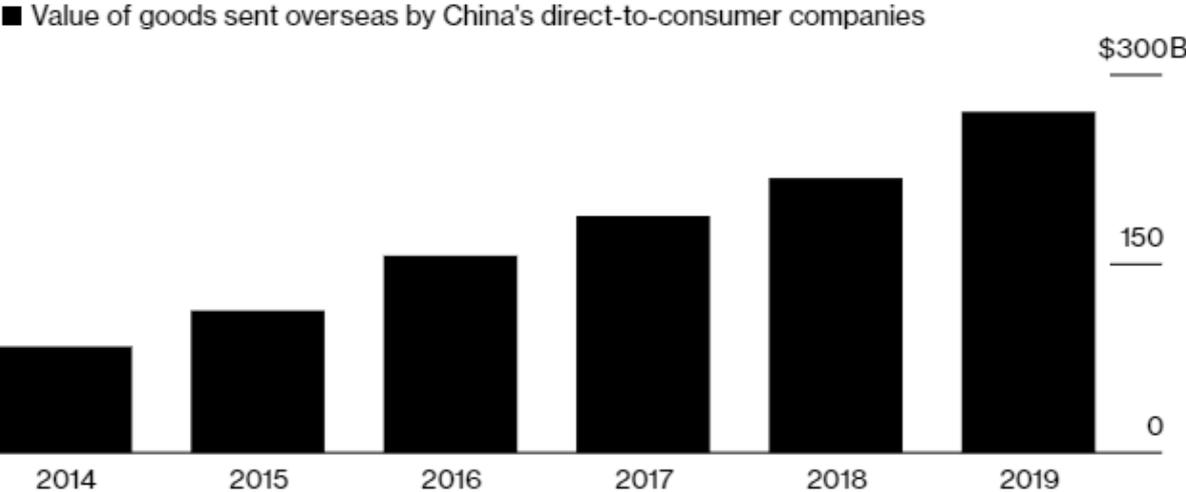
The trade war tax relief China handed down in 2018 saw the authorities stop requiring fapiao — official supplier invoices that the government uses to

document and collect value-added taxes — for online retailers. This effectively eliminated up to 13% of taxes for any package Shein or any other exporter sent abroad, leading to faster growth than before the trade war began.

The pandemic provided another boom for Shein, as home-bound consumers flocked to e-commerce companies of all kinds. The company was able to make the most of the new demand partly because its parent is registered in Hong Kong, which doesn't tax revenue earned elsewhere.

### Shipped From China

Chinese exporters are gaining popularity with overseas shoppers



Source: Essence Securities

As a private entity, Shein doesn't have to make its financial statements public. In a statement to Bloomberg, it pointed out that China "encourages cross-border companies like ours," adding that the firm abides by local tax regulations in all of its markets.

But there are a few listed Chinese companies that use similar strategies, and their public filings underscore how low their tax bills can be. Fellow online retailer Lightinthebox, for example, also sends its products direct to consumers from Chinese warehouses, and manages its revenue through Hong Kong subsidiaries. Over the last two years, the Shanghai-based company recorded profits for the first time since its 2013 IPO. In the first quarter of 2021, Lightinthebox's tax bill was 0.5% of profits, according to financial statements.

U.S. competitors can't do much about China's fapiao practices or Hong Kong's tax regime, but they are hopping mad about the \$800 import tax exemption. More than 2 million shipments under that threshold arrive in the U.S. each day, wrote Kim Glas, president and CEO of the National Council of Textile Organizations, in an April letter calling on the U.S. government to take mitigating steps. U.S. manufacturers of textiles, apparel and other consumer goods "increasingly find their markets and workforce threatened by this tariff avoidance," Glas said in the letter.

"Shein has gamed the system, and they've done it really well," said Rick Helfenbein, the former head of the American Apparel & Footwear Association in Washington. Under the current rules, a typical cotton T-shirt is exempt from the standard 16.5% import duty and a 7.5% tariff specific to China.

"You're talking about Shein being able to undercut somebody by roughly 24%," said Helfenbein, now a special advisor to Washington D.C.-based consulting firm Sorini, Samet & Associates. "That's a huge competitive advantage."

Shein's relatively recent success puts it in uncharted territory. It's not clear if it can continue to grow as the easing pandemic frees people to shop in physical stores again, and whether it will retain its appeal as its core consumers age out of \$5 crop-tops.

Its interest in Topshop could suggest the company sees limitations in its online-only model, but acquiring a brick-and-mortar network has challenges of its own. And if the U.S. lowers the \$800 threshold on duty-free imports, as the domestic textile industry is pushing President Joe Biden to do, Shein may lose some of its edge in pricing.

The very industry it is seeking to dominate is also in the spotlight, with fast fashion lambasted for its environmental impact and labor practices. Judging by Shein's success with consumers — and some of the world's top venture capitalists — those concerns have yet to undermine the appeal of super-low prices and unending variety. That's likely to change eventually, as the company's biggest fans age into higher price points, and environmental, social and corporate governance issues become more difficult for investors to ignore. The day's biggest stories

Meanwhile, Shein's focus on algorithm-driven quantity has led to some high-profile slip-ups. The company, which has made statements of corporate solidarity with Black Lives Matter, recently apologized for selling a phone case that depicted a Black person in handcuffs being outlined in chalk. Last year, the company retracted a necklace with the Buddhist swastika and apologized for marketing Muslim prayer mats as home décor.



Katy Perry performs during the Shein Together Virtual Festival in May, 2020.  
Source: Getty Images/Getty Images for Shein

It's on this front that Shein's status as a Chinese brand could become its Achilles heel, no matter how much its origins are obscured. Relations between China and the U.S. are at a new low, even with the departure of Trump. Western consumers are also increasingly aware of the objections to cotton from China's Xinjiang region, which human rights observers and some governments say relies on forced labor.

Yasmin Pryce, an 18-year-old student in London, said she'd tried to figure out where the cotton used in Shein's clothes came from, to no avail. "There is literally nothing on their website," she said. "We once tried to look to see who owned them and were looking for about ten minutes, which is a long time to be searching for something on the internet."

A year ago, 20 Indian soldiers died in clashes with Chinese troops in a disputed border region on the Tibetan plateau. As part of India's response, it blacklisted 59 Chinese apps — including Shein. The ban caught the company's biggest Asian market by surprise.

"My friends and I were really bummed out," said Sunanda Guruprasad, a high school student in Bangalore. Guruprasad was in a "hoodie phase," she said, looking to add a few more to her collection, when she learned Shein was shut down. "I was surprised," she said. "They didn't sound Chinese. They didn't look Chinese ... I was beginning to have fun shopping on Shein. I wasn't much of a shopper until then."