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2025 Sourcing Survey

Digitalization and Smart Supply Chain

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ARC Group is a Global Investment Bank and Management Consultancy firm deeply rooted in Asia with a global reach.

With a presence across Asia, Europe, North America, and the Middle East, we provide comprehensive support to companies navigating international growth, operational scale-up, and complex transitions.

Our integrated services cover strategy consulting, market intelligence, legal and compliance advisory, M&A execution, capital raising, and restructuring. We work with private and public sector clients, from SMEs to multinational leaders, helping them expand, invest, and operate effectively across borders.

At ARC Group, we pride ourselves on delivering actionable insights and hands-on execution. Our multidisciplinary teams combine global expertise with local understanding to ensure practical, high-impact outcomes. With decades of experience in Asia and beyond, we are a trusted partner for organizations aiming to succeed in dynamic and competitive markets.

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Our expertise

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Executive Summary

2025 Sourcing Reset: Navigating Volatility with Resilient and Regionally Balanced Supply Chains

In 2025, global sourcing is no longer driven primarily by cost efficiency. Companies are fundamentally reshaping their supply chains to manage ongoing disruption, geopolitical fragmentation, and rising operational risk. Managing risk and building diversified, regionally balanced sourcing networks have become core strategic priorities. What began as a reactive response to pandemic-era shocks has matured into a proactive approach focused on resilience, flexibility, and long-term competitiveness.

This year's sourcing landscape is shaped by overlapping pressures. The prolonged conflict in Ukraine and renewed instability in the Red Sea region, including attacks on commercial vessels and disruptions to the Suez Canal, continue to destabilize trade corridors. Expanded US tariffs, sustained inflation in energy, labor, and raw materials, and shifting trade policies are driving permanent changes in cost structures and supply stability. These are now seen as enduring operating conditions, requiring distributed and adaptive sourcing models rather than short-term fixes.

As a result, companies are shifting away from reliance on any single-country sourcing model. While China remains a global manufacturing anchor due to its unmatched industrial scale, technical depth, and integrated supply chains, most are now adopting "China Plus Multiple" strategies over "China Plus One" to manage concentration risk while retaining access to China's strengths. Southeast Asia (Vietnam, Thailand , Malaysia, Indonesia), South Asia (led by India), Eastern Europe, and North America are emerging as core complementary corridors. This diversification is not about replacing China, but balancing capacity with agility and reducing geopolitical risk exposure.

Digitalization and ESG are advancing in parallel as enablers of sourcing transformation. Artificial intelligence, automation, and integrated supply chain platforms are improving visibility, forecasting accuracy, and responsiveness, though most organizations remain at early-to-mid maturity levels. While ESG enforcement has eased in the United States, Europe continues to lead in regulatory oversight, and Southeast Asia is making steady gains in suppliers' data transparency, labor standards, and corporate governance. Regional dynamics, including geopolitical risks and evolving regulatory standards, are increasingly shaping supplier selection and long-term sourcing strategies.

This report presents the results of ARC Group's 2025 Global Sourcing Survey, drawing on insights from over **150 executives and supply chain leaders**. It examines how companies are balancing cost efficiency with resilience, compliance, and technology adoption as they reconfigure sourcing strategies, respond to structural risks, expand regional diversification.

The findings reveal a new sourcing playbook where optionality, visibility, and regional balance outweigh pure cost minimization. Leaders in 2025 are those who can adapt rapidly, manage risk proactively, and design sourcing systems capable of sustaining performance under ongoing uncertainty.

The study at a glance

- How are companies shifting from cost-focused sourcing toward strategies that prioritize resilience, risk management, and long-term competitiveness?
- Which regions are gaining or losing sourcing share, and how are “China Plus Multiple” strategies redefining global supply network design?
- What operational and structural risks, including tariffs, capacity constraints, and geopolitical instability, are shaping sourcing decisions in 2025?
- How are companies balancing relocation, reactivation, and multi-region diversification to strengthen supply chain flexibility and responsiveness?
- In what ways are ESG and digitalization being integrated into sourcing strategies, and how do maturity levels vary across regions?
- Which cost factors and regional barriers most influence the success of sourcing relocation strategies?
- How are sourcing teams enhancing capabilities, governance, and decision-making to operate effectively in a more fragmented and compliance-driven environment?

Balancing Diversification, Resilience, Technology, and ESG in Sourcing

Companies are moving toward multi-region sourcing models supported by digital tools and ESG integration. The aim is to reduce risk, improve responsiveness, and align supply chains with long-term priorities, while managing rising costs, logistical disruptions, and increasing ESG compliance demands.

Each sourcing region has its own opportunities and risks. In 2025, success relies on matching market conditions with company priorities and using digital and regional strategies to boost resilience, compliance, and long-term value.

Key findings from the report include

- **Resilience now outranks cost as the top sourcing priority.**

Companies are restructuring networks to reduce disruption risk, improve responsiveness, and secure continuity across regions.

- **“China Plus Multiple” is becoming the preferred model over “China Plus One.”**

Diversification toward Southeast Asia, South Asia, and North America is reshaping sourcing portfolios while keeping China’s central role intact.

- **Relocation and reactivation of supplier bases are gaining momentum.**

Companies are opening new regional hubs, re-engaging dormant suppliers, and adopting multi-corridor strategies to strengthen logistics control and compliance flexibility.

- **Southeast Asia’s role is expanding within global supply chains.**

Cost advantages, trade access, and improving industrial capabilities are making it a core beneficiary of diversification away from single-country dependence

- **Structural risks remain central to sourcing decisions.**

Tariffs, supplier capacity constraints, and geopolitical instability are driving permanent changes in sourcing strategy and risk management.

- **Digital adoption is advancing but remains fragmented.**

AI, predictive analytics, and supply chain platforms are improving visibility and forecasting, yet integration gaps are limiting full-scale performance benefits.

- **ESG compliance is becoming a core operational requirement.**

While enforcement has eased in the United States, Europe leads in regulatory oversight, and Southeast Asia is making steady progress, especially in labor standards and corporate governance.

- **Sourcing teams are evolving to meet greater complexity.**

Cross-functional skills, stronger governance, and data-driven decision-making are becoming essential to operate in a fragmented and compliance-heavy environment.

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1 | Introduction

Reshaping Global Sourcing Strategy in 2025

Global sourcing in 2025 is undergoing a profound transformation. Companies are no longer designing supply chains purely around cost efficiency. Sourcing has shifted into a strategic function focused on resilience, regional diversification, and risk management. The forces driving this change are structural rather than temporary, compelling organizations to rethink not only *where* they source but *how* their supply networks are designed and governed.

Disruption has become a constant feature. Geopolitical tensions destabilize major trade corridors, while tariffs, sanctions, and shifting trade agreements reshape market access rules. Inflation continues to pressure margins through higher energy, labor, and raw material costs. Regulatory expectations are diverging, with the United States easing ESG enforcement while Europe tightens due diligence and sustainability requirements across supply chains.

In response, companies are reconfiguring their sourcing strategies. The earlier "China Plus One" approach is being replaced by "China Plus Multiple" strategies that diversify risk without losing access to China's unmatched scale and capabilities. Southeast Asia, South Asia, and North America are emerging as complementary hubs. Relocation is increasing, not as a full exit from established bases, but as a means to improve flexibility, reduce exposure, and strengthen regional coverage.

ESG and digitalization are advancing together as twin enablers. Across Europe, China, and Southeast Asia, ESG considerations are playing a larger role in supplier selection, supported by stronger supplier data-sharing practices, fair labor standards, and commitments to corporate integrity. At the same time, digital tools such as AI-driven forecasting, real-time analytics, and integrated platforms are enhancing visibility, responsiveness, and scenario planning. Together, these capabilities strengthen supplier performance, ensure ESG alignment, and manage cost and logistics pressures, creating sourcing systems that are both ethically aligned and operationally agile.

This report presents findings from the 2025 Global Sourcing Survey, based on insights from over 150 executives. It explores how companies are balancing cost, resilience, compliance, and technology adoption to build adaptable, risk-aware, and future-ready supply networks in a fragmented global economy.

Daniel Karlsson

Partner, ARC Group

2 | Methodology

This report is based on ARC Group's 2025 Global Sourcing Survey, conducted in summer 2025. The survey gathered insights from seasoned sourcing professionals and executives across a wide range of industries and regions to provide a detailed and refined overview of the sourcing challenges and trends shaping today's global landscape.

The survey included 41 questions covering four key themes:

- Global sourcing practices and purchasing footprint
- Sourcing status across Europe, China, and Southeast Asia
- Patterns, risks, and resilience strategies in global and regional sourcing
- Key drivers and barriers influencing sourcing decisions
- Adoption and impact of digital technologies in supply chain operations

Respondents represented industries including manufacturing, automotive, electronics, retail, and textiles. Over half of the participants (56%) reported annual global purchasing volumes exceeding USD 100 million, providing a strong view into the strategies of mid to large-sized companies.

The findings emphasize forward-looking strategies rather than historical spend alone. By analyzing how companies are responding to today's geopolitical, regulatory, and operational pressures, the report provides a snapshot of how global sourcing is being redefined for resilience, agility, and long-term value.

Figure 1

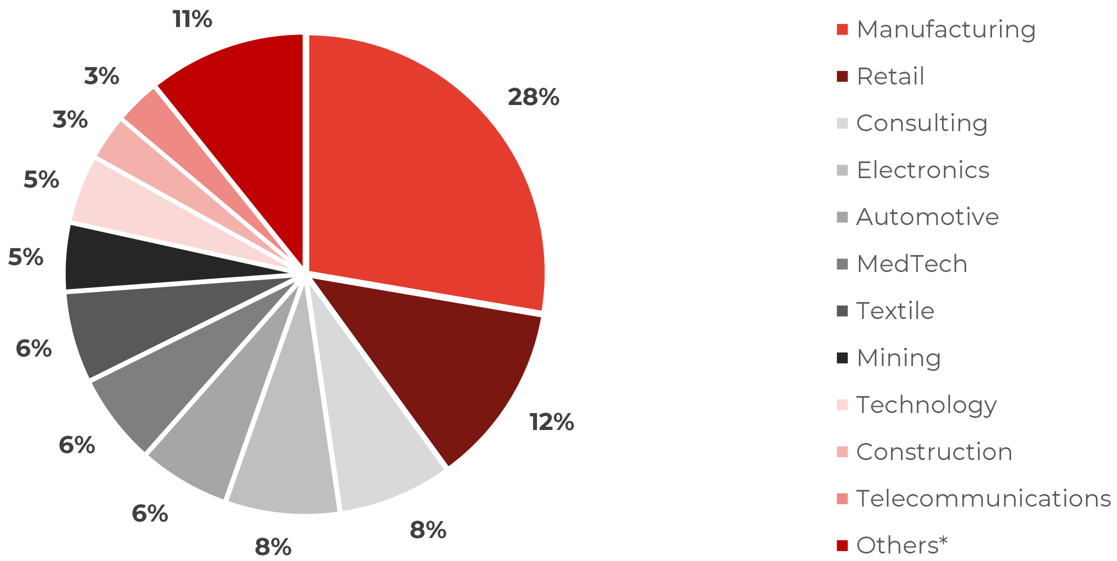
Survey participants by main locations

The main geographical locations of the surveyed companies

Figure 2

Survey participants by industry

Share of the respondents belonging to different industries

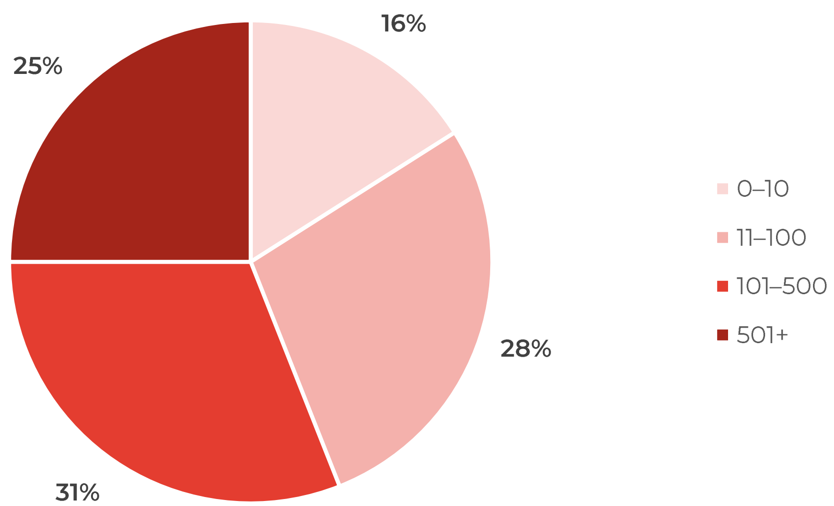


*Note: * Others include Machinery, Chemicals, Transportation, Food & Agriculture, Packaging, Pharmaceuticals, MedTech, and other industries*

Figure 3

Survey participants by global purchasing amount in 2024 (Million USD)

Share of respondents categorized by total global purchasing amounts in 2024



3 | Global Sourcing Situation Overview

Global sourcing strategies in 2025 have shifted from cost-driven optimization toward designing networks with resilience at their core. The pressures of geopolitical fragmentation, persistent inflation, and tightening compliance demands are now reflected in tangible shifts in sourcing locations, spend allocation, and supplier network management.

To remain competitive, supply chains must combine adaptability, transparency, and regional balance with cost efficiency and operational effectiveness. The patterns explored here show how companies are translating strategic priorities into day-to-day sourcing decisions in response to a more complex operating environment.

This chapter examines how sourcing footprints are evolving, what risks companies are prioritizing, and which mitigation strategies are gaining traction. It addresses four key questions:

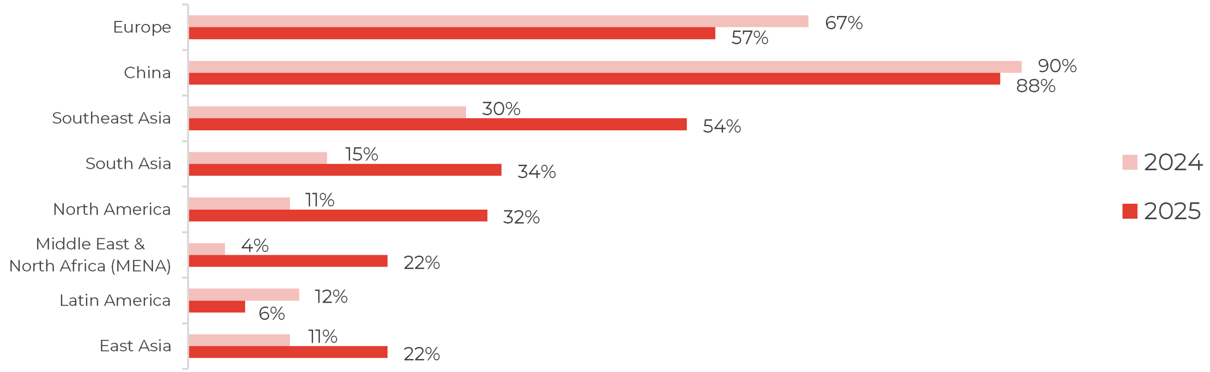
- Where are companies sourcing today, and how is this evolving?
- What are the top sourcing challenges companies face in 2025?
- What structural risks are influencing sourcing strategies?
- Which risk mitigation responses are proving most effective?

3.1 Sourcing Shift: Companies Shift from Single Hubs to Regional Portfolios

Figure 4

Regional Sourcing Activity in 2024–2025

Percentage of companies actively sourcing from each region, based on survey responses in 2024 and 2025



Note: Each company could select multiple sourcing locations.

In 2025, companies are expanding sourcing footprints beyond traditional hubs. As shown in **Figure 4**, Southeast Asia's share rising from 30% in 2024 to 54% in 2025, led by Vietnam, Thailand, and Indonesia. South Asia also gained momentum, increasing from 15% to 34% as India and Bangladesh expanded production capacity. North America's share grew from 11% to 32%, driven by nearshoring to lower delivery risks, improve oversight, and avoid tariff exposure from the new US universal import duties. The Middle East and North Africa advanced from 4% to 22%, supported by infrastructure investment and interest in alternative corridors.

China remains the dominant sourcing base, with 88% of respondents continuing to source there despite higher tariffs and political tensions. This persistence reflects its manufacturing ecosystem, industrial scale, and access to critical raw materials. To manage geographic concentration while preserving China's strengths, many companies are adopting "China Plus Multiple" strategies.

Europe's share declined from 67% to 57% due to competitiveness pressures. Nearshoring remains under consideration, but high costs and operational constraints limit large-scale reshoring. Within Europe, subregional patterns are emerging. Western Europe retains a role in compliance-sensitive and high-value production, although cost and energy factors constrain broader usage. Eastern Europe, particularly Poland, the Czech Republic, and Hungary, is gaining interest due to its proximity to end markets and improving infrastructure. Latin America's share showed little change.

These shifts reflect a deliberate transition toward diversified and regionally balanced sourcing portfolios that improve agility, reduce exposure to disruption, and align with evolving trade and compliance demands.

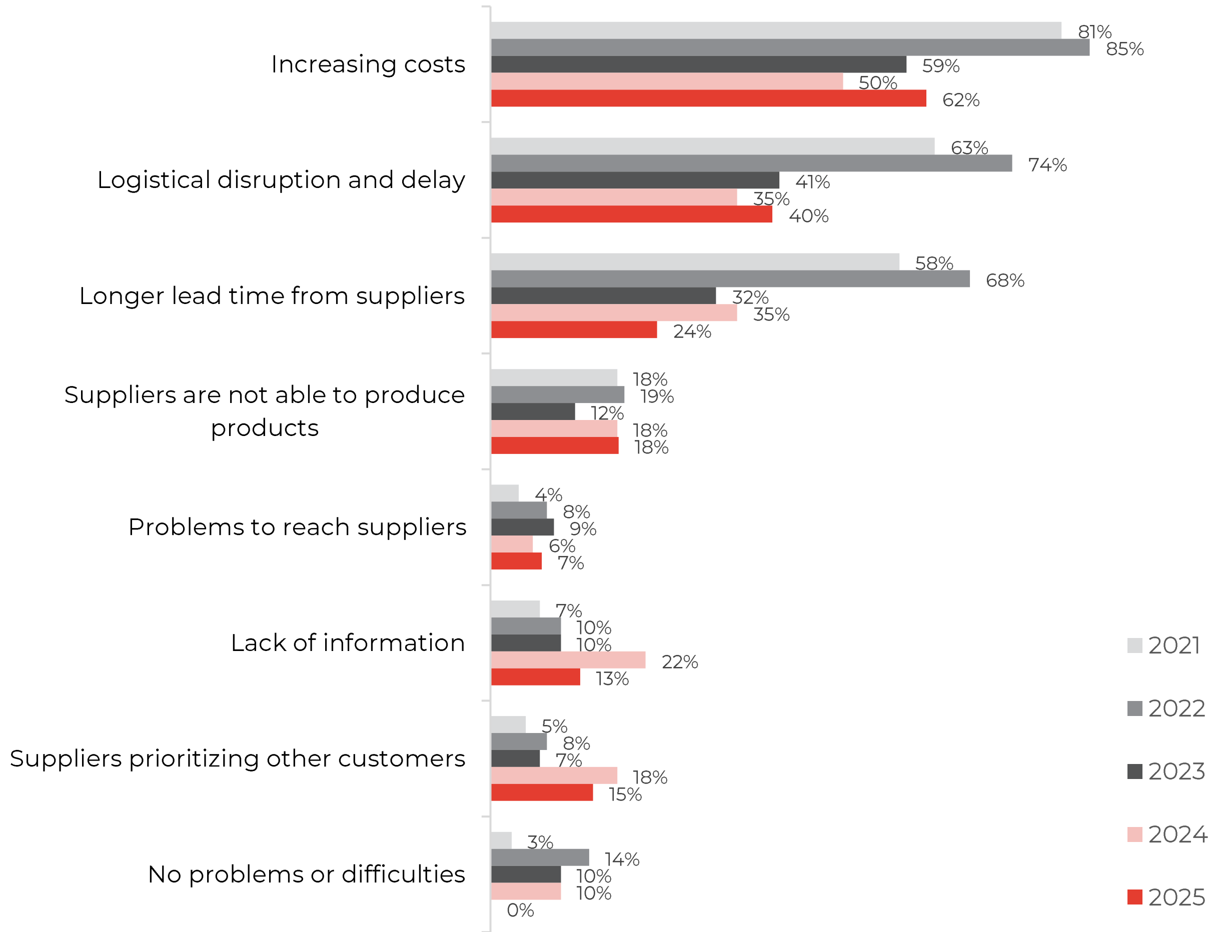
3.2 Operational Pressure: Cost Increases and Delivery Delays Remain Widespread

Following the shifts in sourcing locations outlined above, companies continue to face persistent operational pressures that shape day-to-day supply chain performance. While diversification spreads risk, it does not eliminate the structural challenges that affect cost, reliability, and logistics efficiency.

Figure 5

Top Operational Sourcing Challenges in 2021-2025

Percentage of companies reporting each sourcing challenge between 2021 and 2025



Note: Each company could select multiple challenges.

A 100% response rate indicates that all surveyed companies reported facing that specific challenge.

As shown in **Figure *5***, cost escalation is the most reported challenge in 2025, affecting 62% of companies, up from 50% in 2024.This increase is driven by rising raw material prices, higher energy costs, labor-market pressures, and newly reinstated US tariffs that apply to a wide range of imported goods. These tariffs further raise input costs across major sectors. Although this figure is below the

85% peak recorded in 2022 during the global energy and freight crisis triggered by the Russia–Ukraine war and container shortages, inflationary forces continue to disrupt operations.

Logistics delays are intensifying, with 40% of companies reporting transportation and shipping disruptions in 2025, up from 35% in 2024. Despite efforts to improve planning and optimize routes, companies still face port congestion, unstable carrier schedules, and geopolitical chokepoints such as the Red Sea and Panama Canal. These disruptions are compounded by capacity constraints, persistent backlogs at key transshipment hubs, rising bunker fuel costs, and climate-related events that sustain instability.

Some operational indicators have improved. Only 24% of companies reported longer-than-expected supplier lead times, the lowest in five years, which suggests that digital tools and closer supplier coordination are improving the ability to absorb upstream shocks. Similarly, the share of companies citing a lack of supplier information fell from 22% in 2024 to 13% in 2025, reflecting stronger transparency and data-sharing across supply networks.

However, several reliability challenges persist. 18% of companies reported suppliers failing to deliver as promised, and 15% noted that suppliers prioritized other customers. These issues highlight capacity constraints and uneven service performance, particularly in high-demand or specialized component sectors.

The most striking finding is that **no companies in 2025 reported being free from sourcing problems**, compared with 10% in 2024 and 14% in 2022. This confirms a structural shift in which disruption is a constant feature of global sourcing, not an occasional event.

Overall, the data highlights the complexity of managing global sourcing. Cost volatility, logistics bottlenecks, and supplier constraints remain widespread, requiring companies to design sourcing systems that can absorb and respond to these pressures in real time.

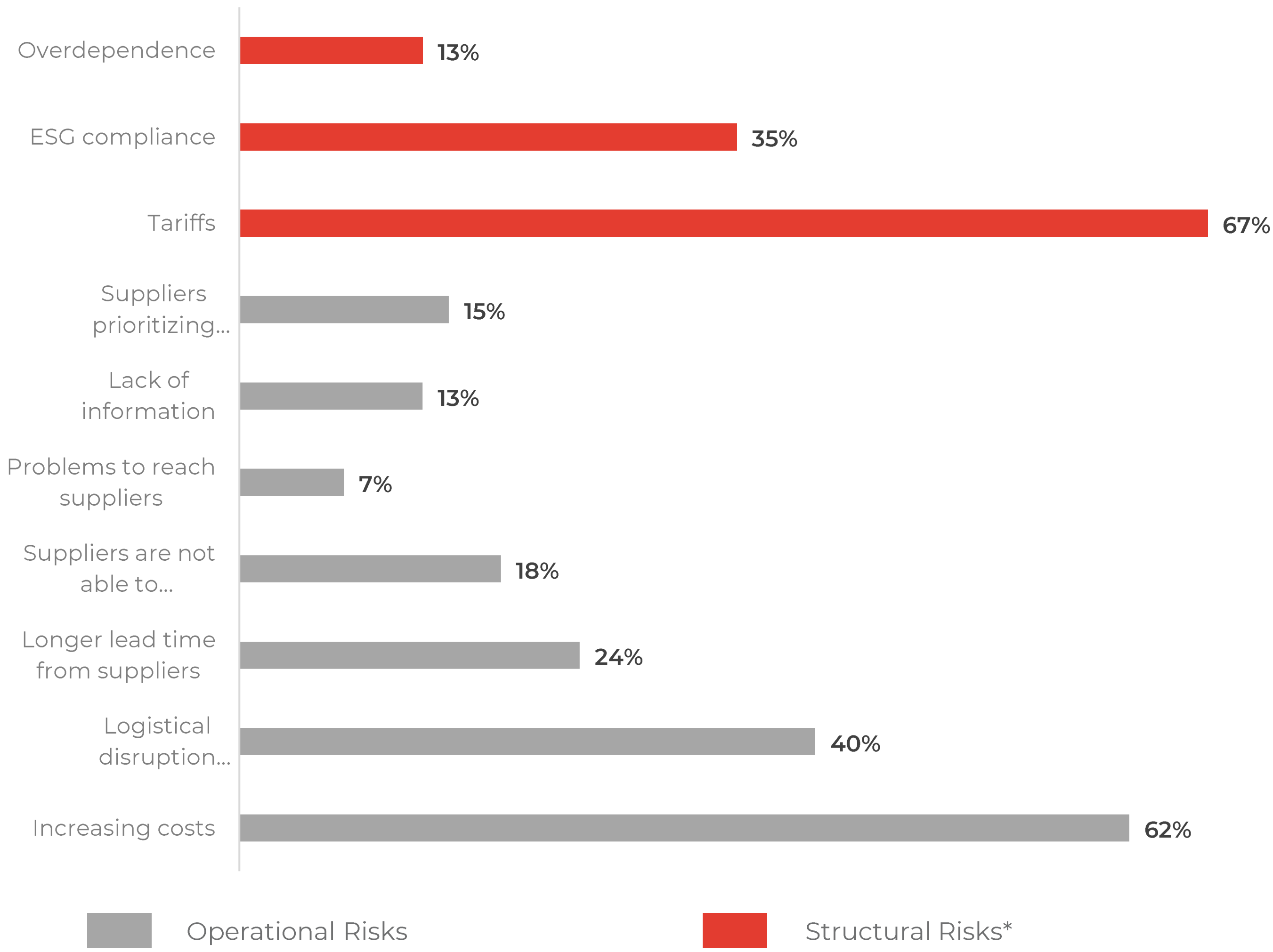
3.3 Risk Expansion: Structural Risks Redefine Sourcing Priorities and Risk Calculus

As noted above, **no companies** in 2025 reported being free from sourcing problems (**Figure *5***). This means that sourcing challenges are not solely operational. Their persistence also reflects a widening set of **structural risks**, which are embedded in the global trading environment and are not addressed through short-term adjustments. These risks are reshaping sourcing strategies in fundamental ways, influencing where and how companies build their supply networks.

Figure 6

Structural Risks Impacting Global Sourcing in 2025

Percentage of companies reporting each sourcing challenge in 2025, with extension to structural risks including tariffs, ESG compliance, and overdependence on suppliers or regions



Note: Each company could select multiple challenges.

A 100% response rate indicates that all surveyed companies reported facing that specific challenge.

** In 2025, 0% of companies reported being free from sourcing problems (see **Figure 5**), reflecting the rise of structural risks.*

As shown in ***Figure 6***, tariff exposure is the most frequently cited structural concern, affecting 67% of companies. Escalating trade restrictions have made tariffs a central factor in supplier selection and location decisions. Rather than treating these as temporary disruptions, companies now see them as enduring conditions that require permanent adaptation in sourcing models, cost structures, and regional risk management.

ESG compliance is another significant structural factor, identified by 35% of companies. Stricter requirements on labor standards, emissions reporting, and corporate governance, particularly in jurisdictions such as the European Union, have shifted ESG from a discretionary initiative to a prerequisite for market access, financing, and long-term continuity.

In addition, overdependence on individual suppliers or regions, reported by 13% of companies, is also shaping strategic decisions. This is most evident in operations linked to China, where advanced manufacturing, product engineering, and R&D have been deeply integrated into supplier relationships. This level of technical interdependence makes relocation complex, costly, and time-consuming.

Today, companies are introducing greater redundancy, diversifying supplier bases across multiple regions, and keeping control of critical R&D and product development in-house. These actions aim to safeguard innovation, reduce strategic lock-in, and create more flexible sourcing networks.

The rise of these structural risks explains why disruption has become a constant feature of global sourcing. Addressing them requires more than resolving immediate bottlenecks. It demands new capabilities, stronger supplier partnerships, and sourcing models that can adapt to long-term changes in trade, regulation, and geopolitical stability.

3.4 Resilience Building: Risk Mitigation Becomes Multi-Layered and Proactive

As operational and structural risks intensify, companies have moved beyond isolated solutions. They are adopting interconnected mitigation strategies that improve flexibility, increase control, and enhance long-term resilience.

Figure 7

Sourcing Mitigation Strategies Adopted by Companies in 2025

Percentage of companies reporting adoption of each sourcing mitigation strategy in 2023, 2024, and 2025

Note: Each company could select multiple strategies.

A 100% response rate indicates that specific strategies are adopted by all companies.

As shown in **Figure 7**, supplier diversification is the most widely adopted approach in 2025, reported by 58% of companies. This represents a significant increase from 44% in 2024 and reflects a clear shift away from both single-supplier and single-country dependency. Companies are not only expanding the number of suppliers but also diversifying across geographies by developing regional sourcing bases, exploring nearshoring options, and building multi-corridor sourcing strategies to improve risk distribution and responsiveness. By expanding supplier bases across multiple regions, companies aim to reduce disruption risk and improve sourcing agility.

Enhancing supplier communication is another high-impact tactic, cited by 49% of respondents. Improved communication enables faster alignment on production schedules, better forecasting, and more responsive coordination when conditions change. In today's volatile environment, transparent supplier relationships are essential for maintaining continuity.

Risk management processes are also being upgraded. 37% of companies implemented new or updated risk frameworks in 2025. While this is down from 47% in 2024, it likely indicates a shift from design to execution, including supplier risk scoring, regular reviews, and scenario planning.

Nearshoring and reshoring declined from 48% in 2024 to 35% in 2025, suggesting companies are weighing relocation costs and complexity against the benefits of regional diversification. Many now favor hybrid models that retain global capacity while developing secondary hubs closer to end markets.

Digital technologies continue to support smarter sourcing decisions. In 2025, 21% of companies adopted new analytics and forecasting tools to improve responsiveness and visibility across supplier networks. These technologies enable faster reaction to disruptions and more accurate scenario modeling.

By contrast, reliance on third-party procurement providers has declined. Only 3.5% of companies reported outsourcing procurement in 2025, down significantly from prior years. This trend suggests a growing preference for direct control over sourcing strategy, particularly for high-value or sensitive categories

Selective stockpiling has re-emerged as a targeted tactic. Although used by only 7% of companies, buffer inventories are being deployed in critical areas to manage supply uncertainty. While not a long-term solution, selective stockpiling reflects a broader shift toward risk-aware planning and preparedness.

These findings point to a strategic shift. Resilience is now a core design principle, not a contingency measure. Leading companies combine diversified supply bases, strong information flows, and digital tools with region-specific approaches that balance cost, compliance, and risk.

4 | Sourcing Situation Across Europe, China, And Southeast Asia

The diversification patterns and mitigation strategies show that companies are actively adjusting to a fragmented trade environment, rising operational risks, and stricter compliance requirements. These shifts are not only changing the distribution of sourcing footprints but are also redefining the strategic role of individual regions within global supply chains.

This evolution has led to the rise of multi-corridor sourcing models that aim to balance cost competitiveness with resilience, proximity, and regulatory adaptability. The following analysis focuses on three pivotal regions: Europe, China, and Southeast Asia. Each is playing a distinct role in 2025. Europe is evolving into a selective, high-value hub for quality and compliance-sensitive production. China continues to serve as a global manufacturing anchor, while its dominance is increasingly balanced by diversification. Southeast Asia is emerging as a flexible and cost-effective corridor that benefits from the shift toward “China Plus Multiple” strategies.

For each region, this chapter explores four guiding questions:

- What is the current sourcing status and proportion in each region?
- Which countries hold the greatest importance within each portfolio?
- What risks and constraints are companies navigating?
- Why is the region still chosen as a sourcing destination?

4.1 Situation In Europe: Strategic Role Declines Amid Cost Pressure, Capacity Constraints, and Compliance Friction

Sourcing activity in Europe has declined since 2023 as companies respond to inflation, structural risks, and increased competition from Southeast Asia and other near-market options. While Europe remains important for select high-value and IP-intensive activities such as final assembly and compliance-sensitive production, it is no longer a primary production hub for most companies. Eastern Europe is attracting more interest as a viable alternative for scaled production due to lower costs and proximity to end markets.

Figure 8

Share of companies sourcing from Europe (2022–2025)

Percentage of companies reporting active sourcing from Europe each year based on survey responses

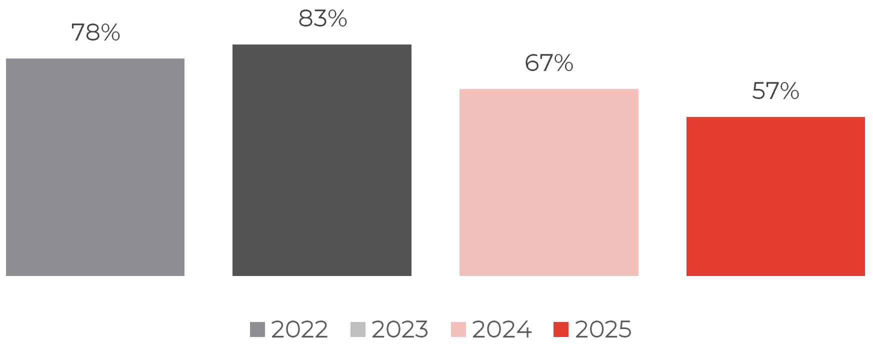
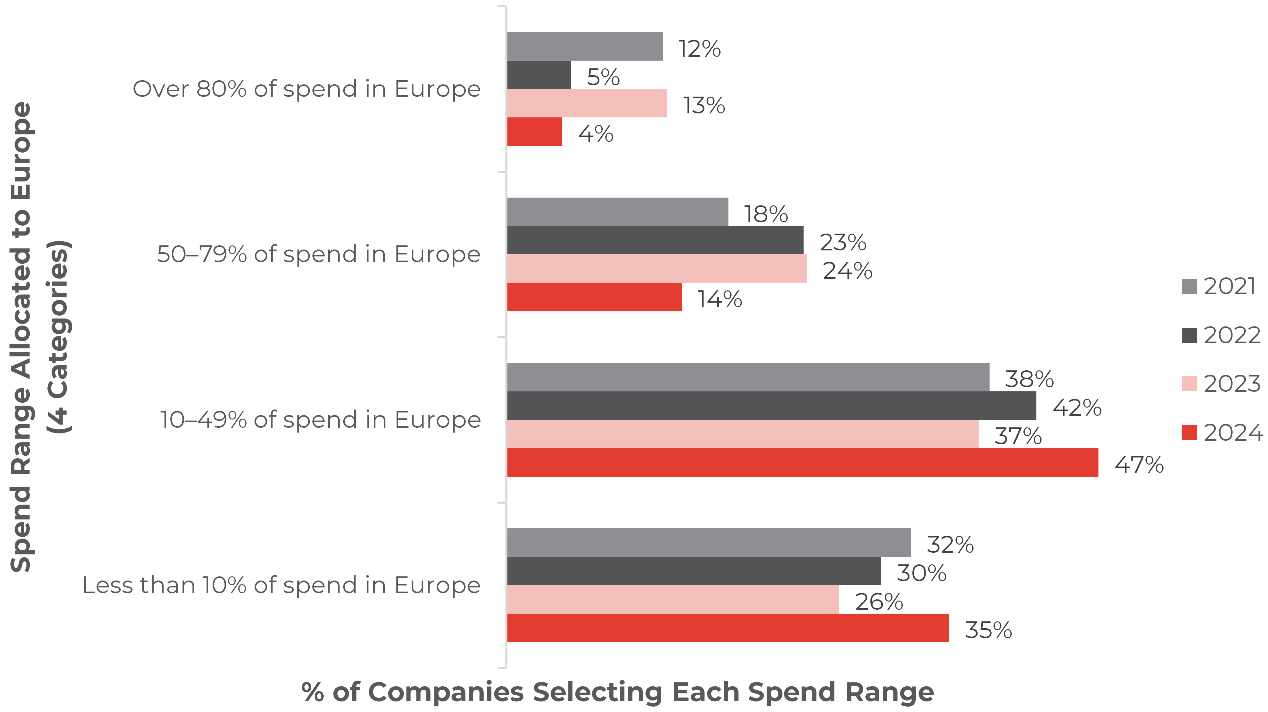


Figure *8* shows that the proportion of companies sourcing from Europe fell from 83% in 2022 to 57% in 2025. This decline reflects reduced confidence in Europe's long-term competitiveness, driven by high costs, energy shocks, and complex labor regulations. The temporary return to European suppliers during the pandemic has evolved into a deliberate rebalancing of supply networks. Southeast Asia, South Asia, and nearshoring destinations closer to consumer markets are gaining a greater share of sourcing activity due to better combinations of cost, capacity, and scalability.

Figure 9

How Companies Allocate Their Purchasing Spend to Europe (2021–2024)

Percentage of companies selecting each spend range based on how much of their total purchasing is allocated to Europe



Note: Each company selected one of four categories based on how much of their total purchasing spend was allocated to Europe.

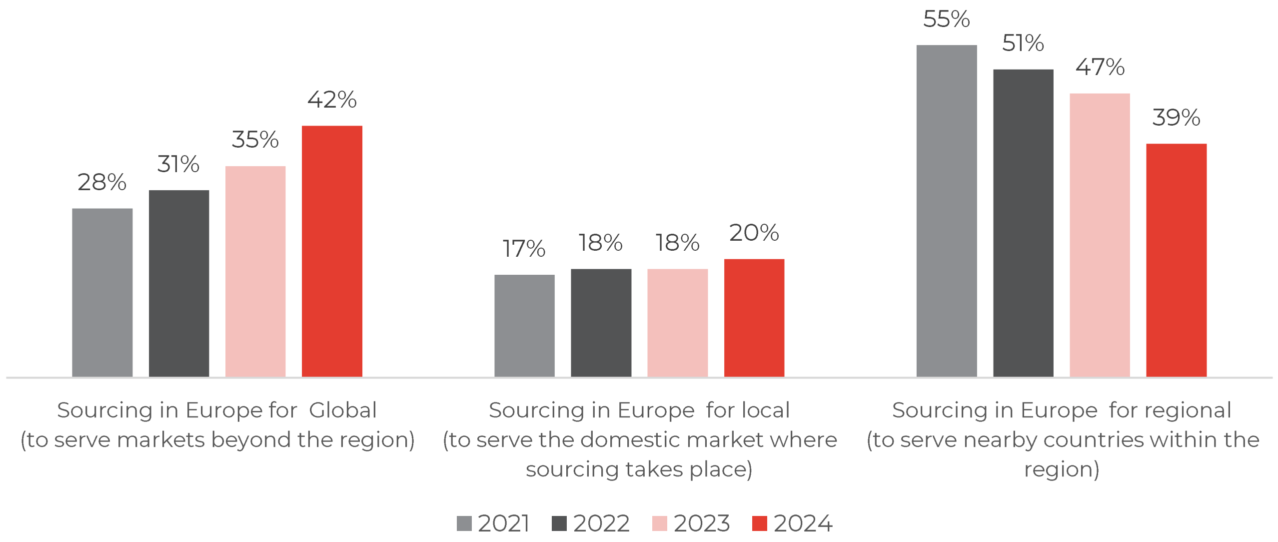
The percentages across all four categories add up to 100% for each year

Figure 9 shows a significant redistribution of purchasing spend within Europe. Between 2021 and 2024, the share of companies allocating "over 80% of their sourcing budget to Europe" fell sharply from 12% to just 4%. At the same time, the group "allocating less than 10%" rose from 32% to 35%, and "the 10–49% range" expanded from 38% to 47%. These movements indicate deliberate reduction of heavy reliance on Europe and a pivot toward more regionally balanced portfolios.

Figure 10

Purpose of sourcing from Europe by end market

Percentage of companies sourcing from Europe to serve global, regional, or domestic markets



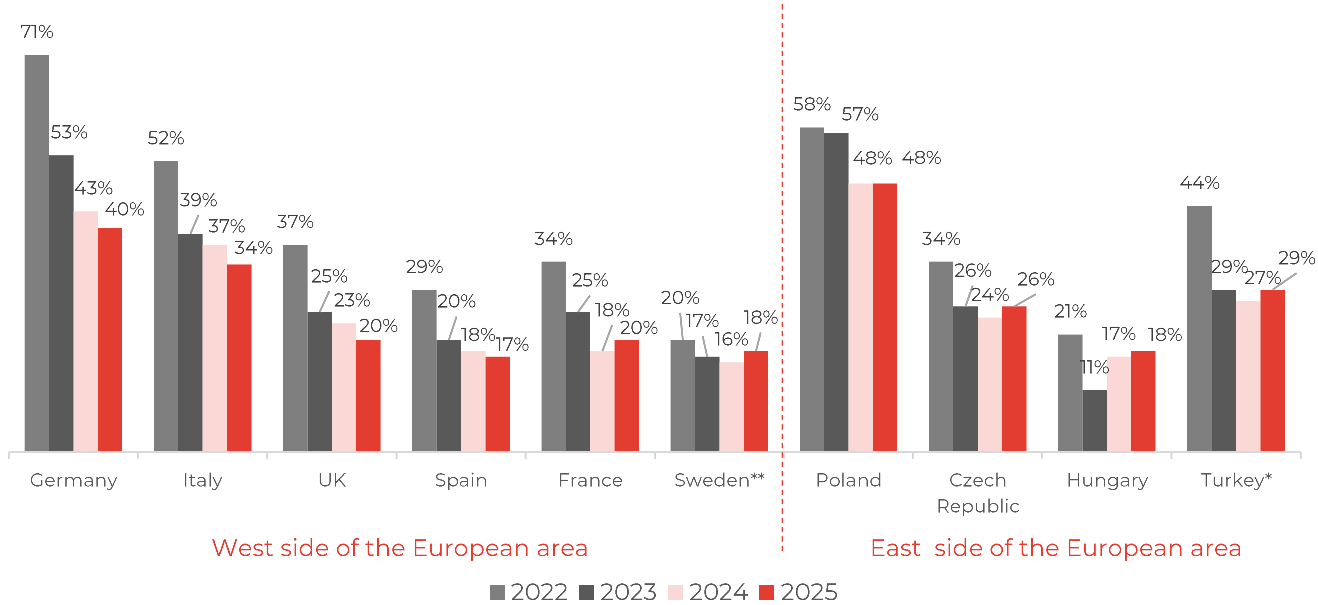
Note: Each company could select multiple purposes.

The strategic role of Europe is also being redefined. From 2021 to 2024, the share of companies using Europe to serve global markets increased from 28% to 42% (**Figure *10***), while sourcing for regional customers declined from 55% to 39%. Local-market sourcing remained stable at 17–20%. Europe is therefore used less as a regional hub and more for high-value or specialized production aimed at export markets.

Figure 11

Country-level sourcing activity in Europe (2022–2025)

Percentage of companies sourcing from each listed European country in 2022, 2024, and 2025



Note: Each company could select multiple countries.

** Turkey is included here as part of the broader "East side of European area" due to its strategic sourcing role and proximity to Europe.*

***Sweden, while geographically part of Northern Europe, is grouped under the "West side of European area" based on sourcing behavior patterns and regional supply logic*

At the country level, sourcing patterns continue to show a pronounced divergence between Western and Eastern Europe (**Figure 11**). In Western Europe, sourcing activity declined across major economies. Germany fell from 71% in 2022 to 40% in 2025, Italy from 52% to 34%, and the United Kingdom from 37% to 20%. Spain dropped from 29% to 17%, and France from 34% to 20%. These changes reflect retreat from traditional manufacturing hubs where costs are higher, capacity is constrained, and regulations are complex.

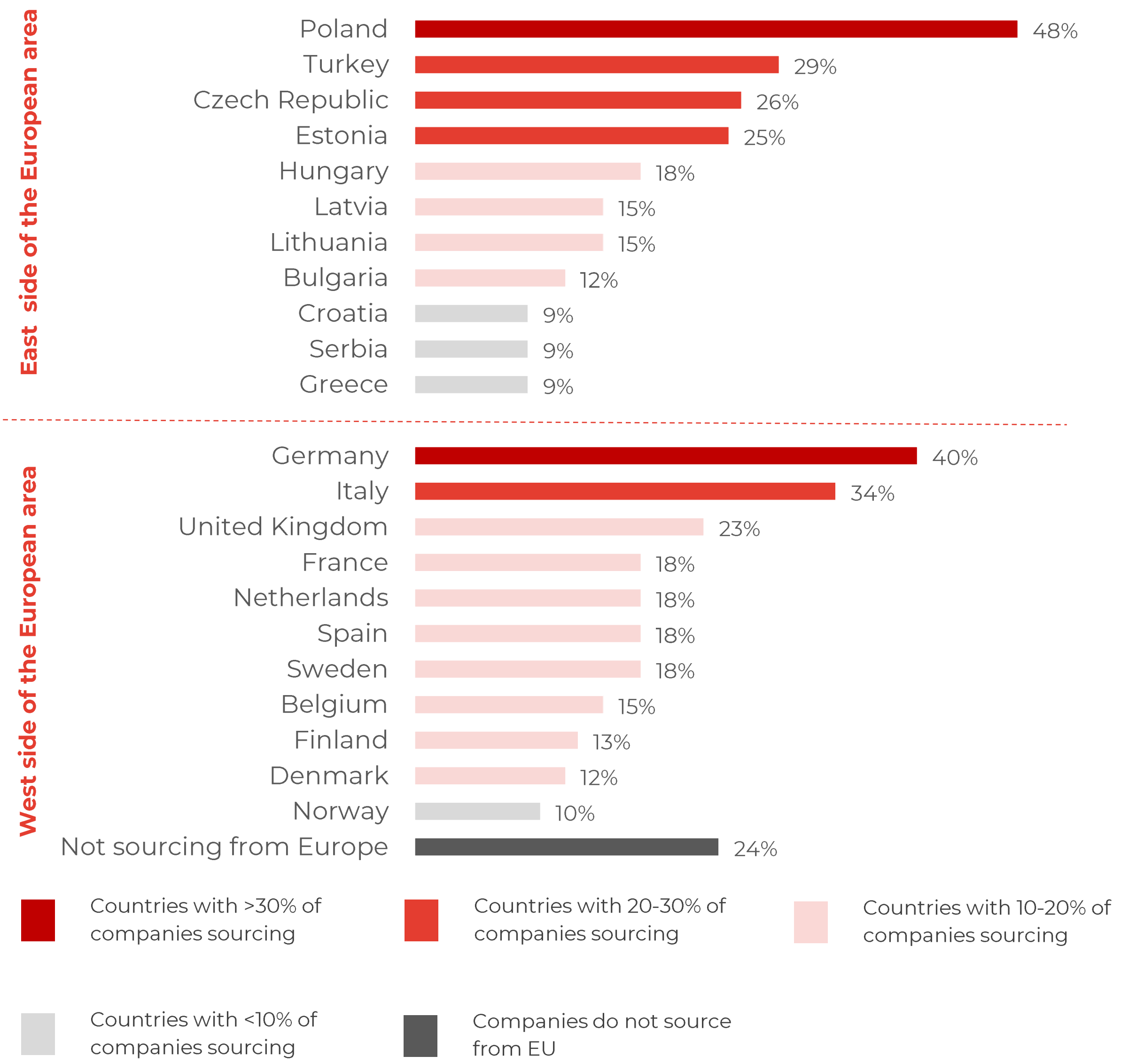
In contrast, sourcing activity in Eastern Europe has remained relatively stable. Poland, although down from 58% in 2022, held firm at 48% in both 2024 and 2025, making it one of the most relied-upon sourcing destinations in the region. The Czech Republic showed consistent engagement, with sourcing activity hovering around 26%. Hungary, after dipping to 11% in 2023, rebounded to 18% by 2025, suggesting renewed interest as companies seek near-market options that combine cost advantages with available labor.

Sweden, while located in Northern Europe, remained a modest yet stable sourcing location, with figures between 16% and 18%. Turkey also retained a steady position in sourcing portfolios, holding at 29% in 2025 following a recovery from a previous decline. Its geographic position and trade connectivity continue to offer strategic advantages.

Figure 12

Expanded sourcing footprint across Europe in 2025

Percentage of companies sourcing from each listed European country in 2025, including companies not sourcing from Europe



Note: Each company could select more than one country.

To complement the time-based trends shown in **Figure 11**, **Figure 12** offers a point-in-time snapshot of sourcing distribution across Europe in 2025. This view reinforces the East–West divergence in sourcing concentration. In Eastern Europe, Poland leads with 48% of companies sourcing from it, followed by Turkey at 29%, the Czech Republic at 26%, and Estonia at 25%. Several others, including Hungary, Latvia, and Lithuania, fall within the 10–20% range, reflecting broad participation in regional sourcing strategies across the East.

On the Western side, Germany and Italy remain the most sourced countries, with 40% and 34% of companies sourcing from them, respectively. However, most other Western European economies now register significantly lower sourcing shares. The UK stands at 23%, while France, Spain, Sweden, and the Netherlands are all at 18%. Smaller economies such as Belgium (15%), Finland (13%), and Denmark (12%) fall just above the minimal sourcing range. Countries like Norway, Serbia, and Greece are below 10%, indicating limited sourcing engagement.

Together, these views confirm that Europe's sourcing base is no longer anchored in a few dominant industrial countries. The landscape is becoming more distributed, with Eastern Europe capturing a growing share, while Western Europe plays a more selective, value-driven role.

Figure 13

Anticipated risks of sourcing from Europe in 2025

Percentage of companies identifying each risk as a sourcing concern in Europe for 2025

Note: Each company could select multiple risks.

The rebalancing of European sourcing is driven as much by challenges as by opportunity. In 2025, 85% of companies cited increasing costs as their top sourcing concern in the region (**Figure *13***). Other risks include production capacity constraints (26%), US-bound export tariffs (24%), and limited supplier skills (18%). ESG compliance, currency volatility, and cultural gaps also pose hurdles. Only 4% of respondents reported seeing no major risks ahead. These concerns underline why many companies are reducing their exposure to Europe or confining it to specialized roles

In summary, Europe remains relevant but is no longer the foundation of global sourcing. Its role is increasingly selective, used for high-quality, export-oriented, or regulated categories. Companies are reconfiguring their supplier portfolios to reduce concentration in legacy markets and to respond to structural risk. The future of sourcing in Europe depends on compliance strength, operational capability, and niche specialization, not scale alone.

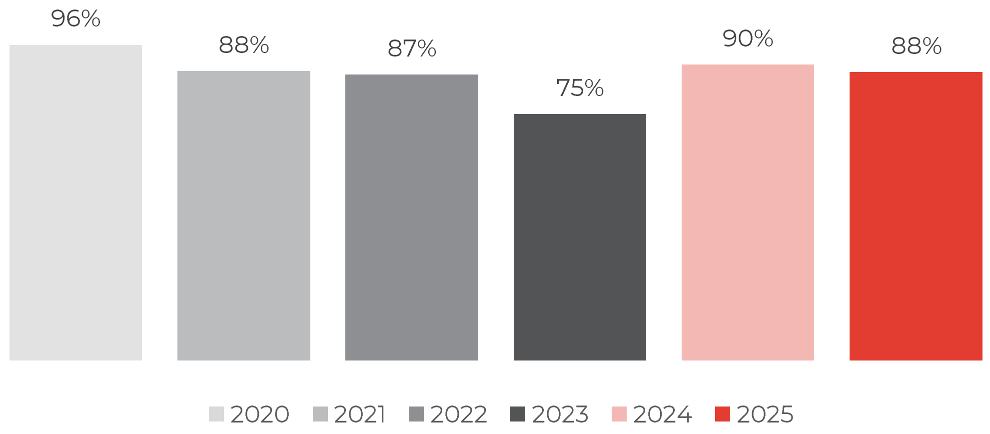
4.2 Situation In China:Continued Dominance Despite Diversification

Sourcing activity in China remains high despite diversification pressures. Many companies continue to rely on China for its unmatched scale, production efficiency, and integrated supply chains. However, its overall share in global sourcing portfolios has begun to decline as structural risks and shifting cost dynamics influence decision-making.

Figure 14

Share of Companies Sourcing from China (2020–2025)

Percentage of companies reports their sourcing from China each year

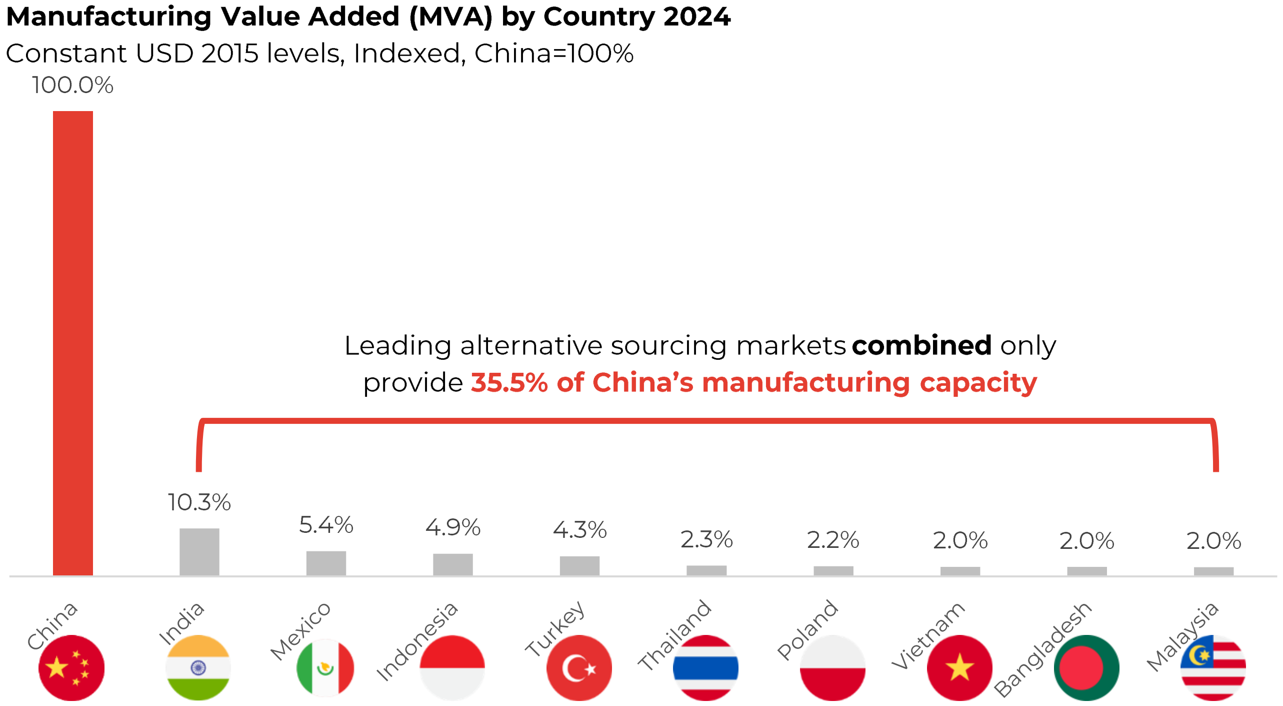


In 2025, 88% of companies still source from China, only slightly lower than 90% in 2024 (**Figure *14***). This marginal decline indicates that companies are adding alternative sourcing locations, but China remains a strategic anchor due to its unmatched manufacturing scale, supply chain depth, and role in complex production.

Figure 15

China vs. Top 10 Alternatives in Manufacturing Capacity (Indexed MVA, 2024)

Percentage of China's indexed manufacturing value added represented by each alternative market indexed to China = 100 (constant 2015 USD)



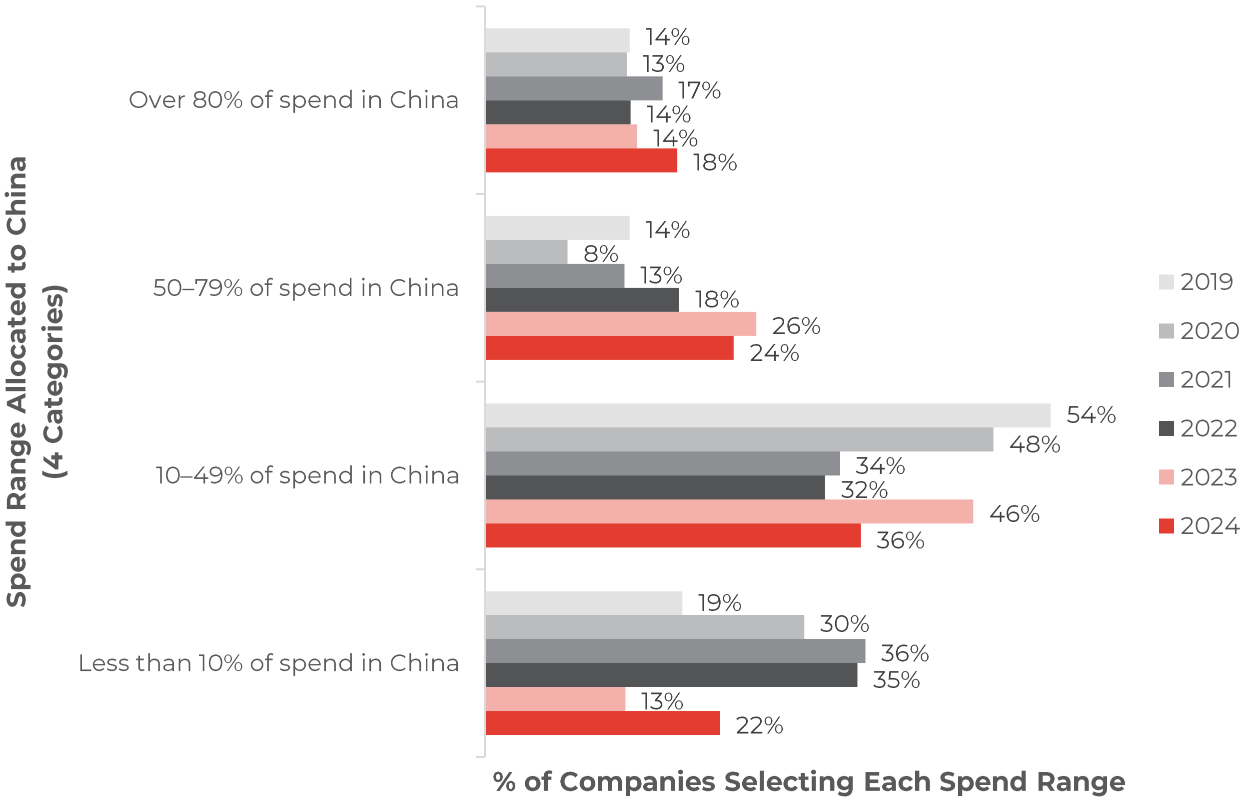
Source: United Nations Industrial Development Organization (UNIDO), ARC analysis

China's position is reinforced by its manufacturing value added (MVA) scale. In 2024, it serves as the benchmark in **Figure 15**, with the combined MVA of the ten most cited alternative sourcing countries including India, Mexico, Indonesia, Turkey, Thailand, Poland, Vietnam, Bangladesh, Malaysia, and one other if listed, amounting to just 35.5% of China's total output. This advantage is not only a matter of production volume, but also reflects China's advanced R&D capabilities, integrated supplier ecosystems, and ability to deliver both high capacity and technical sophistication. For many companies, fully relocating production is not realistic, as few locations can match China's quality, technical expertise, and production capacity. As a result, most adopt China+1 or China+multiple strategies, diversifying to manage risk while keeping critical, high-value operations in China.

Figure 16

How Companies Allocate Their Purchasing Spend to China (2019–2024)

Percentage of companies selecting each spend range based on how much of their total purchasing is allocated to China



Note: Each company selected one of four categories based on how much of their total purchasing spend was allocated to China.

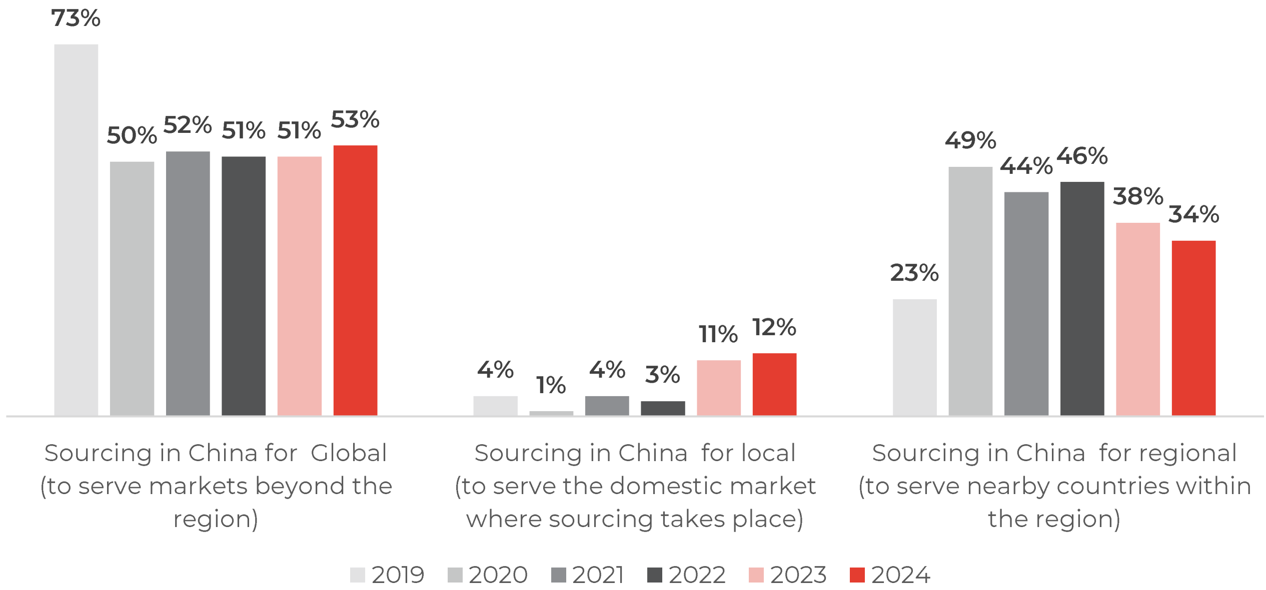
The percentages across all four categories add up to 100% for each year

Shifts in sourcing spend allocation point to a more balanced and risk-adjusted approach (**Figure 16**). The proportion of companies "allocating 10–49% of their sourcing spend to China" increased from 32% in 2023 to 36% in 2024, reflecting deliberate efforts to reduce concentration. However, those "allocating over 80%" also rose from 14% to 18%, the highest since 2021. This polarization highlights that while many companies are diversifying, certain sectors remain heavily dependent on China due to its unique combination of scale, quality, and integration within global supply chains.

Figure 17

Purpose of sourcing from China (2019–2024)

Percentage of companies sourcing from China to serve global, regional, or domestic markets



Note: Each company could select multiple purposes

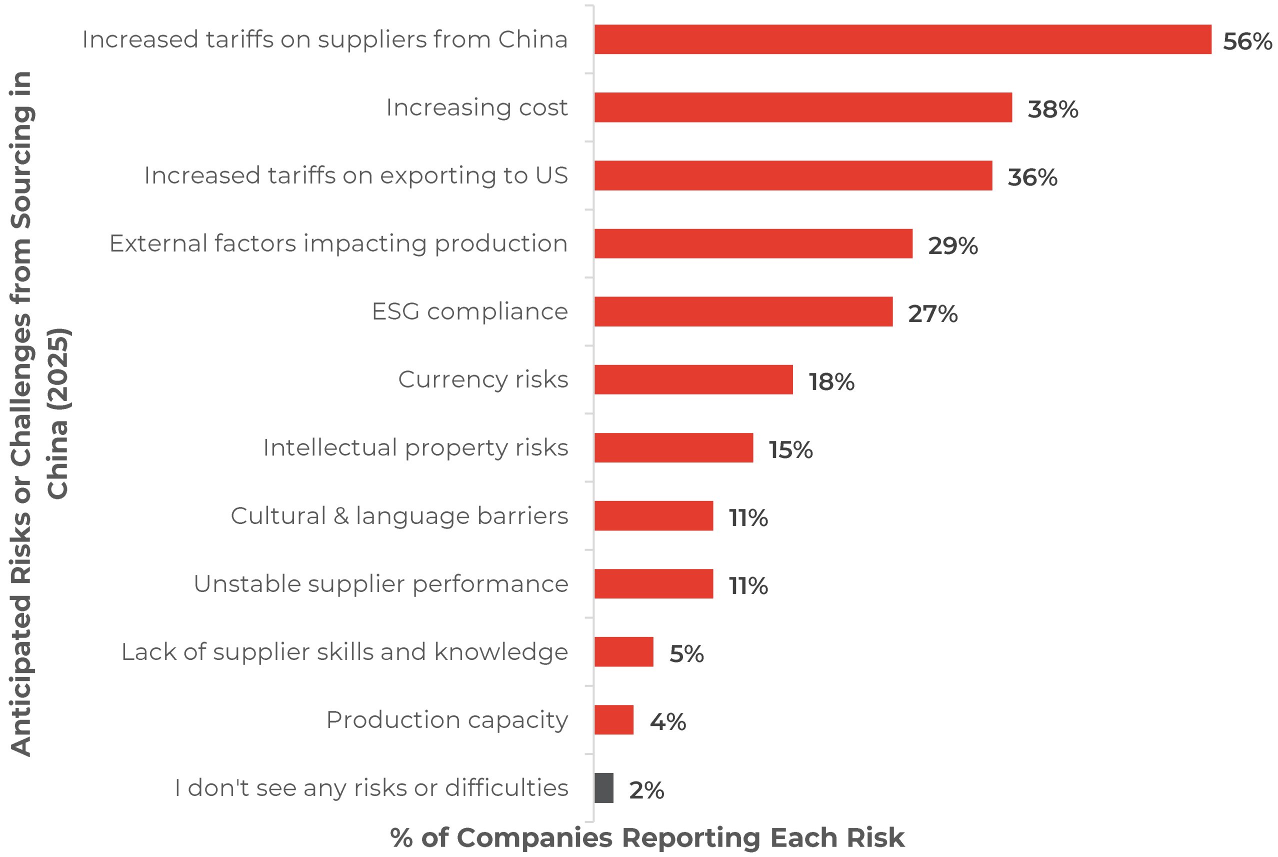
The primary purpose of sourcing from China remains global in scope (

Figure 17). In 2024, 53% of companies sourced from China to serve global markets, a stable trend in recent years. Regional sourcing to nearby Asian markets declined from 49% in 2020 to 34%, indicating that distribution and final assembly for regional demand are shifting toward emerging hubs such as Southeast Asia. Local sourcing for China's domestic market remained at 12%, showing steady internal demand. These patterns suggest that China's role is increasingly concentrated in global and domestic markets, while regional functions are gradually moving to other Asian economies.

Figure 18

Anticipated risks of sourcing from China in 2025

Percentage of companies identifying each risk as likely to increase in 2025



Note: Each company could select multiple risks

Risk perceptions are shaping these diversification strategies (**Figure *18***). In 2025, 56% of companies identified tariffs on Chinese suppliers as their top anticipated sourcing risk, followed by rising costs (38%) and US trade barriers (36%). Other concerns include production disruption risks (29%) and ESG-related compliance pressures (27%). Only 2% of companies reported no major risks. These factors are prompting companies to redistribute their supplier portfolios, keeping core and complex categories in China while shifting incremental or lower-complexity volumes to Southeast Asia, South Asia, and nearshore locations. This is not a withdrawal from China, but a risk-aware redistribution that preserves access to its advantages while reducing overexposure.

This rebalancing directly leads into next section, where Southeast Asia emerges as the primary beneficiary of diversification strategies, offering cost, capacity, and policy advantages, albeit with its own scaling and ESG compliance challenges.

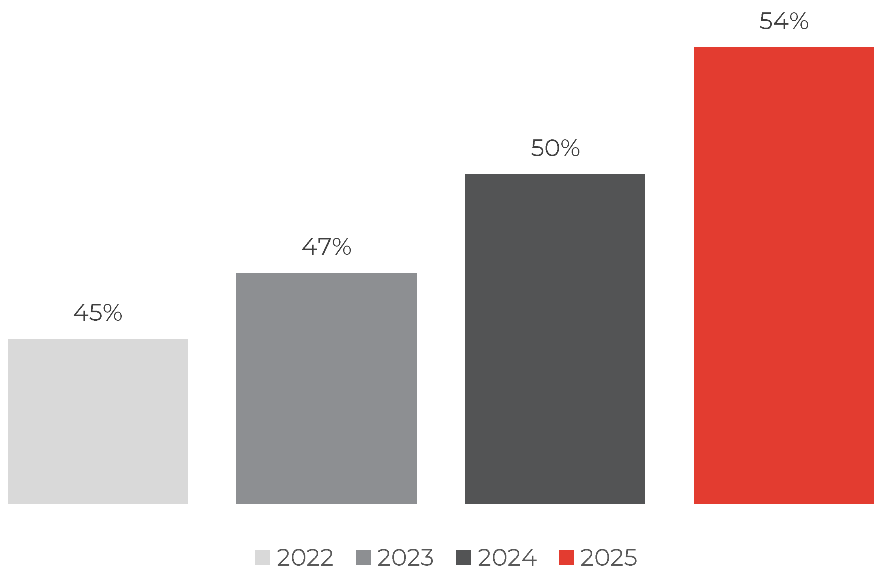
4.3 Situation In SEA: Primary Beneficiary of the China+ Strategy

Southeast Asia (SEA) is shifting from a supplementary sourcing option to a strategic hub in global supply networks. While it may not yet be a core pillar for most European companies, it is widely recognized as a key area for future sourcing development. SEA has emerged as the leading beneficiary of the China+ approach, attracting both first-wave relocations and deeper, second-wave investments that aim to strengthen resilience and diversify risk

Figure 19

Share of Companies Sourcing from Southeast Asia (2022–2025)

Percentage of companies reporting active sourcing from Southeast Asia each year

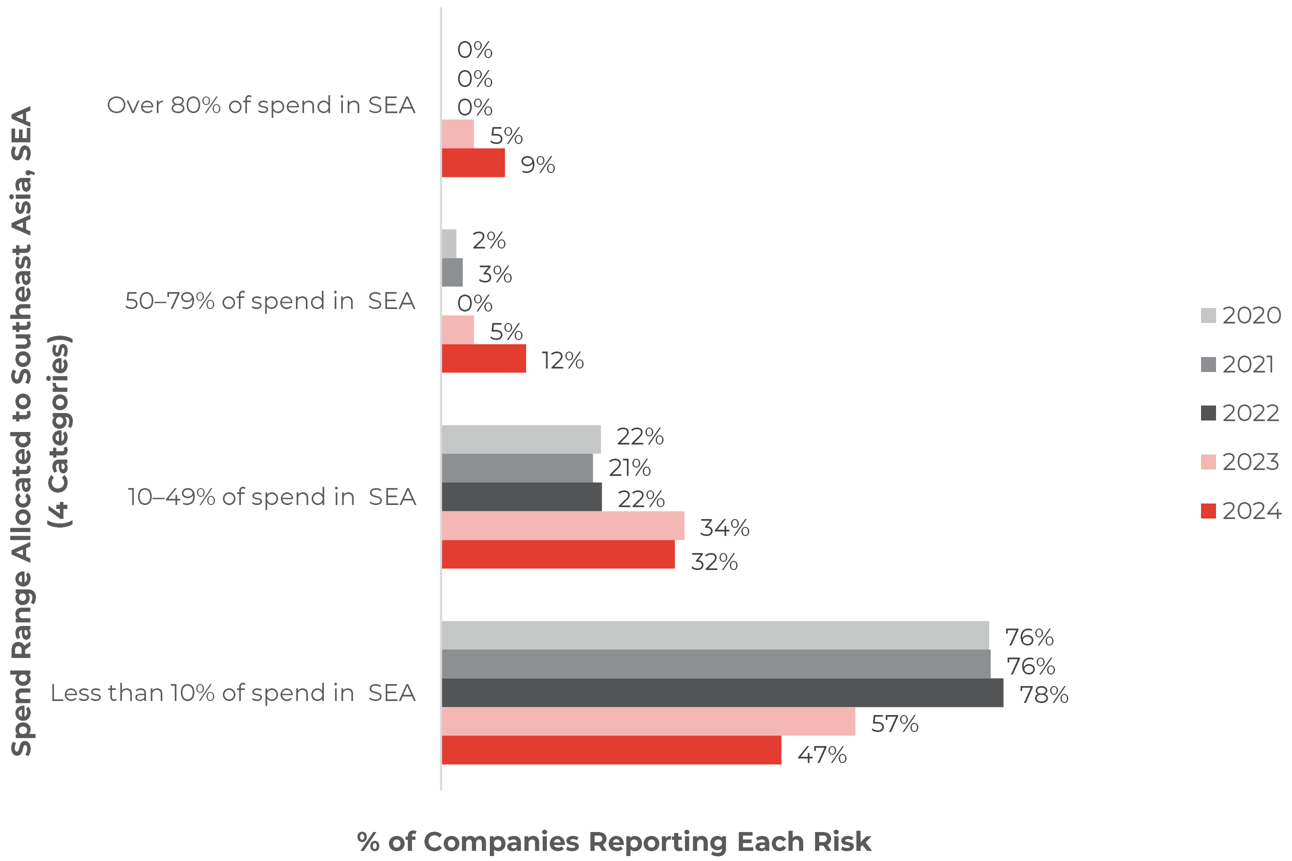


The share of companies sourcing from SEA has grown steadily over the past four years, rising from 45% in 2022 to 47% in 2023, 50% in 2024, and 54% in 2025 (**Figure *19***). This upward trend reflects the region's elevation in sourcing portfolios, moving from a backup option to an established corridor within global supply chains.

Figure 20

How Companies Allocate Their Purchasing Spend to Southeast Asia (SEA, 2020–2024)

Percentage of companies selecting each spend range based on share of total sourcing budget allocated to Southeast Asia



Note: Each company selected one of four categories based on how much of their total purchasing spend was allocated to Southeast Asia.

The percentages across all four categories add up to 100% for each year

Alongside higher participation rates, companies are committing a greater portion of their sourcing budgets to the region (**Figure *20***). In 2024, the share of companies "allocating less than 10% of total sourcing spend to SEA" dropped sharply to 47%, compared with 78% in 2022 and 57% in 2023. At the same time, those "allocating 50–79%" more than doubled from 5% to 12%, and "those allocating over 80% "increased from 5% to 9%. The "mid-range category of 10–49%" remained stable at 32%, suggesting a consistent group of companies maintaining balanced exposure.

These changes signal not just interest, but also a tangible and growing financial commitment to the region. This trend is supported by regional investment flows: ASEAN FDI inflows rose from USD 117.7

billion in 2020 to USD 225.9 billion in 2024, a compound annual growth rate (CAGR) of 17.7%, underscoring the region's manufacturing appeal.

Figure 21

Purpose of Sourcing from Southeast Asia (2019–2024)

Percentage of companies sourcing from Southeast Asia to serve different end markets

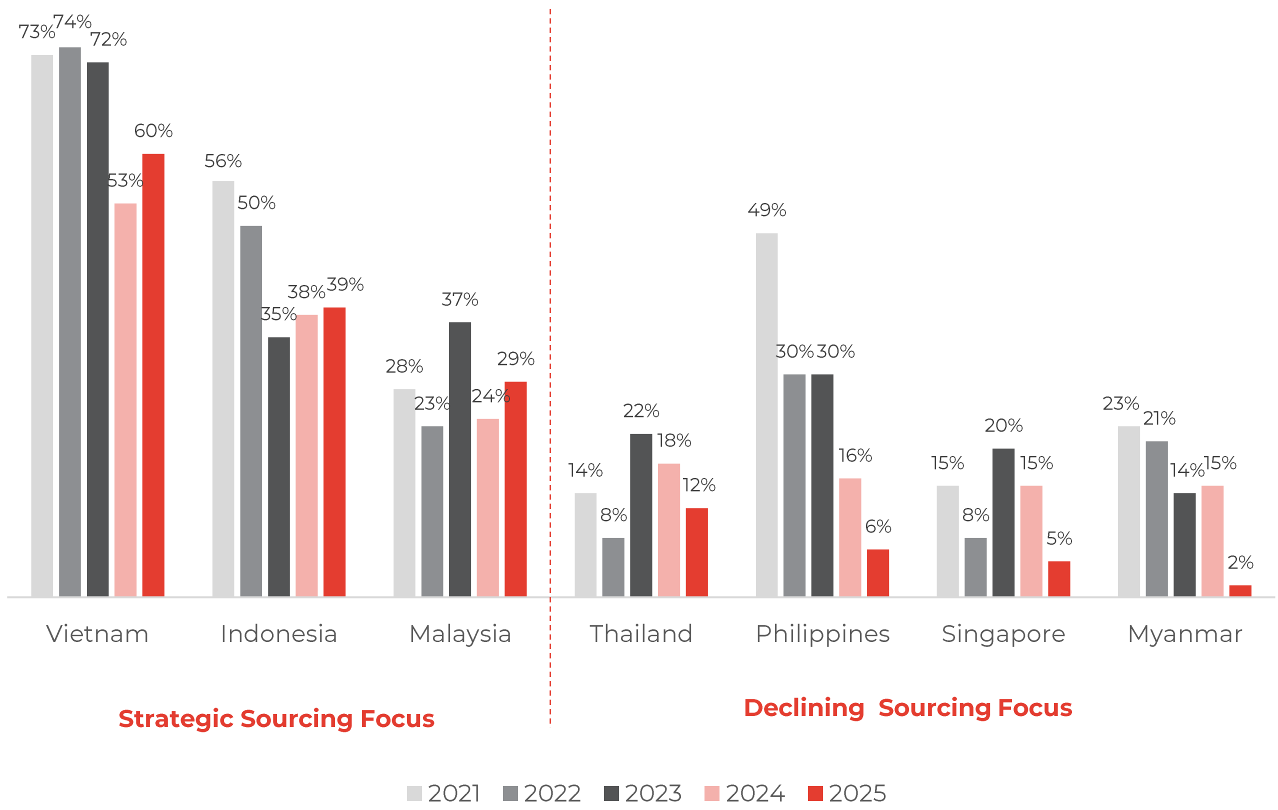
Note: Each company could select multiple purposes

The purpose of sourcing from SEA is also evolving. Historically, the region served primarily as a proximity-based hub for ASEAN and nearby markets. In 2022, 51% of companies sourced from SEA to serve regional neighbors, but by 2024 this share had dropped to 28%. Over the same period, sourcing to serve global markets rose from 45% to 56% (**Figure *21***). This shift indicates that SEA is increasingly integrated into global supply chains, complementing or partially substituting China in export-oriented production.

Figure 22

Country-Level Sourcing Trends in Southeast Asia (2021–2025)

Percentage of companies sourcing from selected Southeast Asian countries



Note: Each company could select multiple countries.

At the country level, sourcing strategies have become more selective (***Figure 22***), Vietnam remains the top destination, with 60% of companies sourcing there in 2025, supported by strong manufacturing fundamentals, supplier readiness, and global value chain integration.

Indonesia and Malaysia have gained momentum, reaching 39% and 29% respectively, driven by infrastructure upgrades and policy consistency.

Thailand, despite its established industrial base, has declined to 12% due to macroeconomic headwinds and investor caution following the mid-2025 border conflict with Cambodia.

The Philippines, Singapore, and Myanmar now attract minimal sourcing activity, constrained by limited scalability, higher costs, and greater risk exposure.

Overall, companies are narrowing their SEA sourcing footprint, focusing on Vietnam, Indonesia, and Malaysia as core hubs within a more concentrated "China Plus Multiple" model.

Figure 23

Top Anticipated Risks of Sourcing from Southeast Asia in 2025

Percentage of companies identifying each sourcing risk related to Southeast Asia

Note: Each company could select multiple risks

As volumes increase, operational and compliance risks are becoming more visible (**Figure 23**). In 2025, the top concerns were rising costs and limited supplier skills, both cited by 38% of respondents. ESG compliance and unstable supplier performance followed at 35%, while US export duties (32%) and tariffs on Chinese-origin components (15%) remain relevant. Other risks include production capacity limits, currency volatility, and cultural barriers. Only 3% of respondents reported no significant challenges, highlighting the need for stronger institutional support, supplier development programs, and workforce upskilling

Taken together, these dynamics reflect a maturing regional sourcing ecosystem. SEA has advanced from a diversification fallback to a priority region characterized by deeper financial allocation, expanding strategic reach, and clearer country-level differentiation. However, the rising risk profile, particularly in supplier capability, cost structures, and ESG readiness, underscores the need for sustained investment in skills, compliance alignment, and industrial infrastructure. For companies committed to the region, success will increasingly depend on building resilience, upgrading suppliers, and aligning with evolving global standards.

In the broader context, Europe, China, and SEA are playing distinct yet interconnected roles in diversified sourcing strategies. Europe is now a selective, high-value sourcing base for compliance-sensitive and proximity-critical needs. China remains the largest and most integrated manufacturing platform, though its dominance is being rebalanced. SEA is solidifying its position as a cost-competitive and adaptable corridor, benefiting from shifting production and investment patterns. Together, these shifts mark a structural transformation toward distributed supply networks, where multiple regions collectively deliver resilience, cost efficiency, and strategic flexibility.

5 | Reconfiguring Supply Networks: Toward Multi-Regional, Globally Connected Sourcing

Sourcing strategies in 2025 are entering a new phase shaped by shifting regional roles. As the previous analysis shows, Europe is strengthening its position as a strategic, compliance-focused hub, while China continues to offer unmatched scale and manufacturing depth. Southeast Asia, on the other hand, is no longer a secondary sourcing option but is becoming a vital hub for diversification. This reconfiguration signals a a move away from reliance on a single hub and towards portfolios that leverage the strengths of multiple regions.

The shift Is driven by the need t" bal'nce cost competitiveness, production capacity, compliance requirements, and proximity to end markets. Ongoing trade instability, rising input costs, and geopolitical tensions reinforce the importance of building sourcing networks that are regionally distributed and adaptable to disruption.

In this environment, location choices follow a clear rationale for why a region is selected, how operations will be structured, and what role it will play in the whole supply chain. Sourcing is no longer only about finding the lowest cost; it is about aligning supply bases with long-term strategic priorities.

This chapter builds on the regional perspectives and examines how companies manage this transition in practice. It answers four questions:

- What are the current drivers behind sourcing decisions in Europe, China, and Southeast Asia?
- How have companies' relocation intentions evolved from 2022 to 2025 across the three regions?
- What does the sourcing footprint look like today across these regions? Are companies expanding, pausing, or reactivating operations?
- Which regions are most seriously considered for future sourcing relocation in 2025?

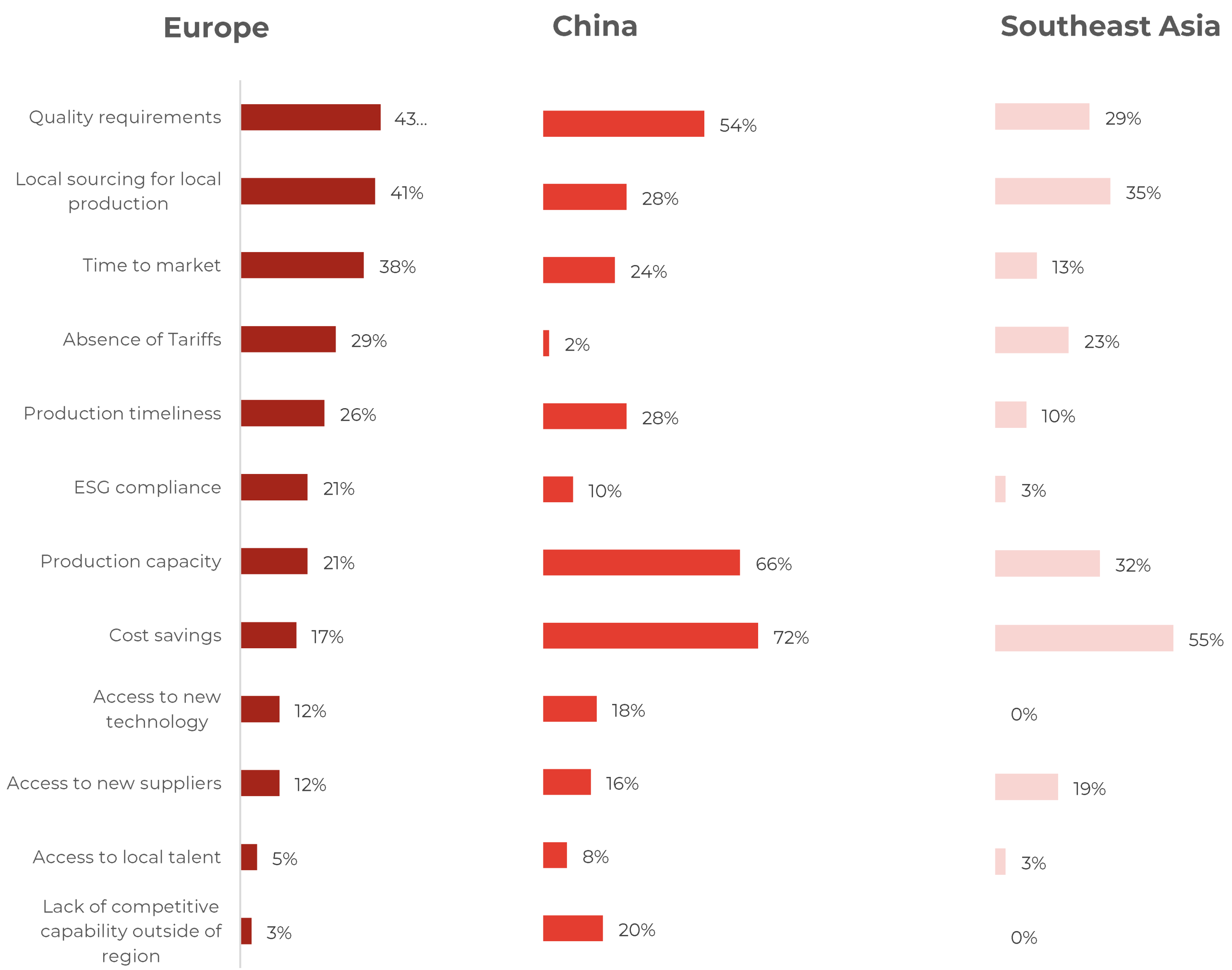
5.1 Regional Drivers: Why Companies Are Staying or Shifting

Each region offers unique advantages and fulfills a distinct role in the global supply chain. In 2025, companies are designing sourcing portfolios that leverage these regional strengths rather than relying on a single, uniform strategy. **Figure 24** highlights the key factors driving decisions to maintain sourcing in Europe, China, and Southeast Asia, illustrating a segmented and strategically balanced approach.

Figure 24

Main Reasons Companies Continue Sourcing from Each Region in 2025

Percentage of companies selecting each reason for maintaining sourcing in Europe, China, or Southeast Asia (SEA)



Note: Each company could select multiple reasons

Europe is primarily chosen for its focus on quality and proximity, with 43% of respondents citing"Quality requirement" as the top reason, followed by 41% who emphasize"Local sourcing for local production" and 38% who highlight"Time to market" This shows that Europe is especially important for businesses where precision, traceability, and fast delivery are key. Factors like"Absence of tariff" (29%) and"ESG complianc" (21%) also make Europe a solid choice for meeting regulatory and sustainability standards. However, Europe isn't the go-to for cost savings or large-scale production, as indicated by the lower scores for"Cost saving" (17%) and"Production capacit" (21%).

China, on the other hand, remains unmatched in its scale and cost efficiency. A whopping 72% of respondents cite"Cost savings" while 66% point to"Production capacity" underscoring Chin"s industrial strength. Local production and timeliness are also factors, but China's role in global supply chains is less about ESG compliance, with only 10% mentioning it, and even fewer (2%) citing"Absence of tariffs" Interestingly, 20% note the"Lack of competitive capability outside of the region" which highlights China's unique place in complex, high-volume supply chains.

Southeast Asia is increasingly seen as a more agile and cost-effective option. The biggest reasons for sourcing here are"Cost saving" (55%),"Local sourcing for local productio" (35%), and"Production capacit" (32%). This reflects the regio"s growing role in mid-level production and assembly. However, ESG compliance is not a major factor for most companies, with only 3% citing it. No one mentioned"Lack of competitive capability outside of the region" reinforcing the idea that while Southeast Asia is becoming more integrated into global supply chains, i"s still viewed as complementary rather than a core anchor.

These insights highlight how different regions are playing different roles in the global supply chain. Europe stands out for quality, compliance, and proximity to key markets. China is critical for cost efficiency, capacity, and scale. And Southeast Asia is emerging as a flexible and affordable alternative. Companies are now tailoring their sourcing strategies to align with these regional strengths, creating diversified portfolios that balance operational needs, regulatory compliance, and risk resilience.

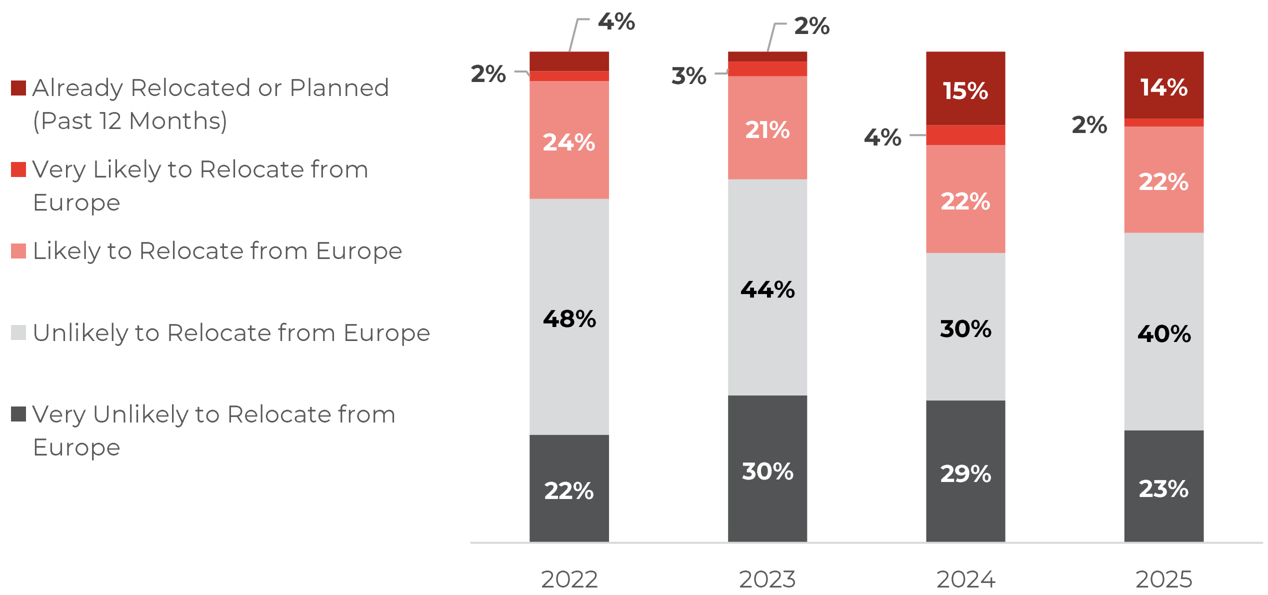
5.2 Relocation Trends: Rising Intentions Across All Regions

By assessing companie'' relocation intentions, we gain a forward-looking perspective on the evolution of sourcing strategies, extending beyond the regional strengths outlined in Section 5.1. From 2022 to 2025, companies have been increasingly reassessing their exposure and embracing more flexible sourcing options.

Figure 25

Relocation Intentions from Europe (2022–2025)

Percentage of companies indicating each level of likelihood or activity related to relocating sourcing from Europe to other regions



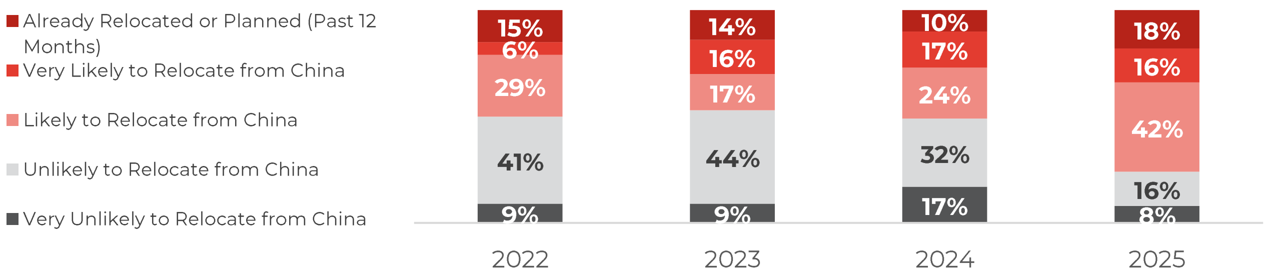
Note: Each company selected only one of the five options reflecting their likelihood or activity related to relocating sourcing from Europe.

As shown in **Figure *25***, the share of companies that have already relocated or planned to relocate from Europe rose sharply from 4% in 2022 to 14% in 2025. Those likely or very likely to relocate decreased slightly from 26% to 24%. While the region remains valued for quality, compliance, and proximity, these changes indicate a gradual narrowing of its role to specialized or regulation-critical activities, driven by high costs and limited scalability.

Figure 26

Relocation Intentions from China (2022–2025)

Percentage of companies indicating each level of likelihood or activity related to relocating sourcing from China to other regions



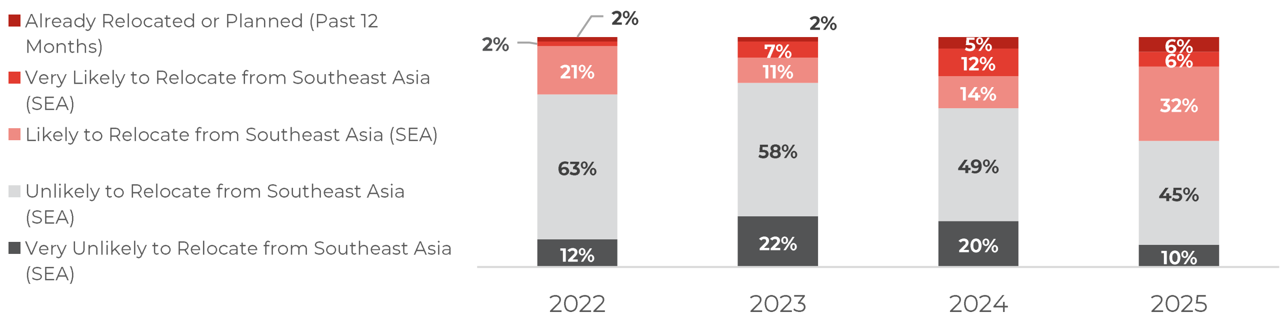
Note: Each company selected only one of the five options reflecting their likelihood or activity related to relocating sourcing from China.

Figure 26 highlights a sharper shift for China. The combined share of companies likely or very likely to relocate increased from 35% in 2022 to 58% in 2025, while the proportion unlikely or very unlikely to relocate dropped from 50% to 24%. This trend reflects rising efforts to reduce concentration risk, control cost escalation, and manage geopolitical exposure, even as the country retains unmatched scale and industrial depth. Diversification models such as China+1, China+multiple, and dual sourcing are increasingly adopted.

Figure 27

Relocation Intentions from Southeast Asia (2022–2025)

Percentage of companies indicating each level of likelihood or activity related to relocating sourcing from Southeast Asia to other regions



Note: Each company selected only one of the five options reflecting their likelihood or activity related to relocating sourcing from Southeast Asia.

In **Figure *27***, Southeast Asia shows a more balanced pattern. The share of companies likely or very likely to relocate rose from 23% in 2022 to 38% in 2025, while those unlikely or very unlikely to relocate declined from 75% to 55%. This suggests that while the region continues to grow as a manufacturing hub, capability constraints, more demanding compliance requirements, and tariff uncertainties are prompting some companies to reassess their readiness for their production.

Across all three regions, the trend is shifting from reactive moves toward measured, strategic adjustments. Rather than full withdrawal, companies are fine-tuning networks to balance resilience, compliance, and cost. These intentions now influence how sourcing footprints are built, maintained, and reactivated.

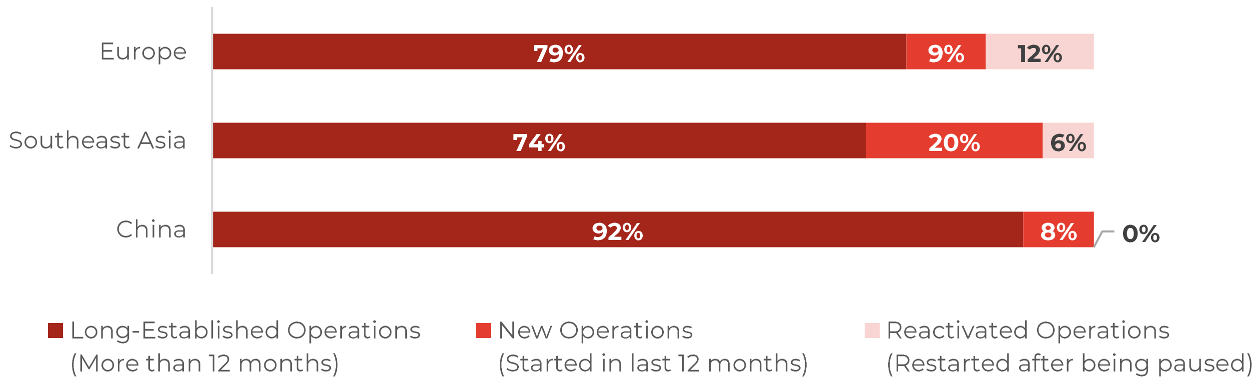
5.3 Sourcing Footprint: Stability, Expansion, and Reactivation

As companies adjust their relocation strategies, these evolving intentions are now being reflected in more concrete actions. The shift from merely relocating operations to reshaping sourcing footprints is evident. Companies are not simply withdrawing from or entering new regions; they are strategically reinforcing their established strengths, expanding capacity where necessary, and even reactivating previously dormant sites. This signals a move toward more adaptable and resilient supply networks, as companies realign their sourcing strategies to ensure they are prepared for future challenges.

Figure 28

Type of Sourcing Footprint by Region in 2025

Percentage of companies with long-established, new, or reactivated sourcing operations in China, Southeast Asia, and Europe



Note: For each region, companies sourcing in that region were asked to select one of three options to describe the status of their sourcing operations: Long-Established (operating for more than 12 months), New (established within the past 12 months), or Reactivated (operations resumed after a pause).

Figure 28 illustrates the distribution of companies sourcing in each region, showing the breakdown between long-established operations, newly established activities, and reactivated paused operations. In China, among companies sourcing in the region, 92% maintain long-established operations, while only 8% have started new activities in the past 12 months, and none have reactivated paused operations. This indicates that while China remains a critical base, expansion is being curtailed in favor of risk diversification.

Southeast Asia shows the highest recent activity, with 20% of companies sourcing in the region having established new operations in the past year, the highest among the three regions. Additionally, 6% have reactivated paused operations, and 74% continue with long-established operations. These figures confirm that diversification strategies are translating into action, with Southeast Asia growing in importance as a complementary hub in multi-region portfolios.

Europe presents a more nuanced picture. Among companies sourcing in Europe, 79% maintain long-established operations, 9% have started new activities, and 12% have reactivated idle sites (**Figure *28***). This measured re-engagement contrasts with the rising relocation intentions noted earlier, where the share of companies already relocated or planning to relocate grew from 2% in 2022 to 14% in 2025, and those likely or very likely to relocate increased from 48% to 62% (**Figure *25***).

The gap between sustained presence and rising relocation intent suggests a redefinition of Europe's role, shifting from broad-based sourcing to a selective focus on resilience-critical and proximity-driven activities. Where new investment occurs, it is often concentrated in Eastern Europe, leveraging stronger infrastructure and compliance frameworks in Poland, the Czech Republic, and Hungary.

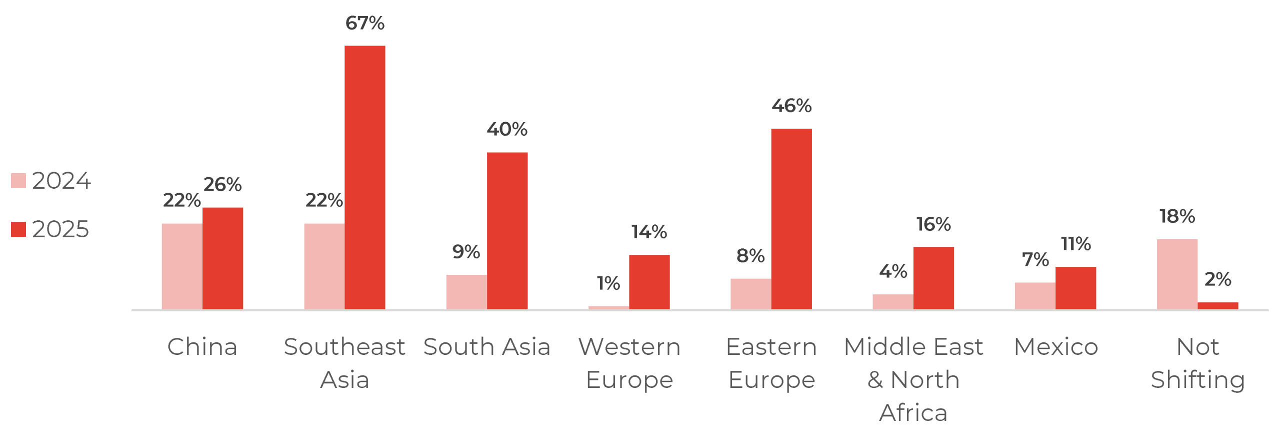
5.4 Future Plans: Top Destinations for Sourcing Relocation

The adjustments in sourcing footprints are part of a broader transformation in how companies' structure and diversify their supply networks. As reliance on single hubs diminishes, relocation plans reveal the regions expected to drive the next phase of sourcing potential.

Figure 29

Top Regions Considered for Sourcing Relocation (2024 vs 2025)

Percentage of companies selecting each region as a potential future sourcing location



Note: Each company could select multiple countries.

Figure 29 highlights Southeast Asia as the leading relocation target in 2025, with interest surging from 22% in 2024 to 67%. This builds directly on the footprint expansion shown in ***Figure 28***, confirming that recent operational moves are being reinforced with further planned growth. The region is shifting from an emerging alternative to an established base, supported by maturing industrial zones and a broader supplier ecosystem. For late entrants, the main challenge is catching up with peers who have already secured capacity and supplier relationships.

South Asia is strengthening, with interest climbing from 9% in 2024 to 40% in 2025. Growth is concentrated in labor-intensive hubs such as India and Bangladesh, where improving infrastructure and demographic advantages enhance cost competitiveness. This reflects capacity pressure in Southeast Asia and ongoing cost escalation in China.

Eastern Europe saw a significant increase in consideration, rising from 8% in 2024 to 46% in 2025. This represents nearly sixfold year-on-year growth, compared with threefold in Southeast Asia. Although Southeast Asia maintains a higher overall share, the pace of change in Eastern Europe stands out. This surge reflects renewed nearshoring and regional diversification, particularly among European companies seeking to reduce risk and bring sourcing closer to end markets. The sharp rise also suggests that earlier concerns related to the Ukraine conflict may be easing, supporting investor confidence. At the same time, foreign investment is adding momentum, especially from Chinese EV and battery manufacturers expanding in Hungary, the Czech Republic, and Poland. These developments reinforce Eastern Europe's position as a competitive manufacturing base and a growing part of global sourcing networks.

Other regions are also moving into consideration. Related trends are visible in Western Europe, which rose from 1% to 14%, and Mexico, which increased from 7% to 11% as North American companies pursue proximity and logistical advantages.

Interest in the Middle East and North Africa increased from 4% in 2024 to 16% in 2025. This growth reflects a rising but still selective appeal. The uptick is primarily driven by Gulf economies such as the UAE and Saudi Arabia, which have launched aggressive industrial policies and infrastructure investments to attract foreign manufacturers. However, this momentum is not mirrored across North Africa, which remains largely absent from sourcing considerations. Morocco stands out slightly within the region but continues to play a relatively minor role compared to more prominent sourcing corridors. Overall, the increase signals emerging interest focused on incentive-led opportunities rather than broad-based ecosystem readiness or regional competitiveness.

A clear sign of change is the decline in companies not planning relocation, falling from 18% in 2024 to 2% in 2025. This confirms that nearly all firms are reassessing their global sourcing footprint. Companies no longer treat sourcing as a fixed structure, they use it as a strategic lever to manage risk, unlock resilience, and adapt to shifting geopolitical and regulatory landscapes. The magnitude of this shift indicates that 2025 is a pivotal year in which sourcing strategies are being fundamentally redefined

These developments highlight the shift toward more deliberate sourcing decisions, driven by the distinct advantages of each region. China remains the foundation for scale and volume, but its role is being rebalanced with rising activity in Southeast Asia, South Asia, and Eastern Europe. Europe, while still crucial for compliance-driven and proximity-based sourcing, is selectively re-engaged, and Eastern Europe and Mexico are gaining prominence in regionalization strategies.

This shift signals a broader trend where supply chains are becoming interconnected and regionally distributed, prioritizing resilience, adaptability, and long-term value creation. As each region offers unique advantages, companies are strategically diversifying their supply chains to leverage these strengths, whether it's cost efficiency, high-quality production, capacity, or proximity to target markets. By carefully selecting regions that align with their resilience goals, companies ensure that their supply chains are optimized for both resilience and long-term competitiveness.

6 | Evaluating Drivers, Costs, and Challenges in Sourcing Relocation Strategies

The diversification patterns and relocation intentions explored earlier show that companies are rethinking not only where they source but also the framework guiding these decisions. As global supply chains fragment further, sourcing strategies are shifting from purely cost-based considerations to integrated evaluations that balance operational risk, total cost, regulatory compliance, logistics performance, and ESG commitments.

This chapter examines three core dimensions shaping sourcing relocation in 2025:

- Key drivers influencing decisions to shift sourcing locations
- Cost factors that most impact location choices
- Region-specific barriers that determine the feasibility of establishing new operations

Together, these elements offer a deeper view of how companies are moving from strategic intent to execution in an environment defined by volatility, regional segmentation, and rising compliance demands. The analysis addresses three guiding questions:

- What are the primary reasons companies are relocating their sourcing activities?
- Which cost elements carry the greatest weight in decision-making?
- What are the main regional barriers to setting up new sourcing operations?

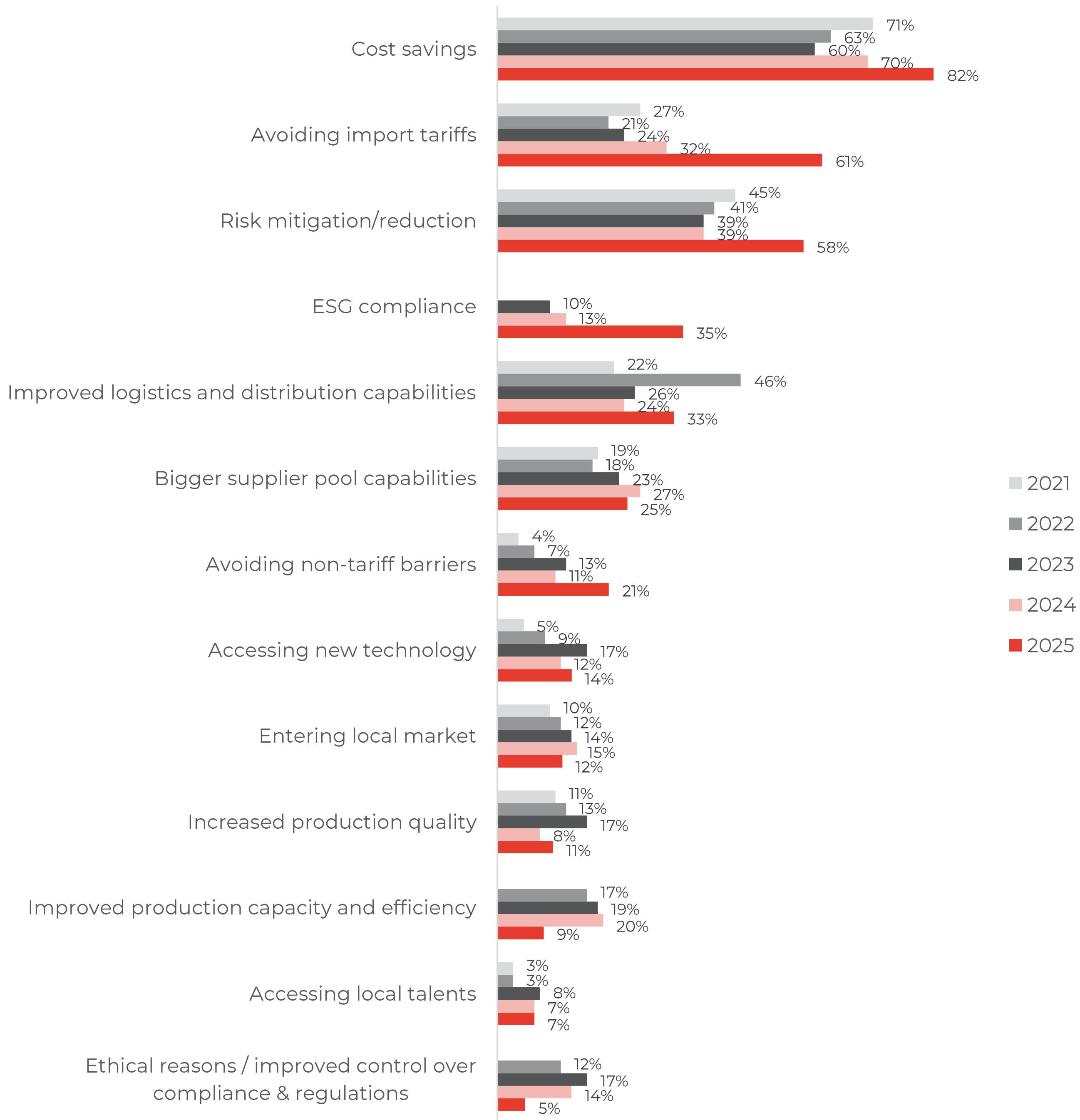
6.1 Relocation Drivers: Cost, Risk, and Compliance Pressures Lead

As sourcing footprints become more diversified, relocation decisions are now shaped by a broader set of operational, regulatory, and risk-related considerations in addition to cost.

Figure 30

Key Drivers Behind Sourcing Relocation Decisions (2021–2025)

Percentage of companies citing each reason for relocating sourcing activities, 2021–2025



Note: Each company could select multiple Drivers

Figure *30* shows how top drivers have evolved between 2021 and 2025. In 2025, cost savings were cited by 82% of respondents, up from 70% in 2024. This rise reflects urgency to protect profitability amid inflation, exchange rate volatility, and sustained input cost pressures

Risk reduction, now ranked second, has seen consistent growth over recent years. The share of companies citing it rose from 39% in 2023 to 58% in 2025, representing a 19 %-point increase. This upward trend reflects mounting concerns over supply chain fragility and a growing imperative to diversify sourcing bases. Companies are responding to geopolitical tensions, logistics disruptions, and supplier concentration risks by building greater redundancy and resilience into their sourcing networks.

Avoiding import tariffs has also emerged as a major driver of relocation. In 2025, 61% of companies cited it as a key reason for moving operations, up sharply from 32% in 2024. The sharp increase underlines the influence of trade policy, especially following tariff escalations by the United States targeting China and other large manufacturing economies. Strategic sectors such as electronics, chemicals, automotive, and green technologies are particularly affected.

ESG compliance rose to 35% in 2025, more than doubling from 13% in 2024. This reflects tighter regulations, growing investor expectations, and customer scrutiny on environmental practices, labor standards, and transparency.

Operational enablers also gained importance, with 46% citing improved logistics and distribution and 27% citing access to a broader supplier pool. Other factors such as avoiding non-tariff barriers (21%) and accessing new technologies (17%) showed moderate increase.

Overall, relocation in 2025 is driven by a mix of cost efficiency, regulatory alignment, resilience, and market access.

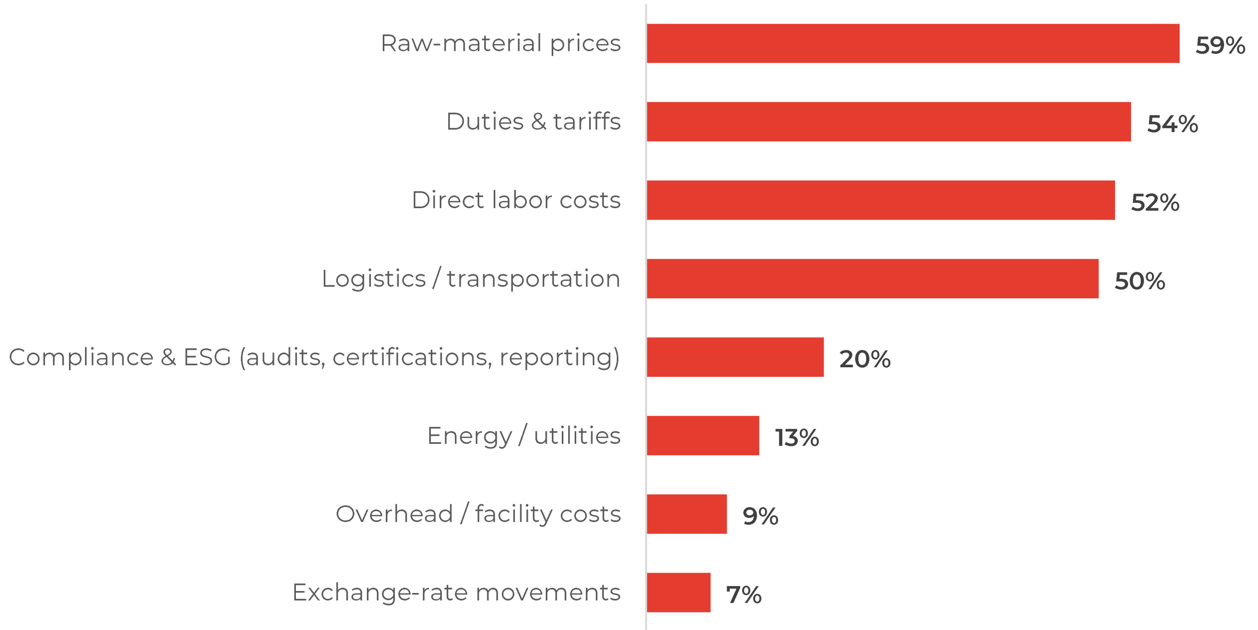
6.2 Cost Breakdown: Total Cost View Replaces Labor-Only Focus

As cost pressures re-emerge as the top relocation driver (see **Figure *30***), companies are reassessing what "cost" actually means in today's sourcing landscape. Instead of focusing solely on labor, they now adopt a total-cost perspective that incorporates geopolitical and operational realities.

Figure 31

Breakdown of Cost Factors Influencing Sourcing Strategies

Percentage of companies citing each cost factor in 2025



Note: Each company could select multiple cost factors

Figure *31* illustrates the primary cost components influencing sourcing strategies. Raw material prices were the most frequently cited factor, selected by 59% of respondents. This underscores the rising importance of input price stability and availability, especially in sectors sensitive to commodity cycles and exposed to material access risks.

These concerns have been further amplified by the most recent U.S. tariff actions introduced in August 2025. The United States implemented broad-based tariff increases on dozens of countries, with rates ranging from 10% to 50%. Goods from Brazil now face tariffs of up to 50%, while products from Vietnam and the Philippines are subject to tariffs of 20% and 19%, respectively. Canada has been impacted by a 35% tariff on goods that do not comply with USMCA rules. The United States also imposed an additional 25% tariff on Indian imports, bringing the total tariff burden on Indian goods to 50%, citing continued trade relations with Russia. In addition, a 100% tariff on imported semiconductor chips was proposed, targeting companies that have not committed to domestic manufacturing. These developments signal a strategic shift in U.S. trade policy toward industrial reshoring and economic security. As a result, companies are now forced to reassess total landed costs across a much wider range of sourcing markets, accounting for both direct tariff exposure and secondary cost effects.

Tariffs and duties followed closely, cited by 54% of companies. As global trade policy becomes more fragmented, exposure to import and export tariffs has become a significant determinant in location planning. Companies are actively adjusting supply chain footprints to reduce tariff-related cost volatility.

Direct labor costs remain a central consideration, cited by 52% of respondents. However, labor is no longer assessed in isolation. It is evaluated together with productivity, labor availability, workforce stability, and the potential for future automation.

Logistics and transportation were cited by 50% of companies, reflecting continued challenges with infrastructure, shipping costs, and transit lead times. Logistics has evolved from support functions to a strategic factor in cost and risk management.

Beyond these core factors, companies are increasingly accounting for ESG compliance and certification costs (20%). This includes audit fees, supplier due diligence, traceability systems, and sustainability reporting, particularly in sectors under strict regulatory or reputational scrutiny.

Additional cost elements such as energy and utilities (13%), facility overhead (9%), and exchange rate movements (7%) also feature in the sourcing equation. These are especially relevant for companies operating in energy-intensive industries or across multi-currency regions.

In summary, sourcing decisions in 2025 reflect a mature and integrated view of cost. Companies are shifting from labor-focused assessments toward total-cost evaluations that include material inputs, trade exposure, infrastructure quality, and compliance burdens. This shift supports more resilient, regionally balanced sourcing strategies that are designed for long-term value.

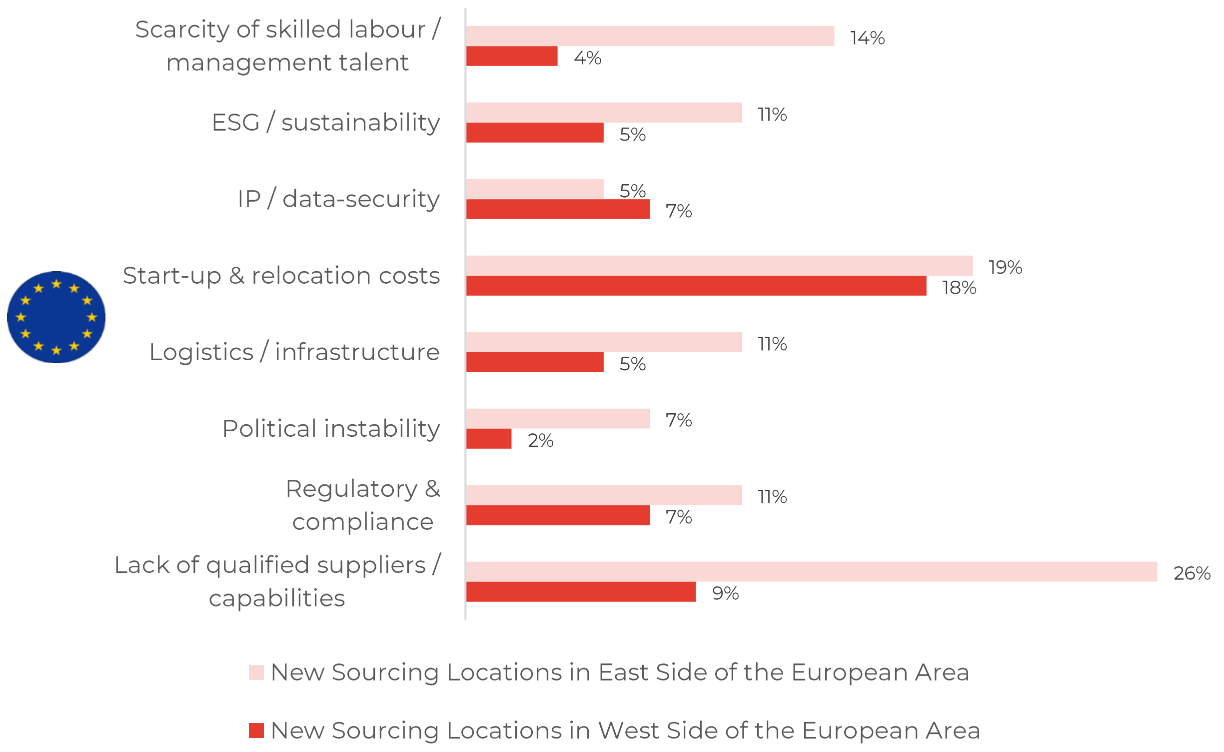
6.3 Regional Barriers: Execution Risks Vary by Market

While cost, risk, and compliance considerations drive relocation intent, success depends on how well companies navigate region-specific implementation challenges. **Figure 32**, **Figure 33** and **Figure 34** show that these vary significantly across Europe, China, and Southeast Asia, reflecting differences in economic maturity, regulatory environments, and supply chain capabilities.

Figure 32

Key Challenges When Establishing New Sourcing Locations in Europe

Percentage of companies citing each relocation barrier in the European market (2025)



Note: Each company could select multiple challenges

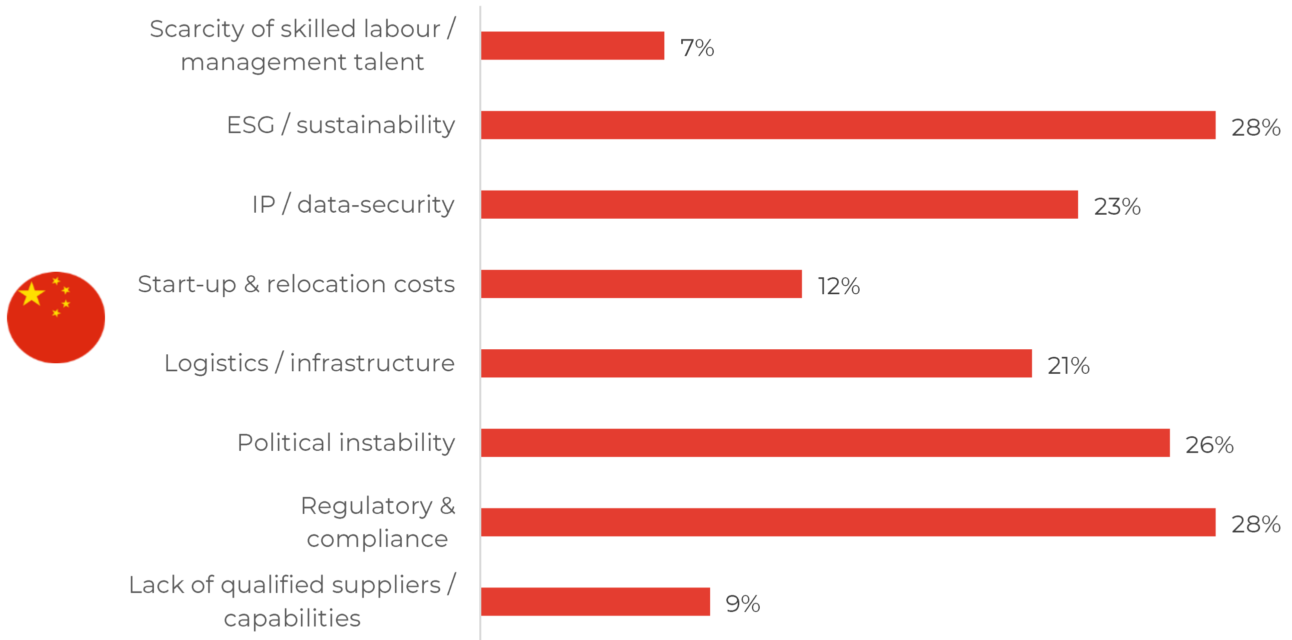
In the case of Europe shown in **Figure 32**, companies relocating or establishing new sourcing operations encounter several structural barriers, with notable variation between Western and Eastern subregions. Start-up and relocation costs are consistently reported as a major challenge across both areas, cited by 18–19% of companies. However, a more region-specific issue arises in Eastern Europe, where 26% of companies identify the lack of qualified suppliers and capabilities as a key hurdle, compared to only 9% in Western Europe. This disparity reflects a gap in supplier ecosystem maturity, which is particularly relevant for industries requiring high-value or customized components.

These patterns align with the broader findings discussed in Chapter 4.1, where Europe's overall sourcing role is under pressure due to cost increases, capacity limitations, and compliance friction. Although Eastern Europe is often evaluated as a viable alternative to Asian sourcing bases, especially for companies aiming to localize or shorten supply chains, the practical obstacles on the ground continue to limit its ability to support agile or large-scale relocation efforts.

Figure 33

Key Challenges When Establishing New Sourcing Locations in China

Percentage of companies citing each relocation barrier in the Chinese market (2025)



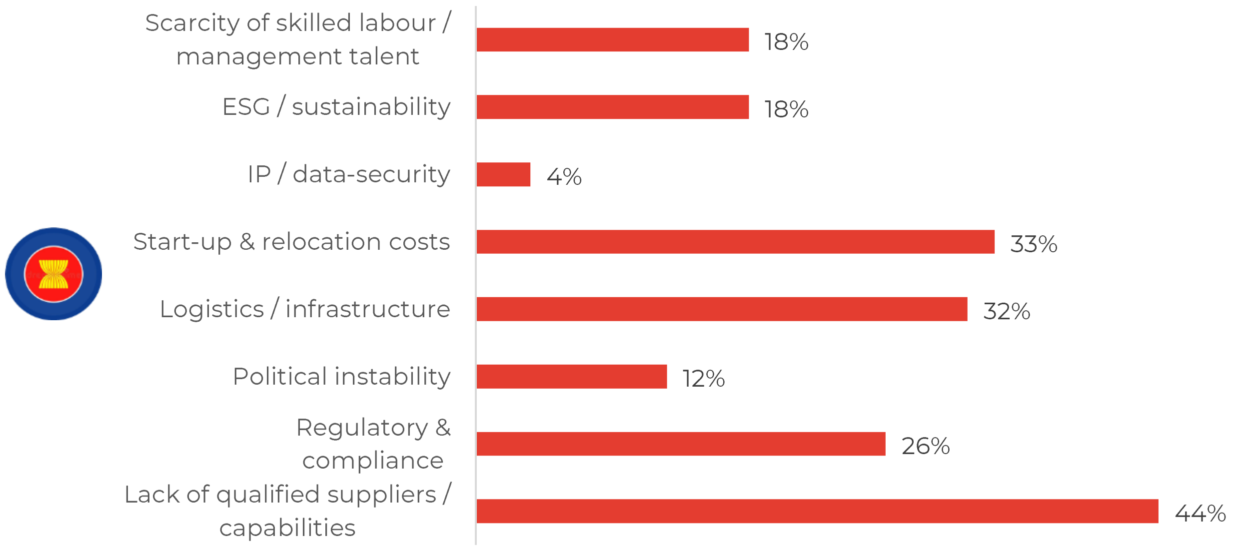
Note: Each company could select multiple challenges

Relocation to China presents a different set of challenges, largely shaped by evolving policy and reputational risks. As illustrated in **Figure 33**, ESG compliance and regulatory barriers were each cited by 28% of companies. Political instability (26%) and IP or data-security risks (23%) were also key concerns, reflecting increasing geopolitical scrutiny and operational uncertainty. While logistics infrastructure (21%) and start-up costs (12%) were still mentioned, they were less prominent than policy-related risks. This suggests that although China remains functionally efficient for production, long-term strategic concerns are prompting companies to reassess their exposure.

Figure 34

Key Challenges When Establishing New Sourcing Locations in Southeast Asia

Percentage of companies citing each relocation barrier in the Southeast Asian market (2025)



Note: Each company could select multiple challenges

Among the three regions, Southeast Asia presents the highest reported implementation barriers. As shown in **Figure 34**, 44% of companies cited the lack of qualified suppliers as the top challenge, underscoring the region's fragmented industrial capacity. Start-up and relocation costs were mentioned by 33%, while logistics and infrastructure limitations were cited by 32% of companies. Additional issues included regulatory complexity (26%), scarcity of skilled labor (18%), and political instability (12%). These results highlight the uneven development of sourcing ecosystems across Southeast Asian countries, requiring more tailored and localized approaches to scale operations effectively.

In all three regions, the success of sourcing relocation strategies depends on how effectively companies navigate local realities. Financial and risk-related considerations may justify shifting production or sourcing activities, but successful execution is shaped by barriers such as policy complexity, infrastructure constraints, and supplier capability gaps. As supply networks become more geographically diverse, compliance expectations are exerting as much influence on location choices as cost or capacity factors.

ESG requirements, once considered secondary, are now embedded in strategic sourcing, influencing supplier selection, governance standards, and the long-term viability of operations in each region.

7 | Implementing ESG Compliance across Europe China and Southeast Asia

By 2025, ESG has moved from a supporting consideration to a core element of global supply chain strategy. As companies rebalance sourcing networks to strengthen resilience, they face increasing demands for accountability in labor practices, corporate conduct, and ethical sourcing. These pressures are reinforced by stricter regulations in Europe, closer investor scrutiny, and higher expectations from customers and other stakeholders.

This chapter focuses on two operationally critical dimensions of ESG compliance including **fair labor** and **corporate integrity**. Fair labor is shaped by customer requirements and regulatory oversight, while corporate integrity, covering supplier governance, conduct, and transparency, has become a decisive factor in supplier selection and audit processes. Together, these dimensions highlight how supplier-level due diligence and strong internal governance are becoming essential for building responsible and resilient supply networks.

Survey findings reveal a steady improvement in both data sharing and assessment activity across regions. Europe remains the benchmark for transparency, while Southeast Asia demonstrates strong momentum, particularly in advancing corporate integrity standards. Across all regions, companies are increasingly going beyond minimum regulatory requirements, aligning ESG practices with internal values, long-term risk mitigation, and strategic positioning.

This chapter addresses four critical questions:

- How willing are suppliers to share ESG-related data, and how has this evolved?
- To what extent are companies actively assessing supplier practices, and where do gaps remain?
- What are the primary motivations driving ESG compliance efforts among suppliers?
- How do different regions compare ambition, maturity, and accountability?

7.1 Fair Labor: Transparency and Assessment Are Expanding Across Regions

Figure 35

Fair Labor Data Sharing Percentage

Percentage of respondents received fair labor data from their suppliers

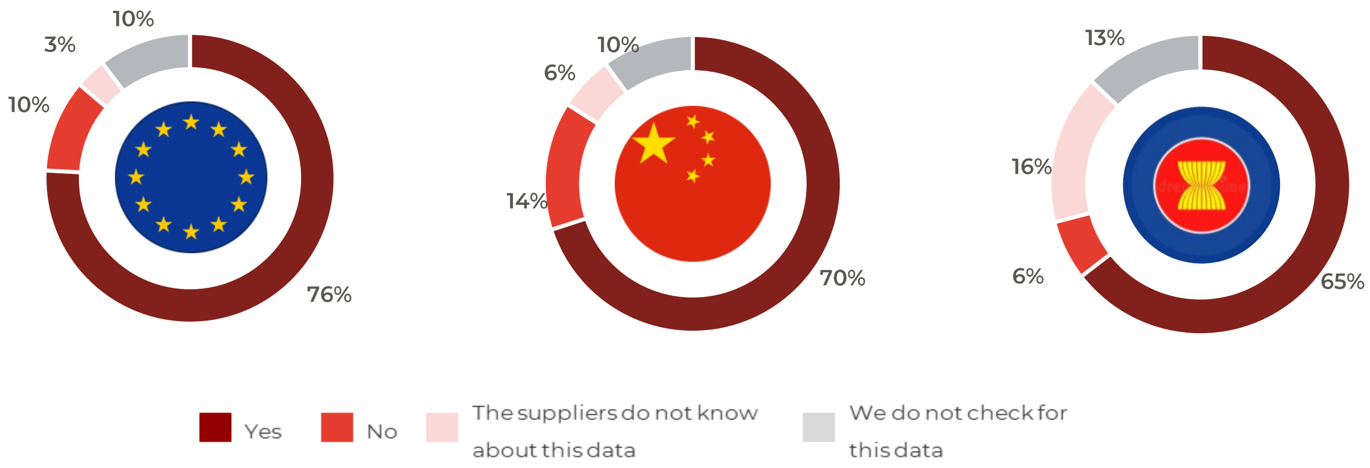
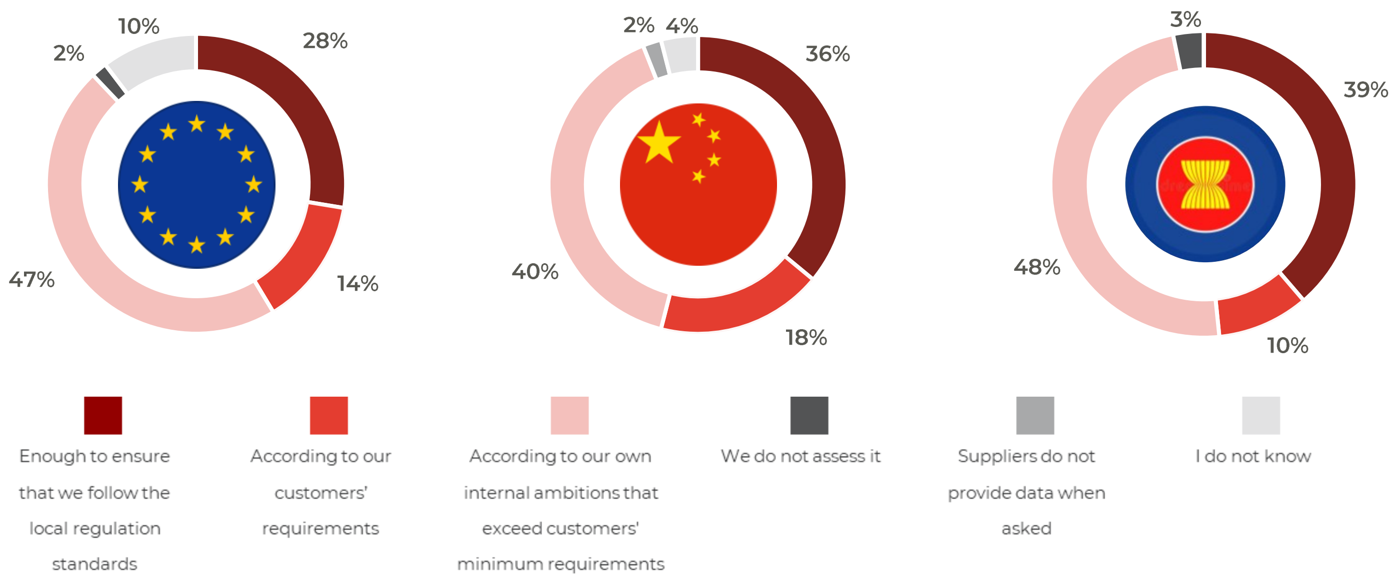


Figure 36

Fair Labor Data Assessment by Region

Share of companies assessing supplier fair labor data, categorized by assessment depth and regional distribution (Europe, China, Southeast Asia)



Europe leads with 76% of companies receiving fair labor data from suppliers, followed by China at 70% and Southeast Asia at 65% (**Figure 35**).The narrower-than-expected gap between regions suggests that global buyers are applying consistent Fair labor, which encompasses the protection of worker rights, safe working conditions, and equitable treatment, has become a core pillar of ESG due diligence in sourcing. As supply networks grow more regionally distributed and compliance-driven, companies are placing greater emphasis on ensuring that suppliers meet both regulatory obligations and buyer expectations on labor practices.

ESG requirements, selectively sourcing from capable suppliers, and benefitting from growing regulatory pressure for internationally aligned labor standards. However, the quality and depth of data still vary significantly.

Supplier unfamiliarity with fair labor metrics remains an obstacle, especially in Southeast Asia where 16% of suppliers are not aligned with reporting requirements. Across all regions, a share of companies still do not check for this data at all, with 10% in Europe and China, and 13% in Southeast Asia, creating gaps that undermine transparency and compliance efforts.

Assessment practices reflect further contrasts (**Figure *36***).Southeast Asia has the highest share of companies (48%) evaluating suppliers beyond customer requirements, slightly ahead of Europe at 47% and well above China at 40%. However, Southeast Asia also records the highest proportion (39%) of assessments limited to meeting local regulations, compared with 28% in Europe and 36% in China. This indicates a dual approach within the region, where some companies adopt ambitious evaluation practices while others remain focused on baseline compliance.

Figure 37

Willingness to Share Fair Labor Data

Percentage of companies reporting that their suppliers are willing to share fair labor data

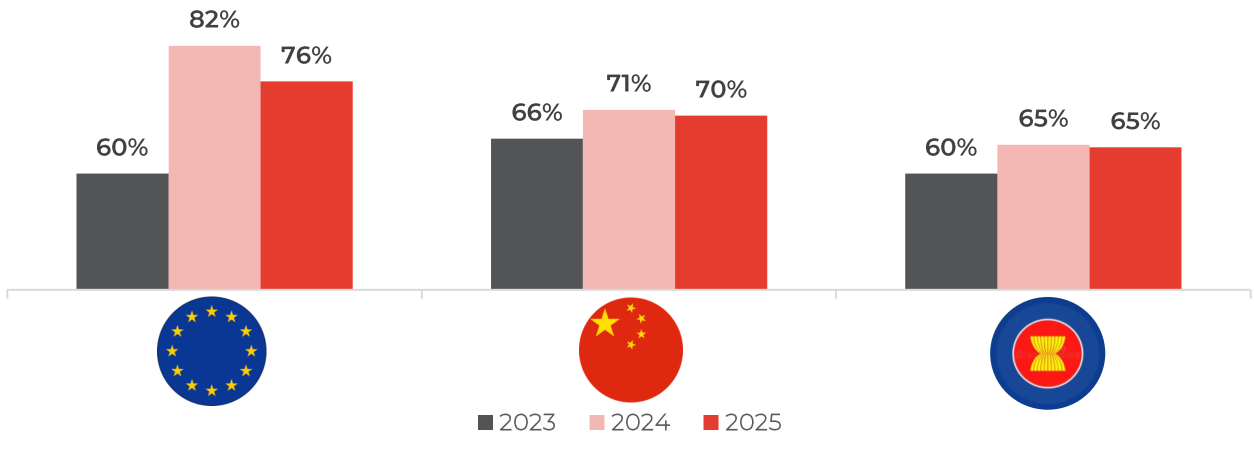
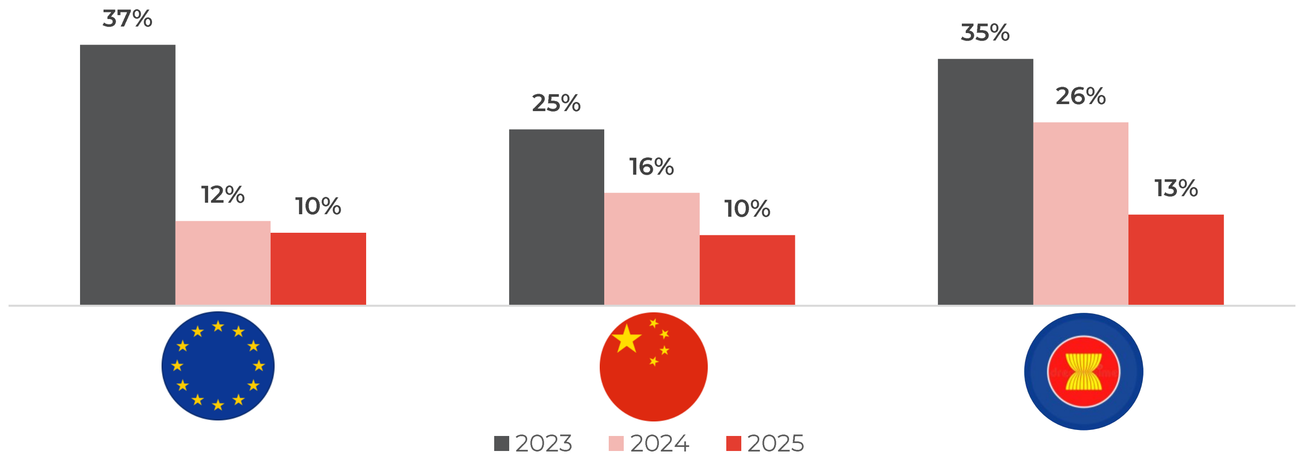


Figure 38

Fair Labor Oversight Across Regions

Percentage of companies not assessing fair labor data across regions



Supplier's willingness to share fair labor data has improved. Europe's rate has stabilized at 76% after sharp gains in prior years, China has risen steadily to 70%, and Southeast Asia remains at 65% (**Figure *37***). At the same time, non-assessment rates have fallen sharply (**Figure *38***), with Europe and China both at 10% and Southeast Asia at 13%. These trends indicate that fair labor oversight is becoming a standard governance element in sourcing.

7.2 Corporate Integrity: Internal Governance and Due Diligence Deepen Across Regions

Corporate integrity, meaning a commitment to ethical conduct, transparency, and accountability in all business operations, has become a decisive criterion in supplier selection and relationship management. In 2025, companies are applying stricter oversight to ensure suppliers meet both regulatory requirements and internal governance standards aligned with corporate values.

Figure 39

Supplier Sharing of Corporate Integrity Data by Region

Percentage of companies receiving corporate integrity data from suppliers, categorized by region and reason for data unavailability

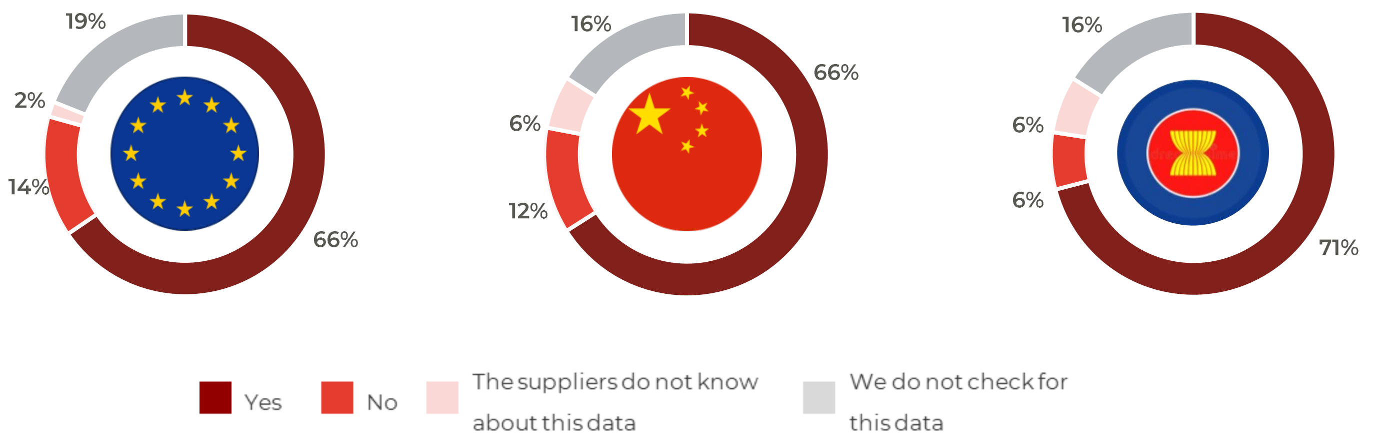
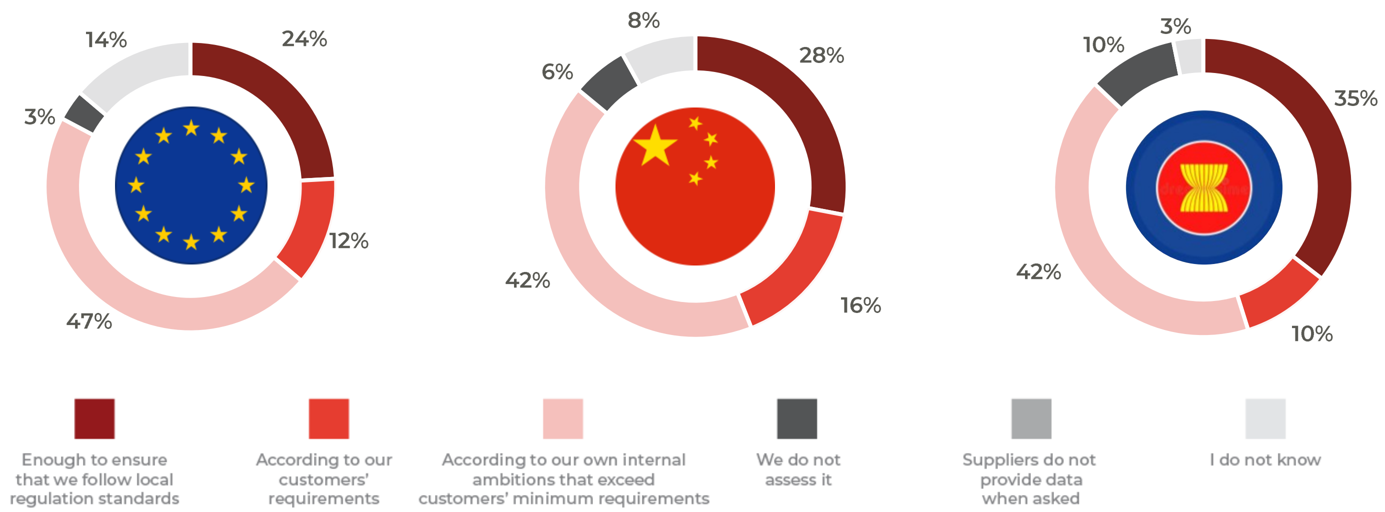


Figure 40

Corporate Integrity Data Assessment by Region

Share of companies assessing supplier corporate integrity data, categorized by assessment depth and regional distribution (Europe, China, Southeast Asia)



Supplier transparency on corporate integrity is relatively strong across all regions (**Figure 39**). Southeast Asia leads slightly, with 71% of respondents receiving such data, followed by China and Europe, both at 66%. However, a notable proportion of companies still do not check this information, including 16% in both China and Southeast Asia, and 19% in Europe. These gaps highlight the need for more consistent monitoring to reduce governance risks.

Assessment patterns show regional differences (**Figure 40**). Europe leads in ambition, with 47% of companies assessing suppliers against internal standards that exceed customer requirements. China and Southeast Asia follow at 42% each. Southeast Asia relies most on local regulatory compliance (35%), ahead of China (28%) and Europe (24%), which may reflect differences in enforcement environments. Reliance on customer requirements is low across all regions, at 10% in Southeast Asia, 12% in Europe, and 16% in China, indicating that most companies are setting their own benchmarks.

Figure 41

Supplier Willingness to Share Corporate Integrity Data (2023–2025)

Percentage of companies indicating their suppliers are willing to share corporate integrity data, by region and year

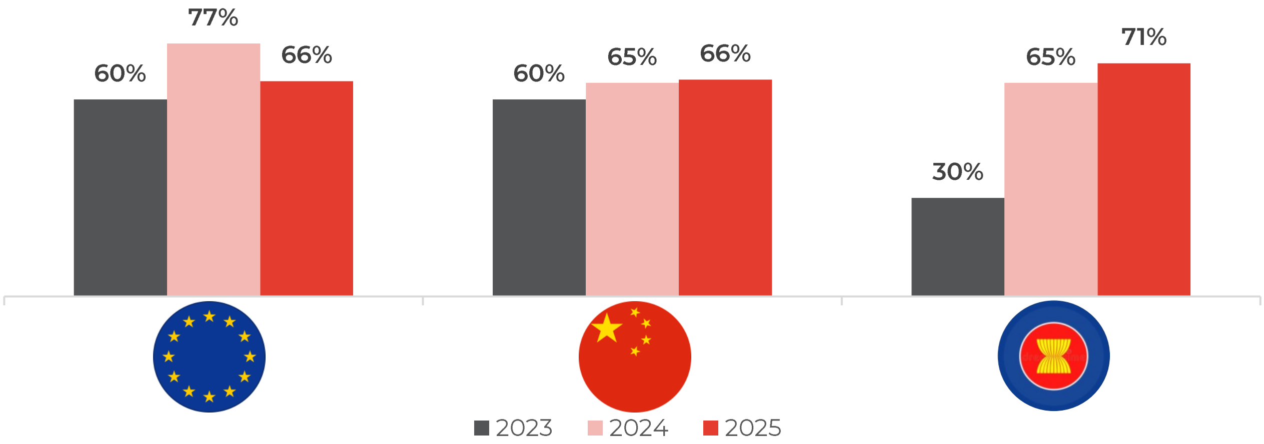
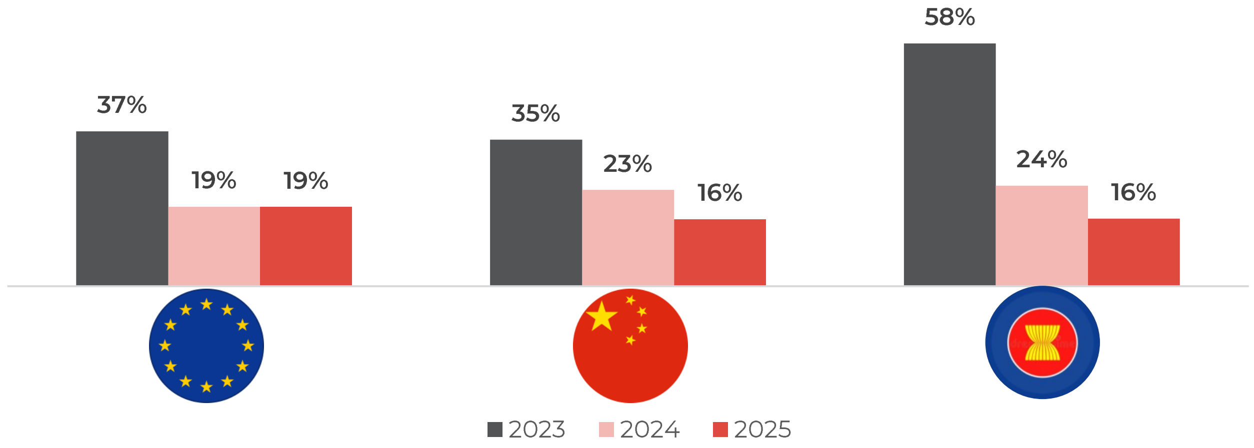


Figure 42

Share of Companies Not Assessing Corporate Integrity Data (2023–2025)

Percentage of companies not assessing supplier corporate integrity data in Europe, China, and Southeast Asia



Supplier willingness to share corporate integrity data has increased across all regions (**Figure 41**). Southeast Asia saw the sharpest improvement, rising from 30% in 2023 to 71% in 2025. China rose steadily to 66%, while Europe dropped slightly from a 2024 peak of 77% to 66%, bringing it in line with China. These changes point to a narrowing gap and greater alignment in transparency practices.

The share of companies not assessing corporate integrity data continues to decline (**Figure 42**). Southeast Asia reduced non-assessment from 58% in 2023 to 16% in 2025, the steepest improvement among all regions. China saw a drop from 35% to 16% over the same period, while Europe plateaued at 19% after a sharp reduction in the previous year. The removal of the "I don't know" option in 2025 suggests that companies now clearly recognize non-assessment as a gap rather than a lack of information.

Overall, corporate integrity oversight is becoming more structured and embedded into sourcing governance. While ambition and compliance approaches differ across regions, the trajectory is toward greater transparency, stronger due diligence, and reduced non-assessment rates.

7.3 ESG Drivers: Beyond Compliance Toward Competitive Advantage

As supplier transparency improves and assessment practices strengthen, the motivations driving ESG implementation are evolving.

Figure 43

Top Motivations Behind Companies' Efforts to Ensure Supplier ESG Compliance

Percentage of companies selecting each reason as a key driver for enforcing ESG standards across their supplier base

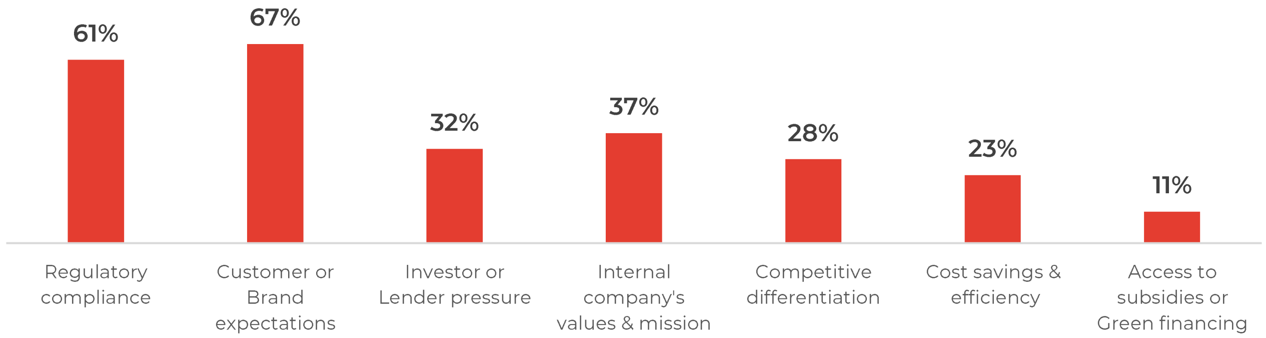


Figure 43 shows that customer and brand expectations remain the leading driver, cited by 67% of companies. Regulatory compliance follows closely at 61%, confirming that external requirements still define the baseline for ESG enforcement. Internal values and mission (37%) are also gaining prominence, reflecting efforts to embed ESG into corporate identity. Investor and lender pressure (32%) further reinforces the role of ESG in shaping both operational and capital decisions.

A growing number of companies view ESG as a competitive differentiator (28%) and a means to improve operational efficiency (23%). Financial incentives such as subsidies or green financing are fewer common motivations, selected by 11% of respondents.

These findings confirm that ESG is evolving from a compliance obligation into a strategic lever that supports long-term value creation, stronger stakeholder trust, and enhanced supply chain resilience.

Across Europe, China, and Southeast Asia, ESG adoption is moving beyond baseline compliance toward integrated governance that shapes sourcing choices and supplier relationships. Transparency is improving, oversight is more structured, and motivations are increasingly tied to competitive positioning and long-term resilience. These shifts underline that ESG is now a fundamental element of sourcing strategy, influencing both daily operations and long-term network design.

8 | Digitalization in the Supply Chain: Drivers, Adoption Trends, and Barriers to Scale

By 2025, digitalization has become a core requirement for competitive and resilient supply chain management. In an environment shaped by cost pressures, geopolitical uncertainty, ESG demands, and execution challenges, digital tools are now embedded in operational strategies as enablers of efficiency, agility, and proactive risk management.

This chapter examines the state of supply chain digitalization across three interconnected dimensions. The first is the strategic drivers behind digital investment, where cost efficiency and resilience dominate priorities. The second is the adoption of technologies, distinguishing between established platforms and emerging innovations. The third is the barriers to scaling, which include resource constraints, system complexity, and challenges in building strong business cases.

This chapter addresses three key questions:

- What are the primary objectives companies aim to achieve through supply chain digitalization?
- Which technologies are being prioritized, piloted, or scaled, and why?
- What obstacles are slowing digital transformation, and how can they be addressed?

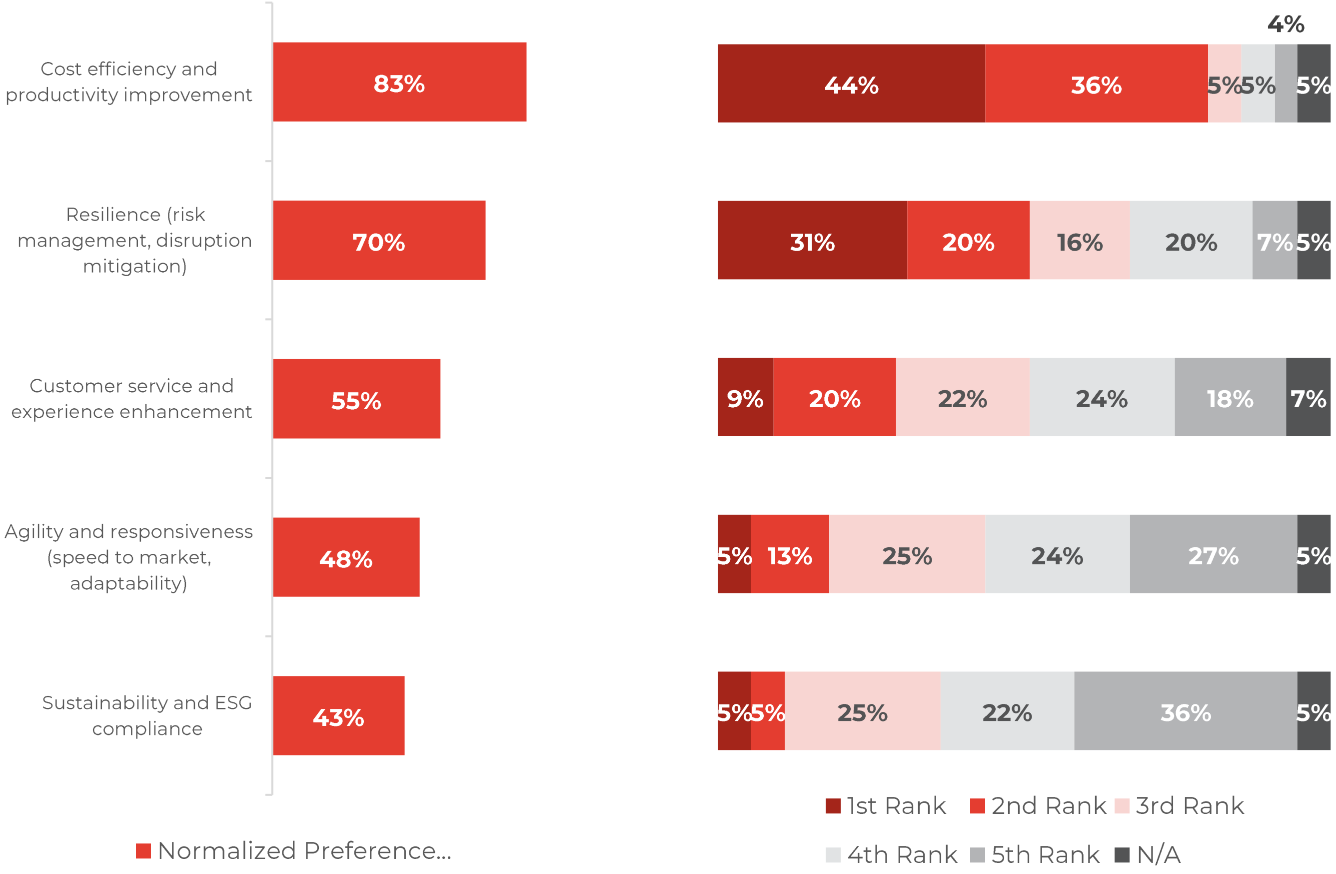
8.1 Digital Drivers: Digitalization as a Response to Structural Pressures

As discussed in earlier chapters, companies are navigating increasingly complex sourcing environments shaped by inflation, labor shortages, regulatory demands, and rising operational risks. In this context, digitalization has shifted from optional experimentation to an operational necessity. Companies are leveraging digital tools to improve performance, manage volatility, and prepare operations for future challenges.

Figure 44

Key Drivers of Supply Chain Digitalization Efforts in 2025

Normalized preference scores and rank distribution based on company prioritization of five digitalization drivers



Note: Each company was asked to rank five drivers of supply chain digitalization from most (1st) to least important (5th). Rankings were converted into normalized preference scores, representing each driver's share of the maximum possible ranking score. Higher scores indicate stronger overall prioritization. The stacked bar shows how often each driver was selected at each rank.

As shown in **Figure 44**, survey data indicates cost efficiency (83%) and resilience (70%) as the top priorities for digital investment. Cost efficiency reflects the need to optimize workflows, automate repetitive tasks, and maximize value from existing resources. The focus has shifted from short-term cost-cutting to sustained efficiency gains and structural savings.

Resilience is driving investment into tools that improve visibility, enable predictive analytics, and accelerate decision-making. This includes the deployment of supply chain control towers, multi-tier supplier mapping, and early-warning systems that help companies anticipate and respond to disruptions.

Customer experience (55%) and agility (48%) remain important but are generally addressed after foundational improvements in systems integration and data quality. Many organizations still operate with legacy infrastructure and siloed data, which limit speed and responsiveness.

Sustainability and ESG compliance rank lowest at 43%. While prominent in corporate communications, they remain secondary operational drivers for digitalization, often pursued to meet regulatory requirements rather than as core performance objectives.

These results lead to a pragmatic, performance-led approach, where companies prioritize digital initiatives that deliver immediate operational value under pressure.

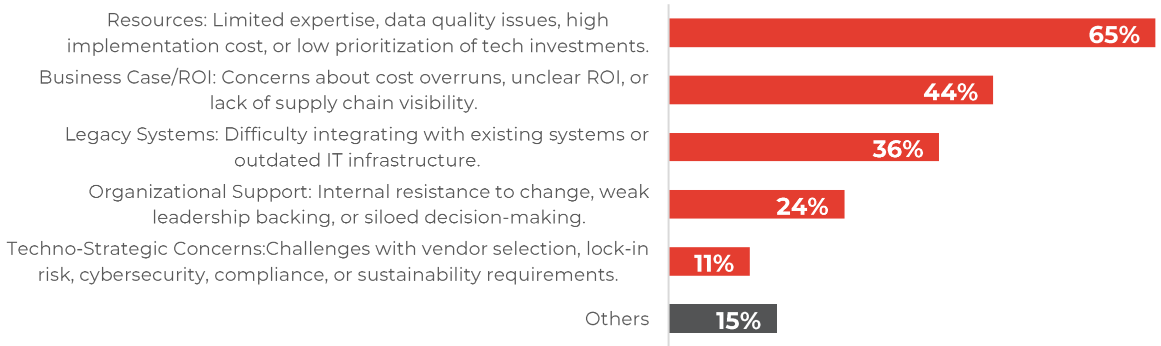
8.2 Execution Gaps: Resources, Legacy Systems Block Progress

Despite recognizing the importance of digitalization, many companies face barriers that limit their ability to move from intent to scaled implementation.

Figure 45

Key Challenges Hindering Digitalization of Supply Chain Operations

Percentage of companies citing each factor as a barrier to adopting digital technologies in supply chain management



Note: Each company could select multiple challenges.

As shown in **Figure 45**, the most frequently cited challenge is a lack of internal resources (65%). This includes not only budget limitations but also shortages in technical expertise, skilled leadership, and implementation capacity. Without these capabilities, promising technologies often fail to deliver their intended impact.

Difficulty in justifying the business case is the second most common barrier, reported by 44% of respondents. Many digital investments generate benefits such as improved visibility or faster responsiveness, which can be difficult to quantify in traditional ROI terms. When leadership prioritizes short-term returns, projects may stall after pilot phases or receive insufficient funding to expand.

Legacy systems and IT complexity, reported by 36% of companies, further slow adoption. Many organizations operate on outdated or heavily customized platforms that are costly and difficult to integrate with new technologies. These systems can trap data in silos, limit automation potential, and require complex migrations that delay progress.

Organizational resistance is cited by only 24% of companies, suggesting that cultural opposition is not the main constraint. Instead, structural and technical limitations are the primary obstacles to progress. Concerns about vendor lock-in, cybersecurity, or compliance are reported by 11% and remain secondary compared to resource and system challenges.

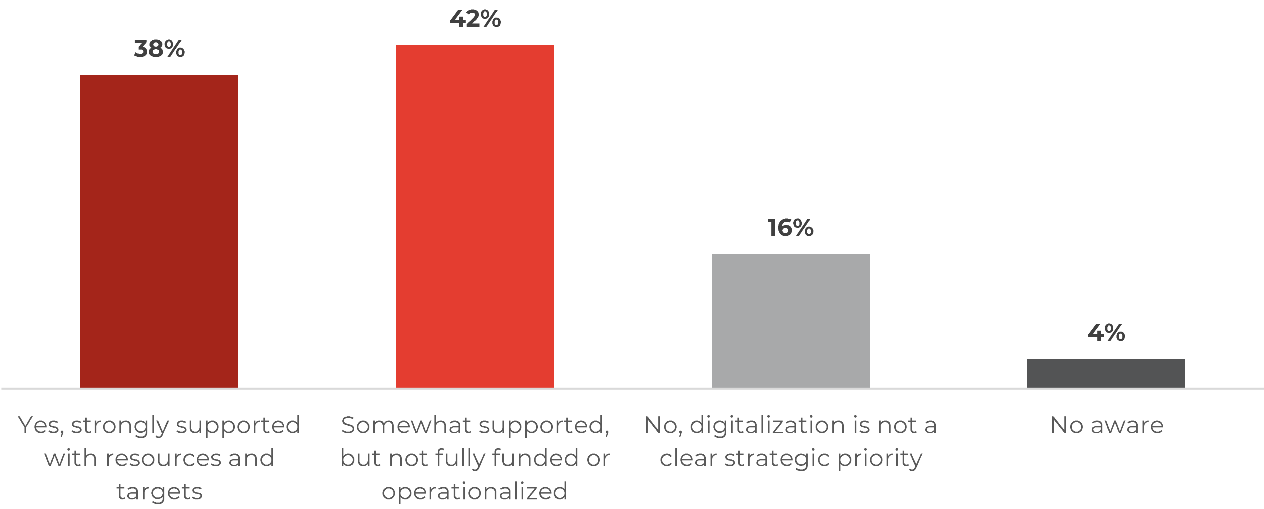
8.3 Leadership Signals: Growing Intent, But Uneven Commitment

Leadership engagement plays a decisive role in determining how far and how quickly digital initiatives advance.

Figure 46

Leadership Support for Digitalization

Percentage of companies indicating the extent of leadership support and prioritization for supply chain digitalization



As shown in ***Figure 46***, 38% of companies report that supply chain digitalization is clearly defined as a strategic priority. In these organizations, initiatives receive dedicated resources, measurable objectives, and visible sponsorship from senior management, which increases the likelihood of steady execution and cross-functional integration.

A larger group, representing 42% of respondents, occupies a transitional stage. These companies acknowledge the importance of digitalization and have initiated projects such as drafting roadmaps or launching pilots, but executive-level commitment remains inconsistent. Limited expertise, uncertainty about returns, or cautious observation of peers' mixed results can slow progress, leaving efforts fragmented and momentum difficult to sustain.

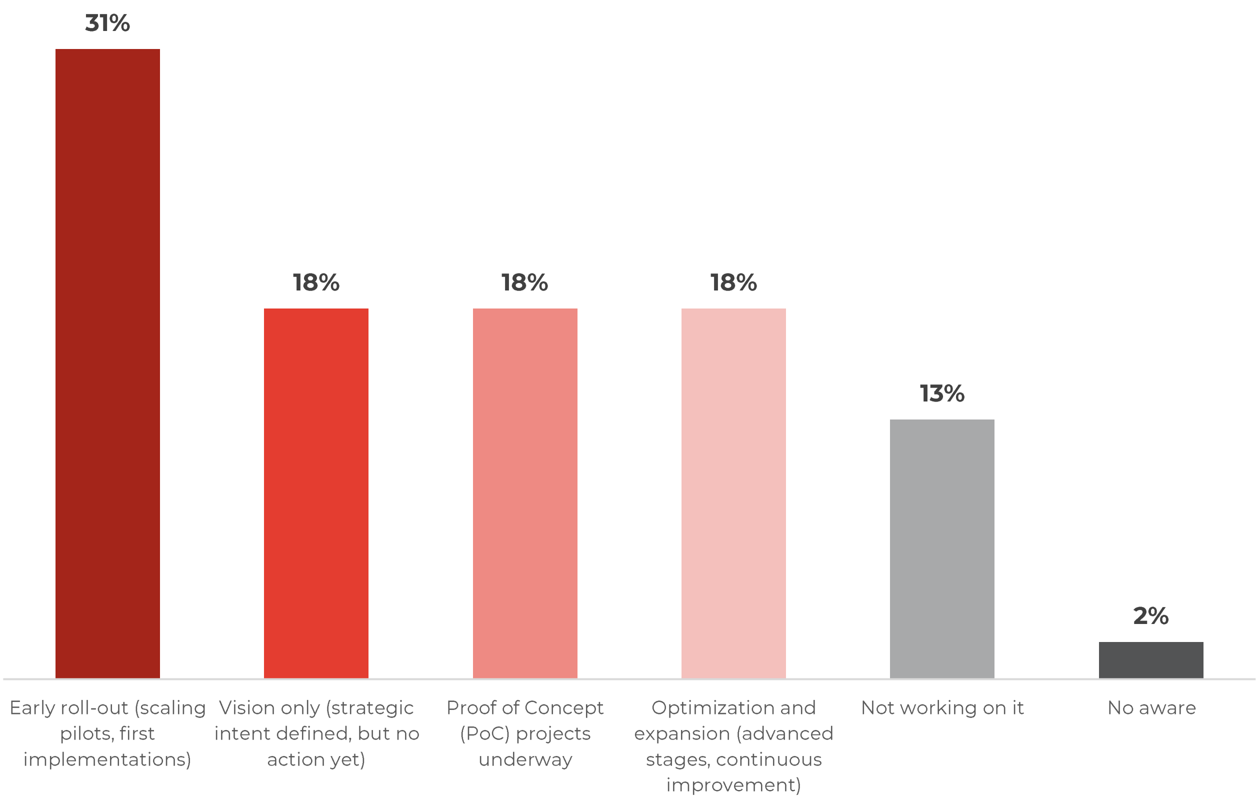
The remaining 16% have not established digitalization as a strategic priority. In these cases, initiatives are often led by specific functions such as supply chain or IT, without broad alignment across the business. This narrow approach reduces digitalization's influence on long-term planning and competitive positioning.

8.4 Digital Transformation Maturity: Most Still Early in the Journey

Figure 47

Current Stage of Digital Supply-Chain Transformation

Percentage of companies reporting on their current progress in adopting digital supply-chain solutions



The maturity of digital supply chain transformation varies widely across organizations. As shown in **Figure 47**, only 18% of companies report operating at the optimization and expansion stage, where digital tools are fully embedded and continuous improvement processes are in place. These companies represent the most advanced examples of translating digital investments into measurable operational gains.

The largest group, 31%, is in early rollout. They have moved beyond pilots to implement digital solutions across multiple functions but still face integration, training, and coordination challenges.

A further 54% are in preliminary phases. This includes 18% conducting proof-of-concept testing, 18% with a defined vision but no active implementation, and 18% still engaged in foundational planning or internal alignment. These companies often struggle to progress due to capability gaps or competing priorities.

Meanwhile, 13% have no active digital transformation initiatives, and 2% are unaware of any such efforts within their organizations.

In total, 85% of companies are engaged in some form of digital transformation, but only a small share has reached advanced maturity. Most are still addressing foundational issues such as data readiness, organizational coordination, and change management. Progress will depend on the ability to scale implementation and fully integrate digital tools into operations.

Digitalization is now central to sourcing agility, risk forecasting, and cost control. Its role in enabling diversification, relocation, and risk mitigation is becoming indispensable. Over the next five years, its strategic importance will deepen, driven by advances in AI, real-time supplier monitoring, and automated compliance. Organizations that align talent, systems, and leadership to bridge the gap between ambition and execution will be positioned to lead in the next era of global sourcing.

9 | Moving Beyond Diversification toward Resilience in Future Global Sourcing

Global sourcing is entering a new strategic phase. Building on earlier diversification efforts, companies are reassessing their supply networks in response to escalating geopolitical volatility, shifting trade dynamics, rising expectations for transparency, resilience, and sustainability, and the need to integrate digital capabilities. The focus is no longer solely on cost, but on designing sourcing strategies that are adaptive, digitally enabled, risk-informed, and aligned with long-term business priorities.

This chapter examines the forward-looking priorities that will shape sourcing over the next two to five years, drawing on executive perspectives and survey data. It reflects a shift from reactive diversification toward proactive resilience-building, balancing efficiency with regional proximity, cost control with supply continuity, ESG commitments, and the adoption of digital tools that enhance visibility, agility, and decision-making.

We examine five critical dimensions that are redefining global sourcing strategies:

- Which regions are expected to gain or lose sourcing attractiveness?
- How are geopolitical tensions reshaping sourcing opportunities and risk assessments?
- To what extent will companies shift sourcing closer to home through nearshoring?
- How is ESG influencing supplier selection in a more politically fragmented world?
- Which digital technologies are being prioritized to support smarter, more resilient supply chains?

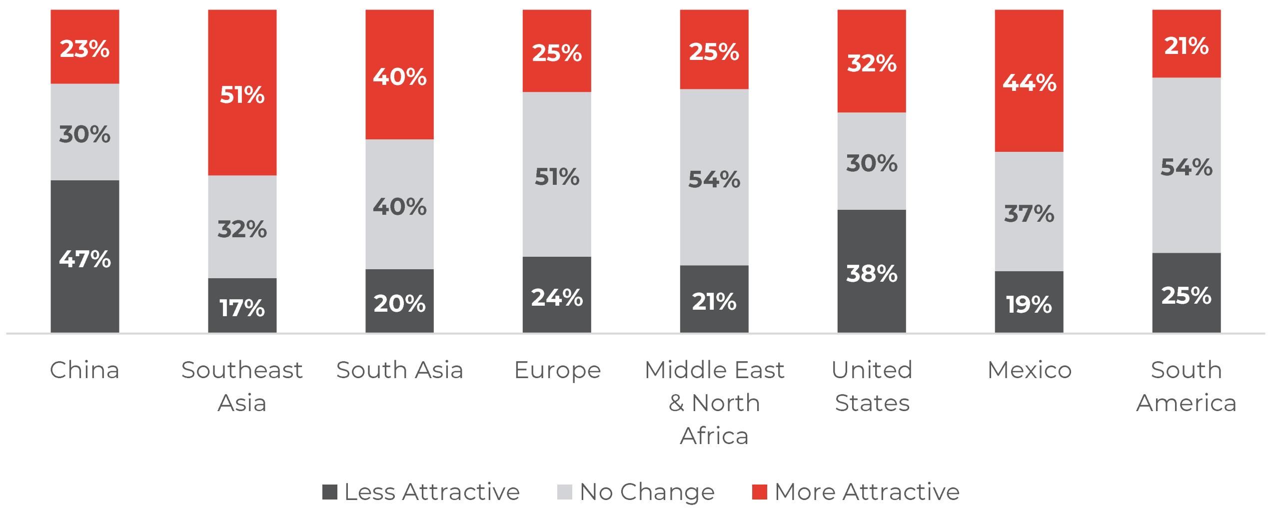
Together, these insights offer a practical roadmap for companies looking to future-proof their sourcing models in an increasingly complex global landscape.

9.1 Regional Outlook: Southeast Asia, South Asia, and Mexico Are Gaining Forward Momentum

Figure 48

How Companies Expect Regional Sourcing Attractiveness to Shift over the Next Two Years

Percentage of companies anticipating each region to become more attractive, less attractive, or stay the same, based on landed cost, supplier capacity, lead-time, and ease of doing business



Note: Each company selected one option per region to indicate how they expect its sourcing attractiveness to change over the next two years

As companies reassess their global sourcing strategies for the next two to five years, regional dynamics are playing an increasingly critical role. Executives were asked how they expect the sourcing attractiveness of different regions to evolve, taking into account land cost, supplier capabilities, delivery timelines, and ease of doing business.

The results in ***Figure 48*** show Southeast Asia with the strongest forward momentum. 51% of respondents expect the region to become more attractive, reinforcing its role as a competitive, geopolitically neutral hub with growing supplier depth and production capacity. This makes it a continued focal point in diversification strategies, particularly those that pair regional sourcing with China-based operations.

Mexico is also rising in prominence, identified by 44% of respondents as becoming more attractive. Its geographic proximity to the United States, combined with policy support for nearshoring and trade integration through USMCA, positions it as a key beneficiary of regionalization trends.

South Asia, led by India and Bangladesh, is drawing growing attention as well, with 40% expecting improved attractiveness. This is largely due to its expanding industrial base, abundant labor supply, and growing investments in manufacturing capabilities.

In contrast, China faces notable headwinds. Nearly half (47%) of respondents expect its attractiveness to decline-driven by concerns over rising costs, geopolitical uncertainties, and overconcentration risks. Only 23% foresee an improvement, highlighting a shift in sentiment even as China remains structurally critical to global supply chains.

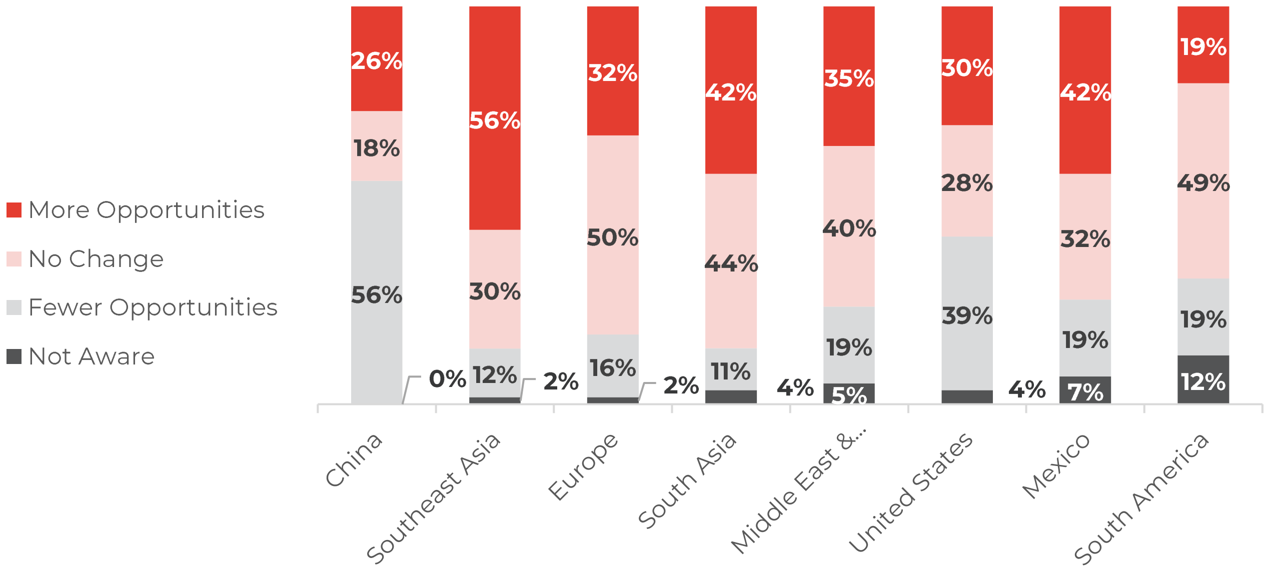
Other regions present a more stable outlook. Europe and the Middle East & North Africa are seen by 51% and 54% of companies, respectively, as remaining unchanged in sourcing attractiveness. For the United States, the view is more polarized, 38% expect a decline due to cost and policy concerns, while 32% anticipate improved potential, particularly for high-value and near-market sourcing.

9.2 Geopolitical Risk: Source of Decline for China, Growth for Others

Figure 49

How Companies Expect Geopolitical Tensions to Affect Sourcing Opportunities in the Next 2 Years

Percentage of companies anticipating more, fewer, or unchanged sourcing opportunities across regions in the next two years



Note: Each company selected one option per region to indicate how they expect gepolitical tension impact on its sourcing opportunities over the next two years

Geopolitical dynamics are now a defining force in global sourcing decisions. As companies navigate an era marked by trade tensions, security concerns, and regulatory fragmentation, the ability to anticipate and respond to geopolitical risk has become a strategic differentiator.

In this context, companies were asked how ongoing geopolitical tensions are likely to shape sourcing opportunities across key regions over the next two years.

As shown in **Figure 49**, Southeast Asia stands out as the most geopolitically favorable region. Most respondents (56%) expect the region to offer greater sourcing opportunities, reinforcing its image as a stable, cost-competitive, and politically neutral hub. This further strengthens its positioning in China+1 strategies and supports ongoing investment momentum.

South Asia and Mexico also rank high in future opportunity, with 42% of companies expecting increased sourcing potential in both. These regions are seen as less vulnerable to global geopolitical conflict, while also improving in manufacturing capacity, infrastructure, and ease of doing business, particularly for companies seeking alternatives to China or near-market production options.

By contrast, China faces mounting challenges. A full 56% of respondents expect sourcing opportunities in China to decline, citing persistent trade disputes, regulatory unpredictability, and diplomatic tensions. Only 26% see improvement, marking one of the most negative outlooks in the dataset.

Sentiment around the United States remains divided. While 30% of respondents view it as a potential beneficiary of reshoring and geopolitical realignment, 39% anticipate reduced opportunity due to rising costs, protectionist measures, and domestic political uncertainty.

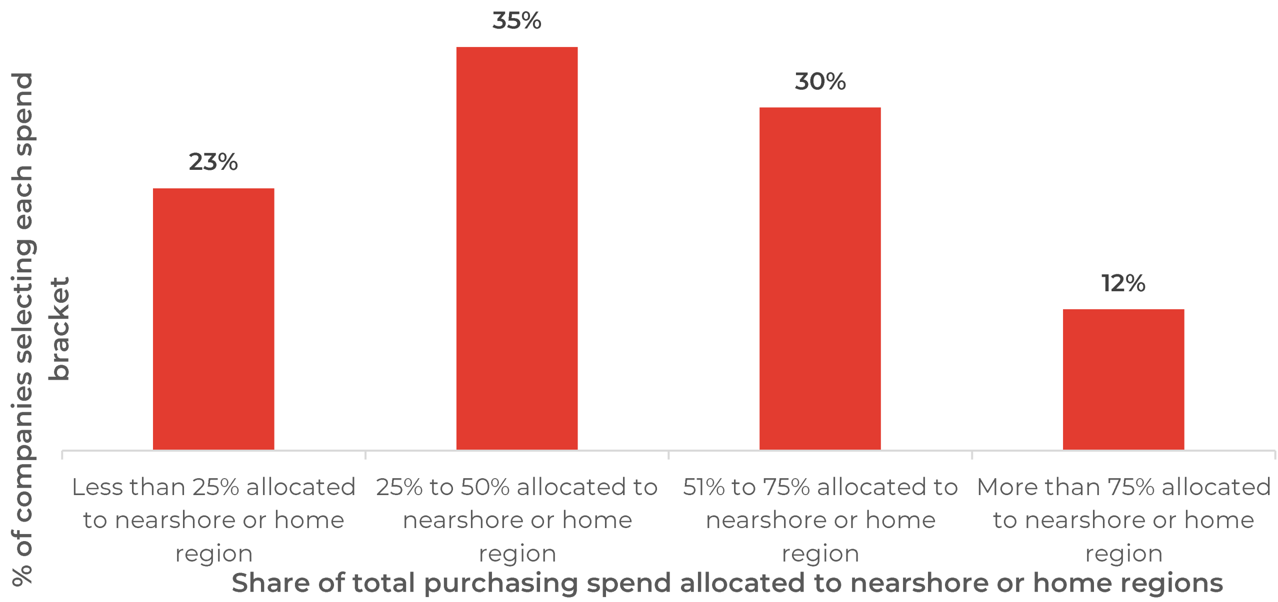
These results build directly on the regional attractiveness trends in **Figure *48***. Geopolitical alignment is now central to sourcing strategy, with stable, neutral, and economically open regions gaining ground while markets under sustained tension, such as China, lose appeal. The shifts in regional attractiveness in **Figure *49*** build directly on the risk perceptions highlighted earlier, reflecting how companies are translating geopolitical concerns into concrete sourcing decisions.

9.3 Nearshoring Trend: More Companies Shift Spend Closer to Home

Figure 50

Planned Allocation of Sourcing Spend to Nearshore or Home Regions in the Next 5 Years

Percentage of companies indicating expected sourcing share in nearshore or home regions over the next five years



Note: Each company selected one of four spent brackets reflecting their planned allocation to nearshore or home region sourcing over the next 5 years.

As global supply chains come under pressure from geopolitical shifts, logistics disruptions, and evolving customer expectations, nearshoring has emerged as a practical and strategic complement to global sourcing. Companies are increasingly prioritizing proximity, not as a full replacement for offshore manufacturing, but as a way to strengthen supply chain responsiveness and reduce exposure to systemic risk.

Survey results indicate a clear shift in future sourcing intentions. When asked about their sourcing mix five years from now, only 23% of companies expect to allocate less than 25% of their spending to near-shore or home-region suppliers. By contrast, 35% target a spend share between 25% and 50%, and 30% plan to exceed the 50% threshold, with 12% aiming to source more than 75% from nearby regions (**Figure *50***).

This does not indicate a withdrawal from global sourcing. Instead, most companies are pursuing a hybrid model, combining regional production with offshore capacity to balance resilience, cost efficiency, and market access. This evolving model allows organizations to hedge against volatility while positioning themselves closer to customers and regulatory markets.

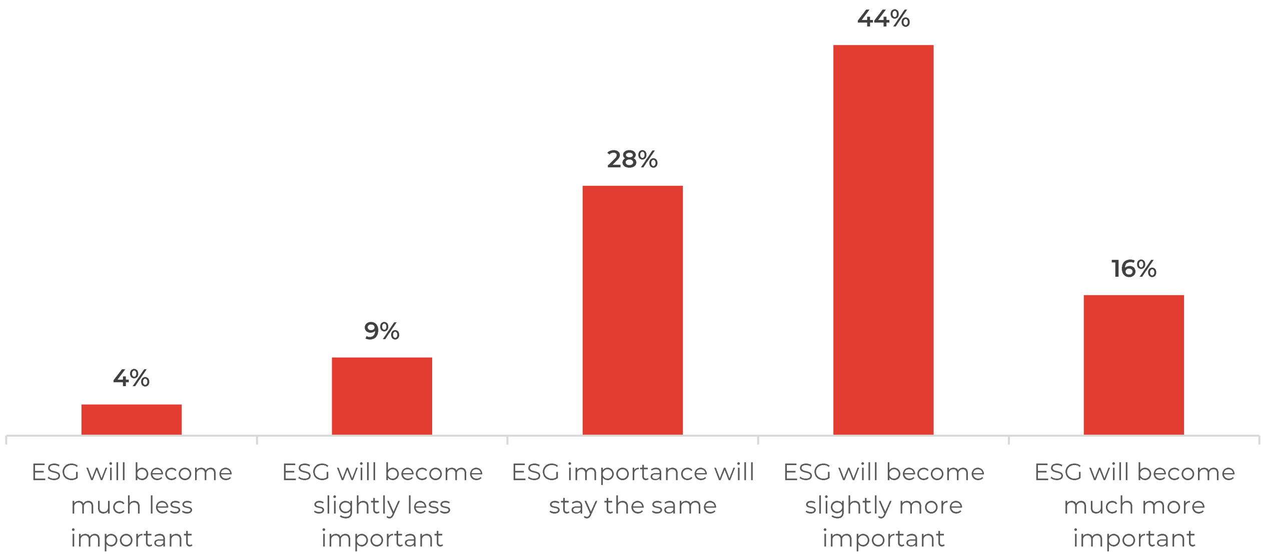
As cost and capacity considerations remain essential, nearshoring strategies will continue to vary by sector, product complexity, and geographic footprint. However, the overall trend points toward a structural reconfiguration of sourcing networks that favor multi-regional diversification anchored by proximity.

9.4 ESG Weighting: Importance Rising Despite Political Shifts

Figure 51

How Companies Expect the Role of ESG to Evolve in Supplier Selection Over the Next 2 Years

Percentage of companies indicating how they anticipate the weight of ESG criteria to shift in their supplier evaluations



As sourcing strategies shift from cost-driven models toward resilience and accountability, environmental, social, and governance (ESG) criteria are becoming an increasingly important component of supplier evaluation. While regulatory emphasis may fluctuate across markets, companies are continuing to advance ESG integration as part of their long-term strategic alignment with stakeholder expectations and risk mitigation.

Survey findings reflect this trend. As shown in ***Figure 51***, 59% of companies expect ESG to carry greater weight in their supplier selection processes over the next two years. Of these, 44% anticipate a moderate increase, while 16% expect a significant rise. Only 12% foresee any decline, suggesting that most organizations view ESG as a growing priority, even amid shifting political dynamics.

This forward momentum reflects more than compliance. ESG criteria are now tied to a broader range of strategic concerns, including brand credibility, investor demands, customer loyalty, and exposure to reputational risk. Even in markets where ESG enforcement may weaken, companies are strengthening supplier requirements to reduce reputational risk and prepare for heightened scrutiny of cross-border trade.

Procurement functions are expected to take a more structured role in ESG oversight, deepening their use of supplier scorecards, third-party certifications, and compliance audits. In turn, suppliers with clear and verifiable ESG practices are increasingly positioned as preferred partners. This signals a broader evolution in sourcing strategies, where ESG performance is not only a reputational asset but also a factor of long-term competitiveness.

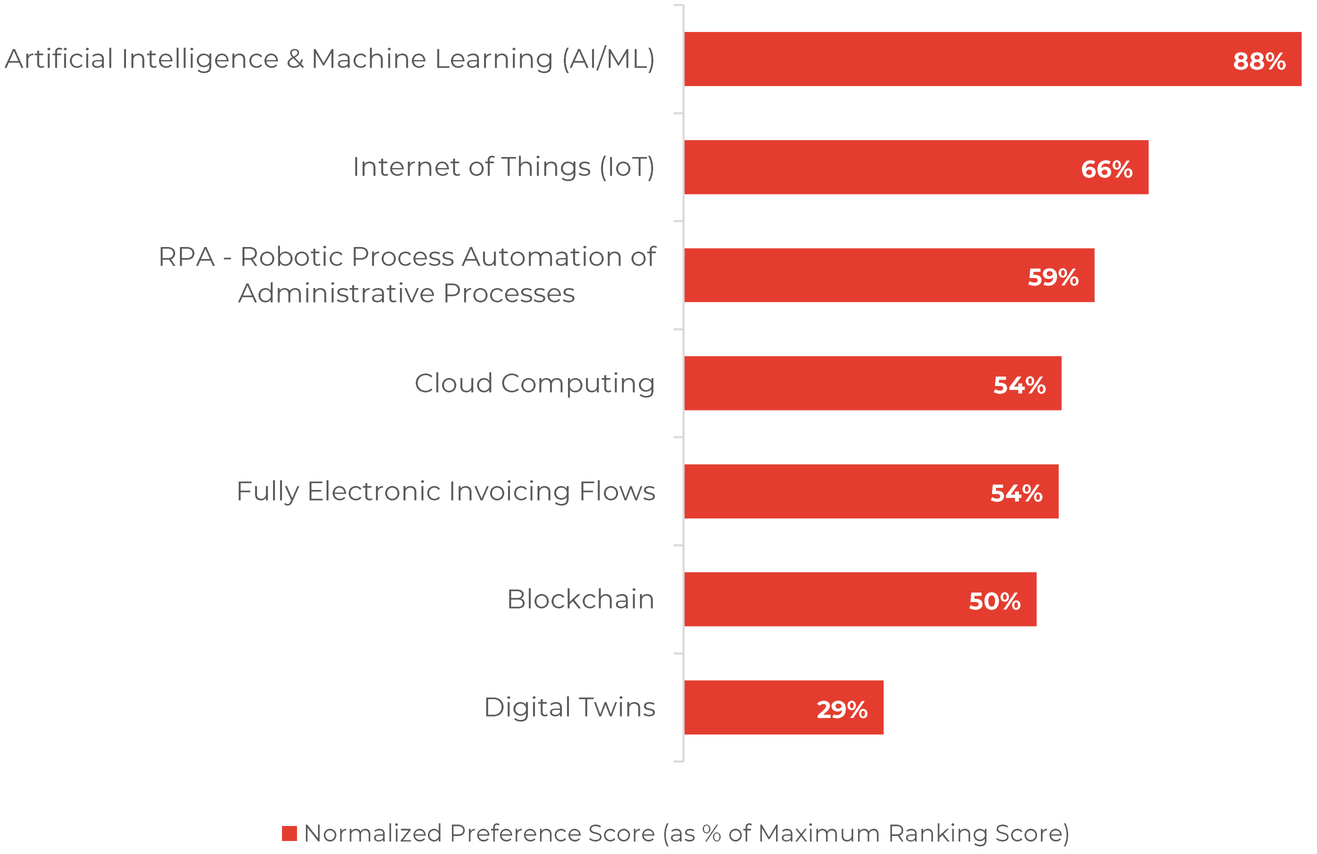
Ultimately, the growing weight of ESG in supplier evaluations highlights a continued shift toward sourcing strategies that prioritize transparency, risk resilience, and alignment with long-term corporate values.

9.5 Tech Priorities: From Infrastructure to Intelligence in Supply Chain Technologies

Figure 52

Technology Prioritization Based on Supply Chain Improvement Potential

Normalized ranking scores reflecting how companies prioritize technologies in their supply chain digitalization efforts



Note: Each company was asked to rank seven digital technologies based on their potential to improve supply chain operations. Rankings were normalized to generate a preference score as a percentage of the maximum possible score (i.e. if a technology had been ranked first by all respondents). Higher percentages indicate stronger prioritization across the sample.

As companies navigate a more volatile and complex sourcing landscape, technology priorities are shifting from basic digitization to intelligence-driven transformation. Following the digital foundations outlined in Chapter 8, companies are now focusing on technologies that translate those capabilities into intelligence, adaptability, and execution strength. The next phase is about choosing and deploying the technologies that can turn that backbone into a truly competitive engine.

Beyond assessing current adoption, survey respondents were asked to rank a set of digital technologies by their potential to improve supply chain performance. The results reveal which tools are viewed not only as operational enablers but also as strategic levers for long-term competitiveness.

Artificial Intelligence and Machine Learning (AI/ML) lead decisively, with a normalized preference score of 88%. A majority ranked it first, and over 80% placed it in their top two. This aligns with Chapter 8's emphasis on moving from intent to measurable impact. AI/ML is increasingly seen as the key to building predictive, adaptive supply chains capable of continuous learning.

The Internet of Things (IoT) follows at 66%, reflecting strong confidence in its role in enabling the visibility and integration highlighted as critical in Chapter 8. Particularly in manufacturing, logistics, and temperature-sensitive sectors, IoT delivers real-time traceability and data capture across dispersed operations. This creates the foundation on which AI-driven insights can operate.

Robotic Process Automation (RPA) scores 59%, underscoring its role in clearing operational bottlenecks identified in Chapter 8. While less transformational on its own, it frees resources from routine work and enables talent to focus on higher-value activities that drive execution.

Cloud computing and e-invoicing, both at 54%, remain essential infrastructure. As Chapter 8 noted, overcoming legacy system barriers is a prerequisite for scaling digital tools. These platforms underpin that modernization by enabling interoperability and efficient data flow.

Blockchain scores a moderate 50%, reflecting its potential for traceability and contract enforcement but also ongoing skepticism around ROI and ecosystem maturity. Digital twins rank lowest at 29%, with adoption limited by complexity and the lack of near-term use cases.

Taken together, these technological priorities show that companies are moving beyond digital foundations toward solutions that enable intelligence, adaptability, and cross-functional execution. These capabilities are essential for addressing the sourcing challenges and strategic shifts explored throughout this chapter. Companies that succeed will integrate technology with regional diversification, geopolitical risk management, and ESG alignment to create resilient, multi-corridor supply chains that are fit for the next decade.

10 | Conclusion

Building Resilient Supply Chains for a Fragmented Global Economy

The 2025 Global Sourcing Survey shows that global supply chains are undergoing a structural transformation. Companies have moved beyond reactive adjustments and are now intentionally designing sourcing networks that balance cost efficiency, resilience, and long-term strategic value. Resilience has overtaken cost as the central priority, with operational adaptability, compliance readiness, and regional diversification embedded into decision-making.

The shift toward multi-region sourcing is a defining feature of this transformation. Companies are deliberately moving away from dependence on a single country or hub, with the "China Plus Multiple" strategy reducing overreliance, spreading geographic risk, and enhancing operational flexibility.

China remains a cornerstone of global manufacturing due to its scale, integration, and capability depth, yet its dominance is increasingly balanced by complementary hubs in Southeast Asia, South Asia, Eastern Europe, and Mexico. Southeast Asia has advanced from a secondary option into a strategic corridor, attracting both initial relocation and follow-on investment. Europe, while no longer a volume production base, plays a selective role in high-value, compliance-sensitive, and proximity-critical functions. Within Europe, a clear East–West divide is emerging where Eastern markets such as Poland, the Czech Republic and Hungary are gaining traction through lower costs and improving infrastructure, while Western economies are becoming more focused on niche, high-quality, and innovation-driven production that supports regulated and specialized markets. Relocation and reactivation in these emerging hubs are being used to balance delivery speed, cost efficiency and geopolitical exposure.

ESG compliance has matured into a fundamental sourcing requirement. Fair labor and corporate integrity are being integrated into supplier selection and audit processes, with transparency improving across regions. While Europe remains the benchmark, China and Southeast Asia are closing the gap under consistent buyer expectations. Digitalization is advancing in parallel with AI, predictive analytics and integrated platforms improving visibility, responsiveness and ESG monitoring, though adoption is still uneven.

The future of global sourcing will be defined by companies that combine cost control with regional resilience, deepen ESG and digital capabilities, and align sourcing strategies with long-term business goals. In this new environment, resilience is not only a safeguard but also a source of competitive advantage and sustainable growth.

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