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SHEIN, ULTRA-FAST FASHION AND FORCED LABOUR RISKS: KEY ISSUES FOR INVESTORS

Ultra-fast fashion business models rely on practices that can cause substantial financial strain on suppliers, leading to increased human and labour rights risks for workers. Rapid turnaround times and unpredictable production schedules, aggressively low price points and associated cost expectations of suppliers, and extensive outsourcing have all been found to exacerbate the risks of worker exploitation – including forced labour – increasing reputational and supply chain risks for companies, their investors and the industry.

Shein is one company driving the acceleration of ultra-fast fashion: reportedly requiring suppliers to produce 1.3 million items in the same time period that H&M, once emblematic of "fast" fashion, produces 25,000. While this diverse and low-priced offering appeals to consumers following ever-swifter trend cycles, Shein's average price of GB £7.90 per garment suggests the resources available to suppliers to meet wage, overtime, health and safety, and other labour requirements must be more limited than traditional, higher-priced retailers, whose suppliers already struggle with labour-related costs. Concerns regarding Shein's supplier practices have already been highlighted by a variety of research publications and investigations.*

Ahead of Shein's anticipated IPO in London, the Business & Human Rights Resource Centre's KnowTheChain has assessed the company's public disclosure on addressing forced labour in global supply chains against the KnowTheChain benchmark methodology. This briefing outlines KnowTheChain's key findings, and their implications for investor due diligence. The findings illustrate that Shein falls significantly short of leaders in the apparel and footwear benchmark – a red flag for investors given the company's scope for human rights harm due to its size, speed and purchasing power.

* See, for example, Globalworks (October 2024), "Warehouse workers and office staff losing the game in ultra-fast fashion." Globalworks (September 2024), "Suppliers and workers straightjacketed by ultra-fast fashion." Globalworks (November 2024), "State-imposed forced labour and state-sponsored global logistics in ultra-fast fashion." For more information see Shein's company page on the Business & Human Rights Resource Centre website.

What steps has Shein taken?

With a total score of 14/100, the company discloses some basic steps on human rights due diligence, including:

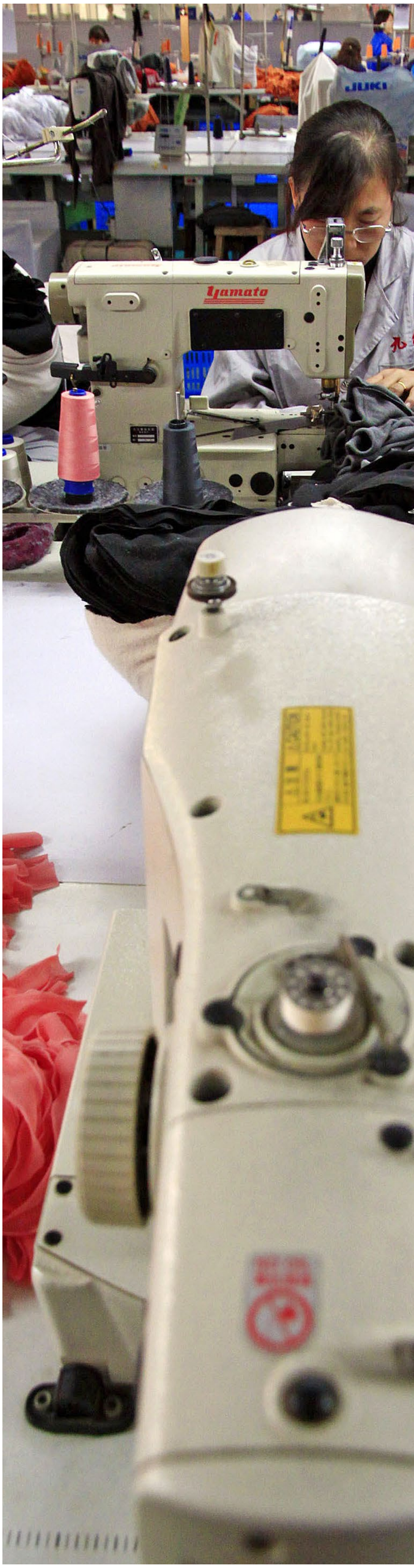
- A supplier code of conduct which prohibits forced labour and worker-paid recruitment fees
- An internal team responsible for implementing the supplier code, as well as board oversight of supply chain policies addressing forced labour through the Sustainability Committee
- A grievance mechanism for suppliers' workers
- A process for monitoring suppliers against its standards
- Efforts to gather wage data on select suppliers in China

However, **critical elements of an effective human rights due diligence approach are not evidenced by the company:**

Shein	**2023 Apparel & Footwear Benchmark**
Missing: a human rights risk assessment on its supply chains	**54%** of apparel and footwear companies disclosed how they conduct a human rights risk assessment on their supply chains
Missing: disclosure of forced labour risks identified across supply chain tiers	**32%** of companies disclosed information on the forced labour risks they identified in their supply chains

IMPLICATIONS FOR INVESTORS

Unlike 54% of companies in the sector, Shein does not disclose a human rights risk assessment with comprehensive sources used and stakeholders consulted to identify high-risk locations, processes, or materials in its supply chains. Heightened risks associated with the company's business model suggest Shein should manage its material business and financial risk in this area by adopting operational practices that would enable workers to play a central role in the design, implementation and monitoring of key due diligence processes.



Shein's reliance on social audits

The company relies heavily on social audits to identify forced labour risks and other labour non-compliances: however, audits have been shown to routinely fail to detect human rights issues, due to flawed methodologies and wider industry opacity and incentive structures. Notably, audits are particularly inadequate when it comes to identifying forced labour in Xinjiang – with audit firms refusing to conduct audits in the region due to their inefficacy. This suggests Shein's reliance on audits may not be substantially reducing risk for the company and its investors. Legal requirements in the EU's Corporate Sustainability Due Diligence Directive (CSDDD) mandate companies to go beyond the use of audits to identify and assess actual and potential impacts in their operations and supply chains.

Shein	2023 Apparel & Footwear Benchmark
Missing: a first-tier supplier list or lower-tier supply chain transparency	**52%** of companies disclose at least a partial first-tier supplier list **31%** disclose information on their second-tier suppliers

IMPLICATIONS FOR INVESTORS

Shein's lack of transparency regarding its suppliers makes it a laggard in the sector with just over half of benchmarked companies disclosing a first-tier supplier list. A lack of visibility and transparency over supply chains – particularly those in locations designated as at high-risk of forced labour by the US Department of Labor (examples of countries designated as high risk include China, Myanmar, Bangladesh, India, Turkmenistan) indicates a potential lack of accountability and poses barriers to being able to "identify and assess" risks, in line with human rights due diligence standards and hard law. Shein has faced allegations of sourcing cotton from farms linked to state-imposed forced labour, including through its key involvement at a large-scale industrial park in Qingyuan, Guangdong province – a vital manufacturing hub that allegedly relies on Xinjiang cotton for production.

The OHCHR's Interpretive Guide to the UNGPs and Considerations for Remaining and Exiting outline that where adverse human rights impacts exist, companies are expected to seek to increase leverage with partners and if unsuccessful, consider ending the business relationship. The UN Special Rapporteur on Contemporary Forms of Slavery notes abuses in the context of "State-mandated systems" where it is difficult, if not impossible, for companies to use their leverage. It is reasonable to conclude that in the case of Xinjiang, where the severity of the impact is high (as documented by the UN Special Rapporteur on Modern Slavery and UN expert body report) and companies lack the ability to undertake human rights due diligence or use their leverage, ending business relationships with suppliers active in or linked to Xinjiang through sourcing of raw materials remains the only tool available for companies looking to eradicate supply chain forced labour risks.

It is unclear whether Shein has taken these steps to address the relevant risks – which may therefore increase reputational risks and jeopardise the long-term viability of the company's business model.

Purchasing practices

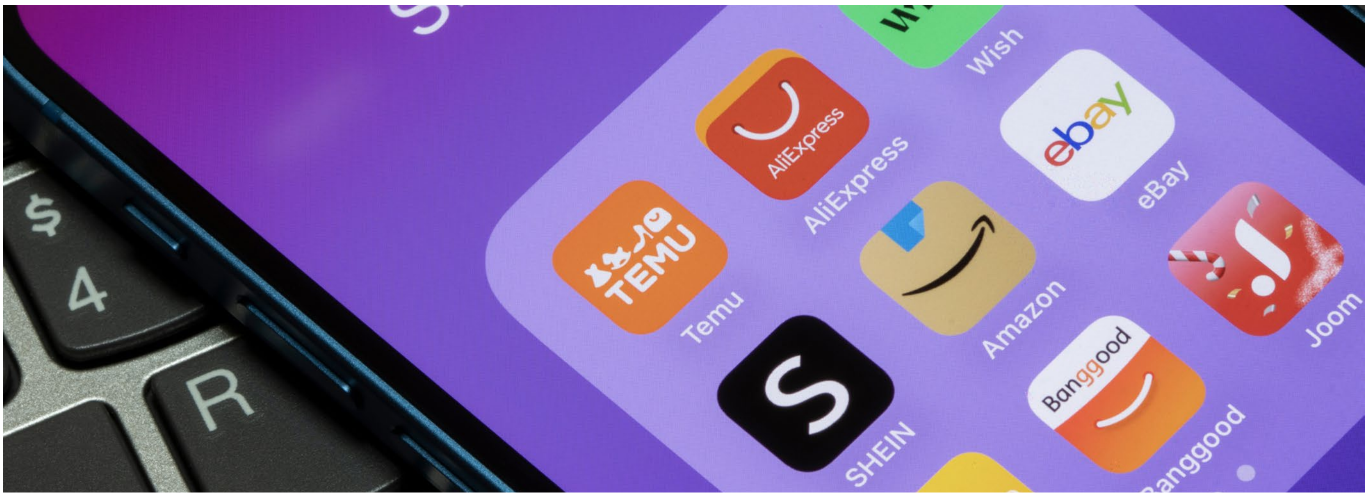
Shein	[2023 Apparel & Footwear Benchmark](#)
Missing: Adoption of responsible purchasing practices related to planning, forecasting, and pricing that addresses the full costs of production	**43%** of companies disclose steps taken to adopt responsible purchasing practices on planning, forecasting, or ring-fencing of labour costs **23%** disclose quantitative data on their purchasing practices

IMPLICATIONS FOR INVESTORS

Although Shein discloses its payment terms for suppliers, which are typically within 30 days and sometimes weekly, the company does not outline how it ensures prices cover the full cost of production, or information on forecasting and planning such that suppliers and their workers are not negatively impacted by spikes in production. Purchasing practices associated with ultra-fast fashion demand heightened human rights due diligence by companies to ensure they are mitigating and preventing harms associated with their own business model. This expectation is now reflected in the legal requirements of the EU's CSDDD, meaning a lack of responsible purchasing processes could undermine one of the company's primary competitive advantages.

Further considerations for investors

Despite impressive revenue growth and the disruptive nature of these business models, investors should be cautious about the opportunities associated with ultra-fast fashion as championed by Shein – and its competitors like **Temu**, **AliExpress** and **Amazon**. Questions around governance and opacity of supply chains, coupled with an over-reliance on outsourcing and downward pricing pressure, cast doubt on their supply chain resilience and ability to generate the long-term sales growth, margins and returns that investors expect based on the current valuation of these businesses. These questions are made plain by the recent share price drop of Temu parent company **PDD Holdings**, which lost US$50 billion in market value in August, and profit uncertainty at Shein.



Potential regulatory changes on tariffs and taxes in the US and the EU may further hamper the company's future growth. An interim report published in June 2023 by the House Select Committee on the Chinese Communist Party found that Shein and Temu are responsible for more than 30 percent of all packages shipped to the United States each day under the *de minimis* provision in current import rules, allowing products valued under US$800 to enter the US uninspected and free from duties other brands pay. This loophole is a meaningful one from a cost perspective: while **Gap Inc.** paid US$700 million in import duties in 2022 and H&M paid US$205 million, Shein and Temu paid nothing. Should US regulators seek to limit the use of the de minimis exemption by firms like Shein, the company may have to increase product prices as a result – or make other changes that reduce the speed of product launches or shipping. All these factors could influence the company's competitive positioning.

Additionally, the wave of human rights and environmental due diligence and sustainability reporting requirements across the globe means expanding legal and operational risks for companies whose business practices rely on more limited accountability when it comes to labour and natural resources. Sanctions regimes like the Uyghur Forced Labour Prevention Act and EU forced labour regulation increase financial risks for companies with poor oversight of supply chains, and targeted legislation like France's proposed fast fashion bill, which if adopted would ban the advertising of certain ultra-fast-fashion companies and put a financial levy on individual items of clothing, can reduce margins.

While our research focuses on worker exploitation, the environmental and other impacts of ultra-fast fashion are equally stark and pose risks to investors looking to decarbonise portfolios. For example, Shein's use of virgin polyester and oil reportedly produces the same amount of CO_2 as around 180 coal-fired power plants. Additionally, in just the past two years, Shein has been sued more than 90 times for plagiarising designs and investigated over toxic chemicals in its products.

The widespread concern over these business models is likely to keep them front of mind for regulators, potentially capping their valuation.

Suggested questions for investors in engagements with ultra-fast fashion companies

These questions to companies are designed to assist investors in engagements with companies adopting ultra-fast business models.

Will you make your supplier list public to increase transparency and allow investors to have greater visibility into your supply chain?

Who in your company is responsible for the implementation of supply chain policies that address forced labour, and how are relevant decision-makers trained on risks and policies that address forced labour?

What types of sources does your company use to assess human rights risks in your supply chains? What types of stakeholders do you engage to understand forced labour risks?

Where does your company see the highest risks of forced labour in your supply chains? Which locations, processes, materials, or workers have you identified as particularly at-risk?

What steps have you taken to ensure that you are not directly or indirectly sourcing from countries and regions where there is evidence of state-imposed forced labour?

How does your company analyse the potential impacts of your purchasing practices to ensure that they do not increase the risk of excessive overtime for suppliers' workers? How do you incentivise your buyers to ensure they don't prioritise low cost or speed over sustainability and human rights concerns for suppliers?

Do you take measures to ensure that prices cover the full costs of production, such as open costing tools?

Does your company have a formal, impartial grievance mechanism available to supply chain workers and their legitimate representatives? How do you assess whether the mechanism is effective?

Could the EU CSDDD civil liability clause lead your company to be financially responsible for negative supplier impacts?

Shein's scorecard, additional disclosure and full data are available on our website. Shein's response can be found here.