

LSF E-commerce Study

Prepared by BMA

2025



Offshore E-commerce Disruption in South Africa



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ABBREVIATIONS

CAGR	Compound Annual Growth Rate
CMT	Cut-make-trim
CTFL	Clothing, textiles, footwear and leather
DRM	Duty rebate mechanism
IMU	Input Margin
KZN	KwaZulu-Natal
LVP	Low value purchase
MP	Masterplan
MRP	Mr Price
NDA	Non-disclosure agreement
OER	Offshore e-commerce retailer
PnP	Pick 'n Pay
R-CTFL	Retail-Clothing, Textile, Footwear & Leather
RSP	Retail Selling Price
SS	Supply-side survey
TFG	The Foschini Group
TW	Truworths
VC	Value Chain
WC	Western Cape
WIP	Work in progress
WW	Woolworths
ZA	South Africa
ZAR	South African Rand

Executive Summary

This report presents a comprehensive assessment of the impact of offshore e-commerce retailers (OERs) - notably Shein and Temu - on South Africa's retail clothing, textile, footwear and leather (R-CTFL) industry. It evaluates historical trends, forecasts future scenarios, analyses policy responses, and provides recommendations for industry stakeholders and policymakers.

Over the past five years, OERs have grown rapidly in South Africa's R-CTFL e-commerce space, disrupting established local value chains. In 2024, Shein and Temu collectively achieved approximately R7.3 billion in sales, accounting for 3.6% of the total R-CTFL market and 37% of the sector's e-commerce sales. This rapid growth has come at a notable cost to the local economy. The estimated displacement is estimated to include R960 million in lost local manufacturing sales, 2,818 associated manufacturing jobs that may have materialised, and 5,282 unmaterialised retail jobs from 2020 to 2024.

This disruption stems from OERs' highly digitised and cost-optimised business models. Shein's real-time production scheduling and supplier network coordination, and Temu's platform-based procurement and ultra-low pricing model, enable them to deliver speed, variety, and affordability at a scale local retailers struggle to replicate. Their business models also leverage significant cost

advantages through de minimis trade allowances, offshore manufacturing, low shipping costs, and data-driven consumer targeting.

Despite growth in e-commerce penetration in South Africa—from 2.4% in 2015 to 9.9% in 2024—local penetration remains significantly below the global average (35.6%) and those of comparator emerging markets such as Brazil and Vietnam. This indicates structural and logistical challenges, including limited last-mile delivery infrastructure and entrenched consumer habits favouring physical retail.

The South African government has initiated policy reforms, including the removal of VAT exemptions and increased customs duties on low-value parcels. However, enforcement gaps remain, and regulatory alignment with international best practice is limited. Comparisons with countries such as France, Türkiye, and Brazil reveal more aggressive policy interventions—including mandatory local representation, advertising

restrictions, and environmental compliance standards.

To mitigate future risk and support domestic industry, the report offers strategic recommendations including strengthening consumer protections,

tightening import controls, investing in digital capabilities, and exploring localisation policies.



Project Overview

Objective

This research report conducts a holistic analysis of offshore e-commerce retailers (OERs) operating in the South African retail, clothing, textile, leather, and footwear (R-CTFL) industry. The research intends to estimate how OERs have impacted the industry over the past five years, which in turn provides the basis for estimating the potential impact of OERs in the coming years under a variety of different growth scenarios. This is supplemented by two complementary investigations, the first into South Africa's policy and regulatory response to OERs in contrast to a selection of comparator

economies, and the second an investigation into the retail and supply chain models that these OERs leverage to derive competitive advantage in the market.

Taking all aspects of this investigation into account, this report provides a set of recommendations for South African policy makers to ensure a level playing field for all operating in the South African R-CTFL industry, as well as recommendations for local CTFL retailers and manufacturers to better compete with OER



Methodology

This report deploys a combination of desktop research and fieldwork to estimate the impact of OERs on the South African R-CTFL industry. Desktop research was conducted between February 2025 and May 2025, with literature and data reviewed from a collection of investor reports, news articles, consultancy reports,

peer-reviewed academic articles and published documents, all of which was summarised and presented to a selection of listed South African retailers to evaluate the legitimacy of initial desktop findings.

Our approach is noted in the following sub-sections.

SITUATING SA'S CTFL E-COMMERCE MARKET GLOBALLY:

To situate the e-commerce market in the South African R-CTFL industry relative to a global context, this report analyses e-commerce penetration in the R-CTFL industries of five comparator countries, namely: Brazil, France, Türkiye, Vietnam and the United Kingdom (UK), as well as the global average. These countries were selected for the following reasons:

- **Brazil:** The largest economy in South America, with a clothing industry at a similar level of advancement to South Africa, making it a relevant socioeconomic comparator.
- **UK and France:** Home to well-regarded retail brands, with France actively regulating platforms like Shein and Temu, potentially offering gold standards given the EU's legal system.
- **Türkiye:** Possesses an advanced clothing industry, suggesting potential lessons for South Africa's CTFL sector.
- **Vietnam:** A significant CTFL manufacturing hub in Southeast Asia, offering valuable insights due to its proximity to China and responsive regulatory environment.

News articles and e-commerce reports relating to the countries listed above were utilised to gain insight into the contribution that CTFL e-commerce has relative to total e-commerce as well as the total R-CTFL market, both in South Africa as well as the five comparator countries. The penetration of e-commerce in SA's CTFL market specifically was validated using both a macro-level analysis (looking at the overall market) and a micro-level analysis, where the e-commerce penetration of major South African CTFL retailers' e-commerce was compared to the global e-commerce penetration of two global CTFL retailers (H&M and Zara, owned by parent company Inditex).

SOUTH AFRICAN R-CTFL MARKET DYNAMICS:

Data pertaining to the overall South African R-CTFL market size was taken on a seasonally adjusted basis from Stats SA. The data is based off enterprises that are linked to SARS and therefore ensures reliability, with data displayed in both real and nominal terms, where the former is derived from a standard CPI deflator with 2011 used as the base year given the entrance of international CTFL retailers into the local market (Cotton On & Zara).

Where possible, local retailers' direct clothing sales figures (found in annual reports) in South Africa were used to illustrate the share of the R-CTFL market in South Africa that is known. Where these figures were not directly reported, various techniques were used to attempt to isolate local South African clothing sales of local retailers. Large acquisitions by South African retailers were also included in the R-CTFL revenue calculations, where market share at the time of acquisition was used to account for the revenue figures of the retailers being acquired. All revenue figures are in nominal terms.

International retailers' clothing sales were estimated using reported revenues (found in annual reports) and were used in conjunction with various other data points and news articles to build reliable estimates of sales and market share in the country between 2011 and 2024. In unreported years, revenue figures were estimated using the compound annual growth rate (CAGR) of revenue figures between known years. All revenue figures are in nominal terms.

Data on Shein and Temu in South Africa is limited given that these firms don't publicly report all of the firms' operations, as well as the recency of their arrival in the South African market. Nonetheless, Temu's revenue has been estimated using survey data indicating average basket spend, clothing's share of the basket, number of active SA e-commerce users, and the proportion of users shopping monthly on Temu. Shein's revenue figures were obtained through four separate sources and techniques: 1). an ECDB fashion e-commerce report on South Africa, 2). an estimate developed using the total SA fashion e-commerce market size and systematically deducting known e-commerce contributions to this to determine an approximation of Shein revenue 3). using Shein's reported category-level market shares of men's, women's, and kids' apparel, and calculating their respective contributions to the overall market, and 4). cross referencing with the data collected by an independent retailer's own calculation during the validation process.

ESTIMATING THE IMPACT OF INTERNATIONAL E-COMMERCE RETAILERS ON THE SA CTFL INDUSTRY:

To quantify the impact of OERs on South Africa's R-CTFL industry, this report's analysis focused on three critical metrics: lost local manufacturing sales, lost local manufacturing jobs and local retail jobs not materialised¹.

Local Manufacturing Sales: *This metric represents the total revenue generated from the sale of South African-manufactured CTFL goods within the country.*

Local Manufacturing Jobs: *This refers to the total number of individuals employed in the manufacturing of CTFL goods in South Africa.*

Local Retail Jobs: *This encompasses the total number of individuals employed in roles directly related to selling CTFL goods to consumers within South Africa.*

Three different scenarios for OERs in South Africa were modelled alongside three different scenarios of local sourcing growth (given the extent of local sourcing determines the magnitude of market share loss impact on local manufacturing sales and employment). The growth scenarios of OERs were anchored against the current state of the South African e-commerce market, potential policy and regulatory responses (as well as the efficacy thereof), and various fashion e-commerce reports and news reports detailing the current and future operations of Shein and Temu.

EVALUATING SA'S POLICY AND REGULATORY RESPONSE

South Africa's policy and regulatory response to international e-commerce retailers was compared to the five comparator economies mentioned earlier, with the inclusion of India and Indonesia, given the unique policy and enforcement responses of these two economies.

¹ From a jobs perspective, the analysis models the jobs not materialising in manufacturing and retail as a result of Shein and Temu's accumulated market share in the R-CTFL industry. However, there is an argument to suggest that a portion of the retail jobs could be offset by an increased requirement in the logistics sector as a result of Shein and Temu's entry. This scenario has not been modeled due to the difficulty in estimating indirect job creation. As a result, the local retail jobs not materialised must be taken with this context in mind.

VALIDATION AND CONSENSUS BUILDING

All data collected and modelling outputs were presented and validated to a research steering committee comprising expert CTFL industry representation from retail, industry and labour. This same process was followed with detailed interviews with two major listed SA retailers to test robustness of the underlying data and methodology used to come to the conclusions regarding the impact of international e-commerce retailers and South Africa's policy and regulatory responses.

Definitions

Table 1: Definitions

Terminology	Definition
International retailer	For the purposes of this project, we define an international retailer as a non-South Africa domiciled company that sells its products in South Africa ¹ . An international retailer operates globally through brick-and-mortar or online channels, or both (omnichannel). For example, Zara is headquartered in Spain and has stores in 96 countries ² .
Offshore e-commerce (also known as online) retailer	An e-commerce retailer is a company that primarily sells its products through online channels and has limited or no brick-and-mortar presence. An offshore e-commerce retailer would be based in one country but sell its products online in one or more countries outside of the company's home country. For example, Shein is headquartered in Singapore, has its main warehouse located in China, and the company ships fashion products globally including South Africa ³ .

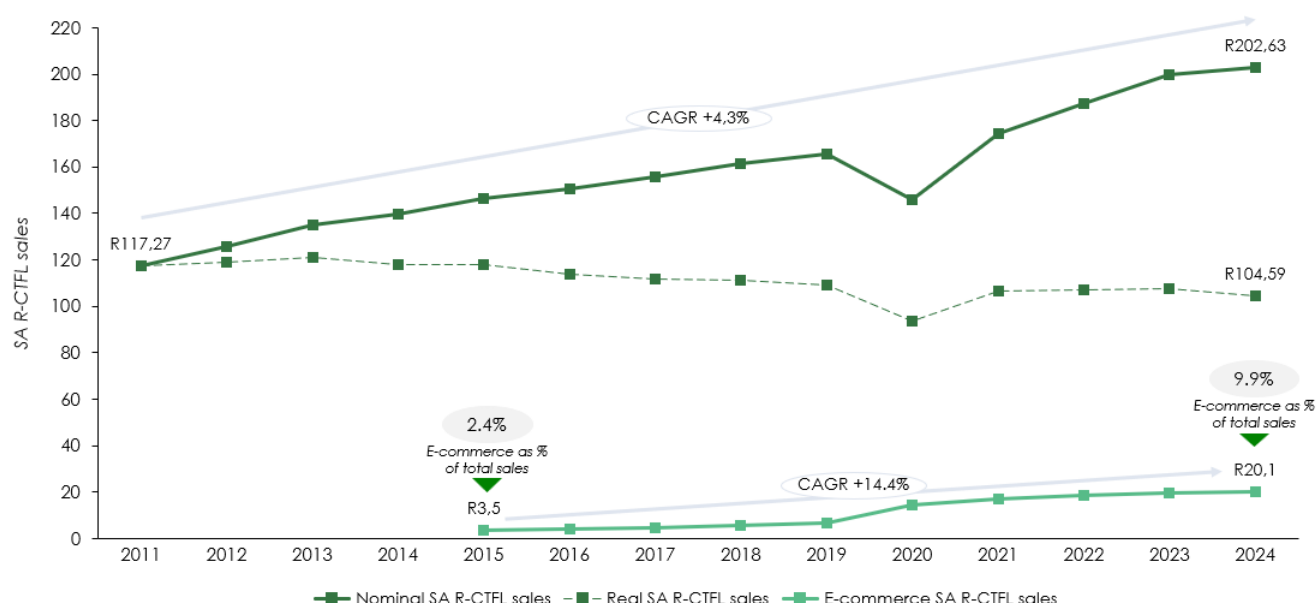
Situating the e-commerce market in SA's CTFL industry

Current e-commerce penetration in SA's CTFL industry

Figure 1 below details South Africa's overall R-CTFL sales between 2011 and 2024, with retail sales reaching R203-billion in 2024⁴. This represents a CAGR of 4.3% from R117-billion in 2011. In real terms, total R-CTFL retail sales have declined from R117-billion in 2011 to R105-billion in 2024. This could be because of two scenarios. There has been an absolute decline in the volume of units sold in the South African R-CTFL market since 2011. Alternatively, there has been a shift to less expensive clothing (i.e. lower value per unit) by a South African consumer seeking an improved value proposition against the backdrop of significant inflationary headwinds in a low economic growth environment.

Figure 1 illustrates that e-commerce penetration has steadily increased in the South African R-CTFL industry between 2015 and 2024. In 2015, R-CTFL e-commerce accounted for 2.4% of the total R-CTFL market (R3.5bn) and has increased to 9.9% (R20.1-billion) in 2024⁵. This increase represents a CAGR of 14.4%, well above the 4.3% in the industry overall. Increased e-commerce penetration has been attributed to several factors, such as improved internet availability⁶; improved online payment security and associated consumer trust levels⁷; increased smartphone adoption⁸; improved logistics and last mile fulfilment⁹; and improved online offerings from retailers operating in SA¹⁰.

Figure 1: South African R-CTFL sales, 2011 – 2024 (ZAR billions)

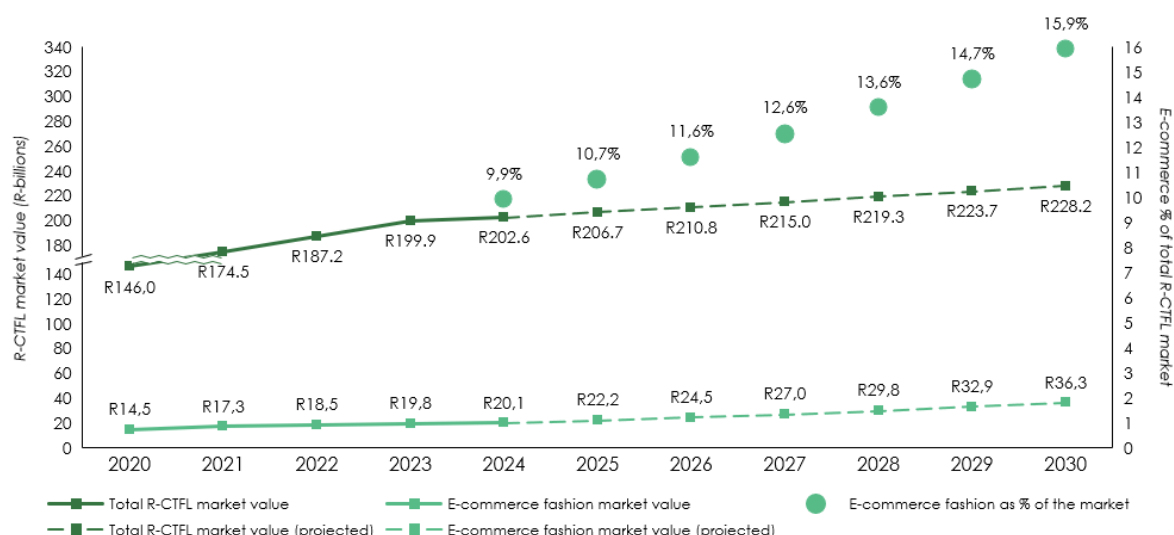


Forecasted e-commerce penetration in SA's CTFL industry

E-commerce penetration is projected to increase in South Africa, as highlighted in Figure 2, with the percentage of R-CTFL sales attributed to e-commerce projected to reach 15.9%¹¹ by 2030. Fieldwork conducted through retailer interviews indicated a strong consensus that the growth of e-commerce will be underpinned by South Africans having easier access to online

shopping marketplaces through digitalisation; high smartphone adoption; and increased cashless nature of the South African economy. This, combined with the factors mentioned above, paves the way for the SA R-CTFL e-commerce market to grow.

Figure 2: Projected total R-CTFL and R-CTFL e-commerce growth, 2024 – 2030



E-commerce penetration in SA's R-CTFL industry relative to comparators

While South African R-CTFL e-commerce penetration is projected to increase over the next five years to 15.9%, Figure 3 indicates that this level of e-commerce penetration will continue to lag comparator economies and the global average¹².

South Africa's e-commerce penetration in 2024 (9.9%) is significantly lower than the global average (35.6%), and the 2030 penetration of 15.9% is expected to remain well below the 2030 global average (40.7%). It is worth noting that the global average is likely skewed upwards by the relatively large contributions of developed economies, where e-commerce penetration is likely to be higher given the prevalence of factors driving the uptake in e-commerce shopping. For example, for the same reasons one might expect that South Africa's penetration lags that of the UK. However, it is interesting that the same outcome holds true even when comparing South Africa's current and projected CTFL e-commerce penetration

against the emerging markets of Vietnam, Brazil, and Türkiye respectively (For more detail, see Appendix A).

This implies that there are idiosyncratic features of the South African economy that are hindrances to e-commerce penetration, above and beyond the level of economic development of the country. These features can be explained by several factors: 3rd party logistics suppliers cite last mile delivery as one of the most complex and cost intensive aspects of logistics in South Africa, particularly when delivering into rural areas, noting that high degrees of crime decrease the number of suppliers willing to distribute in these areas¹³. Additionally, qualitative insights from retailer interviews alluded to the fact that South African consumers have a high preference to shop at malls compared to online stores.

The findings detailed at a macro-level in Figure 3 are supported through the micro-level analysis of e-commerce penetration figures by some of SA's large, listed retailers (Figure 4), namely The Foschini Group (TFG), Mr Price (MRP), Truworths (TW), and Woolworths (WW), compared to the e-commerce penetration of two international retailers in the market, namely H&M and Zara. For the SA retailers, while average annual R-CTFL e-commerce penetration was significantly higher in the four years following Covid-19 (9.8%, 2.5%, 2.9% and 4.1% between 2020 – 2024 for TFG, MRP, TW, and WW respectively compared to 9.0%, 1.0%, 1.0%, and 1.3% in 2019), this is well below the e-commerce penetration achieved by H&M and Zara in their global markets, both before and post Covid-19¹⁴. Thus, while e-commerce penetration has certainly accelerated in the South African market post-Covid 19 (albeit off a low base), this hasn't been sufficient to align South African retailers with a global benchmark.

Figure 3: E-commerce penetration in R-CTFL industry in comparator countries, 2024 & 2029

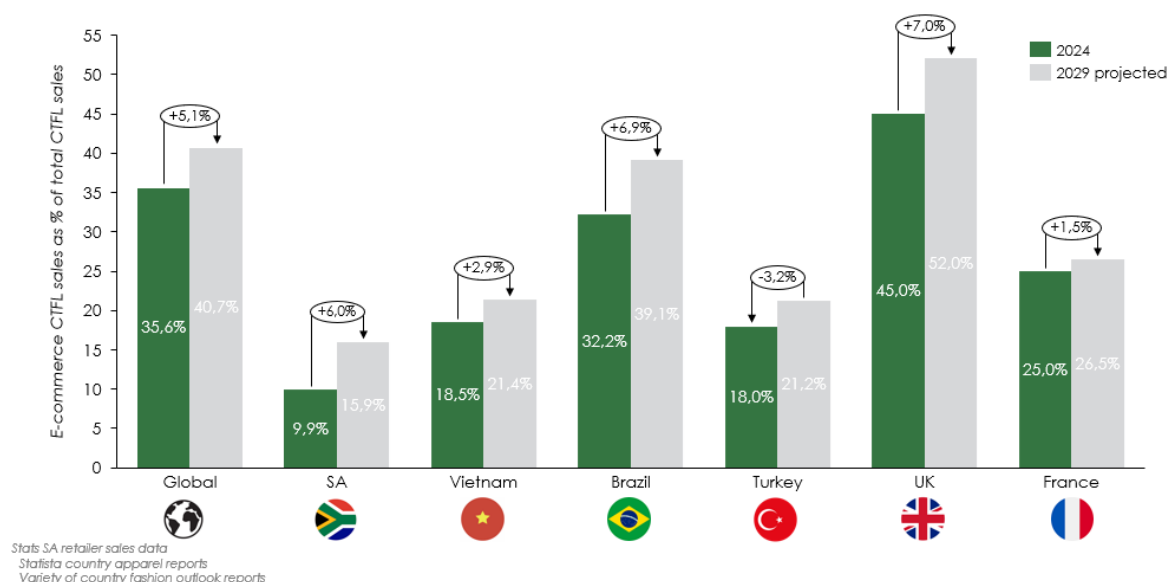
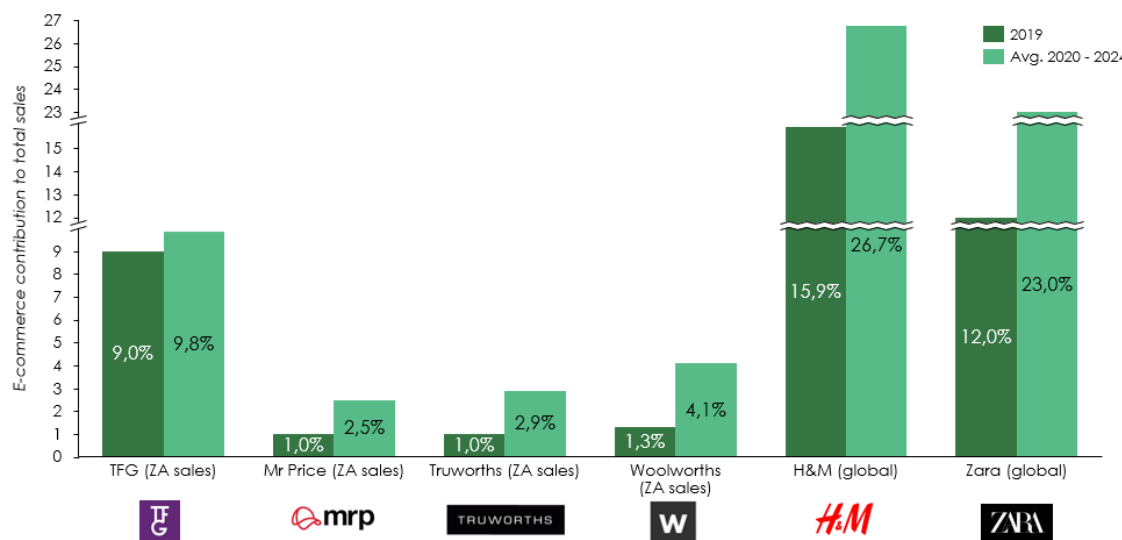


Figure 4: E-commerce penetration by local retailers vs. international retailers between 2019-2024



Market share dynamics in SA's CTFL industry

To evaluate how the entrance of OERs have impacted competitive dynamics in the SA CTFL industry over the past 15-years, a market share analysis was conducted for a variety of local and international brick and mortar retailers, as well as local and international e-commerce retailers. To do this, sales values of firms have been evaluated against the total size of the R-CTFL market in SA between 2011 – 2024, as detailed in Section 3.1. The outcomes of this analysis are illustrated in Figure 5.

Figure 5: Relative market share dynamics in SA R-CTFL, 2011 – 2024 (% of total SA R-CTFL sales)

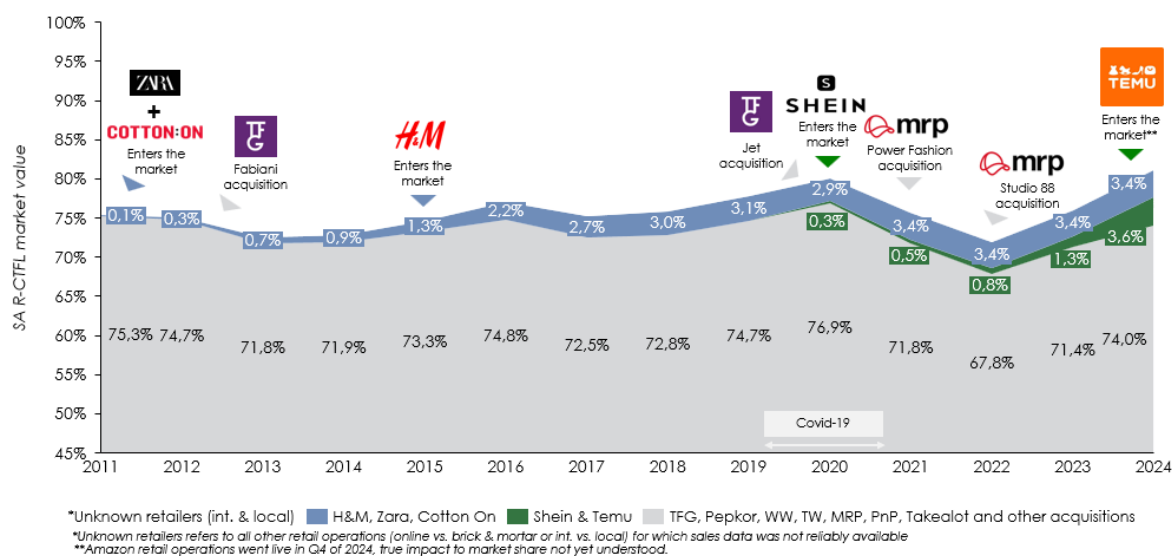


Figure 5 provides insight into the relative estimated market share between a variety of SA retailers (brick and mortar and e-commerce) comprising of TFG, Pepkor, WW, TW, MRP, Edcon, Takealot, and all major acquisitions conducted by the aforementioned SA retailers (the grey area in Figure 5); international brick and mortar retailers, namely: H&M, Zara and Cotton On (the blue area in Figure 5); and international e-commerce retailers, namely: Shein and Temu respectively (the green area in Figure 5). The balance of the SA CTFL market share, represented by the white area in the chart, is made up of all other local and international retail operations in SA, either online or brick and mortar, for which sales data was not reliably available.

For the SA retailers analysed, estimated market share in 2011 was roughly 75.3%, which had declined to 74.0% by 2024. This was calculated after accounting for several notable acquisitions in this period, namely TFG's acquisitions of Fabiani in 2012 and Jet in 2020, as well as MRP's acquisitions of Power Fashion in 2021 and Studio 88 in 2022.

International brick and mortar retailers have accumulated an estimated 3.4% of the SA CTFL market by 2024. Zara and Cotton On entered the SA market in 2011. While Zara's store count in the country has fluctuated since its entry, it has hovered around 0.4% of the Group's total store footprint. Conversely, Cotton On has grown rapidly in the SA market since 2011, reaching 169 stores in SA by 2023, making it the Group's third-largest market¹⁵, with SA revenue reaching R2.16-billion in 2024. H&M entered the South African market in 2015 and has since expanded across the country. As of 2023, H&M operated 28 stores in South Africa, with the V&A Waterfront store being its third busiest globally¹⁶.

In contrast to the pace of market share accumulation shown by international brick and mortar retailers, estimations suggest that Shein and Temu have accumulated a combined market share of approximately 3.6% in only 5 years¹⁷, with Shein estimated to account for approximately 28% of all online ladies CTFL sales¹⁸.

Local and international policy responses

As detailed in the previous section, the entrance of Temu, Shein and most recently Amazon to the South African market is not a unique phenomenon, with similar dynamics playing out across comparator countries included in this analysis. In the following section, we outline both the South African and comparator economy policies governing e-commerce operations within their respective markets.

South Africa, like many other countries, has responded to the challenges posed by large offshore e-commerce retailers by implementing reforms to ensure fair competition and protect tax revenue. The removal of the VAT exemption on low-value parcels and the restructuring of customs duties are key steps in levelling the playing field for local retailers. Similarly, the UK has taken a strong regulatory approach with the Digital Markets, Competition and Consumers Act (DMCCA), focusing on consumer protection and fair business practices, though it has not yet revised its import duty exemption thresholds. France and the EU have also acted by reviewing duty exemptions, implementing stricter oversight of imports, and proposing measures to curb the environmental impact of ultra-fast fashion.

Türkiye has introduced some of the strictest regulations globally, including advertising caps, e-commerce licensing fees, and significant restrictions on financial and logistical services for large platforms. South Africa does not have restrictions on financial and logistical services in place for large e-commerce retailers however all businesses providing these services need to comply with consumer protection laws as well as transportation and logistics regulations, including but not limited to the Consumer Protection Act as well as rules set by the Independent Communications Authority of South Africa (ICASA).

Vietnam is following a similar path to most comparator economies by removing VAT exemptions on low-value parcels and increasing tax obligations for foreign e-commerce businesses. Brazil, on the other hand, has long enforced tax policies to ensure foreign businesses contribute fairly, requiring offshore retailers to have local representation and removing customs duty exemptions on low-value parcels to protect local suppliers. These measures collectively demonstrate a global trend of tightening regulations on e-commerce to create a more balanced marketplace.

Other developing economies like Indonesia and India have enforced bans on global e-commerce platforms. In India, players have been allowed to re-enter the market through localised platforms which leverage networks of local businesses to drive manufacturing and supply chains, creating a more mutually beneficial operating environment.

While each country's approach varies, the overarching objective remains consistent: ensuring that large offshore retailers operate on par with local businesses and fully comply with tax and consumer protection laws. Whether through VAT adjustments, customs duty reforms, or local representation mandates, governments worldwide are proactively addressing the challenges presented by rapid cross-border e-commerce growth.

Emerging evidence suggests that these governmental initiatives have successfully limited the market share captured by global e-commerce players. However, precisely defining the impact of these policy reforms remains challenging due to the lack of small-parcel tariff code classifications as well as limited standardised reporting requirements for unregulated offshore retailers.

A summary of the key findings regarding policies and regulations in these comparator countries is provided in Table 2 with a detailed overview of findings included in Appendix B.

The following definitions apply to the terms in the first column:

Low Value Purchase (LVP) Threshold: A monetary limit below which imported goods may qualify for simplified customs or reduced/no duties/taxes.

LVP VAT Exemption: No VAT is charged on imported goods if their value is below a specific low-value threshold.

LVP Customs Increased: Countries are raising or adding new customs duties on previously low-value imports.

Customs Exemption Threshold: A general monetary limit below which imported goods are exempt from certain customs duties or taxes.







Registration or Licensing Requirements: Legal obligations for e-commerce retailers to register or get licenses to sell certain products in a foreign country.

EPR (Extended Producer Responsibility) Regulations: Policies holding producers responsible for their products' lifecycle, especially packaging and waste.

Other Considerations: Various additional factors like documentation, prohibited goods, shipping costs, returns, extra fees, marketing, currency, and local consumer laws.

Summary of key policy findings

Table 2: Summary of Key Policy Findings

Country	South Africa 	France 	United Kingdom 	Türkiye 	Vietnam 	Brazil 
Low Value Purchase (LVP)	US\$ 27 (R480)	US\$ 162 (R2880)	US\$ 174 (R3094)	US\$ 32 (R569)	US\$ 41 (R729)	US\$ 50 (R889)
LVP VAT exemption	Removed (2024)	Removed (2021)	None	Removed (2019)	Removed (2025) VAT increase 5 to 10%	Removed (2024)
LVP customs increased	Increased (2024) 20 to 45%	Unchanged	Unchanged	Increased (2024) 30 to 60%	Unchanged	Unchanged
Customs exemption threshold	Unchanged	Unchanged	Unchanged	Lowered (2024) €150 to €30	Removed (2025)	Removed (2024)
Registration or licensing requirements	Local office Tax registration	Local office Tax registration	Local office Tax registration	Local office Tax registration E-commerce license	Local office Tax registration	Local office Tax registration
EPR regulations	Packaging waste	Environmental impact and recyclability	Packaging waste	Packaging waste	Packaging waste	Packaging waste
Other considerations	None	Banned adverts by ultra-fast fashion companies (2024) Handling fees charged on LVPs	None	Advertising spending caps introduced (2023)	None	None

Likely impact to OER market share

Low	Medium	High
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Note: VAT is a tax on consumption, charged to the end consumer, while customs duty is a tariff on imports.

Furthermore, while the scope of this report focuses on the five comparative countries defined, it is worth noting some key observations and considerations from other relevant regions.

Indonesia

Indonesia is the largest and most lucrative e-commerce market in South-East Asia, with an estimated value of USD82 billion. Six domestic companies drive ~45% of local e-commerce traffic. The country has a dynamic local manufacturing sector and has been noted by some South African retailers as a good comparative case study. Despite the growth trajectory of the Indonesian e-commerce market over the past 5-10 years, Shein struggled to gain foothold and announced its exit from the country in 2021, after the import policy de minimis rule was adjusted downwards to just USD3 (previously, USD75). The government has taken a stronger stance on policy reforms than seen across many other regions. More recently, in October 2024, the Indonesian Trade Ministry gave the order for Temu to be blocked from app stores in the country. The ban is intended to protect smaller businesses from cheap products flooding the country.

India

In June 2020, India's Ministry of Electronics and Information Technology banned several mobile apps, including Shein¹⁹. This came after the Indian government highlighted concerns over the lack of inclusion of local value chains in the Shein business model, which was further fuelled by heightened geopolitical tensions in the region. Prior to the ban, Shein had quickly gained popularity in India, capitalising on rising consumer demand for low-cost goods. However, many of their business practices came under question, like their exploitation of regulatory loopholes—particularly the customs exemption for “gifts under ₹5,000” (R1035)²—to bypass import duties and taxes²⁰.

Nearly five years later, the Indian government announced it had granted permission for Shein to the market under specific restrictions primarily aimed at enforcing the use of local CTFL value chains²¹. Shein formed an agreement with local retail business Reliance Retail where the two companies have collaborated to form a domestic e-commerce retail platform offering Shein branded products to local Indian customers. The partnership means that Shein will leverage local sourcing capabilities, warehousing facilities, and logistics infrastructure. Furthermore, there may in future be an opportunity for the India-based value chain infrastructure to service other markets across the region.

The Indian government has stated that it is confident that the Shein – Reliance Retail partnership will ensure Shein's compliance with evolving Indian policies while contributing to domestic economic objectives.

² INR/ZAR exchange rate taken on 04 June 2025

Evaluating business models of offshore e-commerce retailers



The remarkable growth of Shein and Temu is underpinned by their mastery of speed, flexibility, and cost management, achieved through a high degree of digitalisation and integration across their supply chain. The subsequent subsections delve into the specific operational elements contributing to these achievements.

Coordinated strategic supplier network

Shein's real-time production system, which aims to closely align observed demand with Shein's supply base, encompasses a carefully coordinated and highly collaborative network of strategic suppliers at various stages of the value chain. The strategic supplier network consists of two types of designers: Free on Board (FOB) designers (about 500) and original designers (estimated between 20,000-30,000), all operating under Shein's supplier management system, which shares real-time data on design, patterns, and inventory levels²². This collaborative management system allows for accurate deduction of capacity utilisation of all factories in Shein's network. FOB designers produce items that originate from Shein, or designers associated with the firm, whilst original designers submit designs to Shein's design team and upon approval and sampling, they receive an initial production order. Having such a large supplier base, Shein utilises a test & repeat model: batches of 50 – 100 units²³ are

ordered for testing, thereafter bulk production will be confirmed based on observed demand. Lead time for test styles typically averages 13 days, with confirmed bulk production styles produced on a shortened 6-day lead time ²⁴.

In-demand styles are sourced from a decentralised network of small to mid-sized suppliers that have access to strong industrial infrastructure & proximity to ports for ease of trade. Allocation of styles to suppliers within Shein's network is driven by an AI-driven digital billing system, whereby specific styles are matched to the most appropriate suppliers in the Shein supplier network based on available capacity and known capability²⁵. Through demand-led production scheduling, Shein achieves a 98% sell through rate on its styles²⁶. Interestingly, unlike other retailers who shy away from markdowns of more than 50%, Shein has a very aggressive stock clearance approach, discounting poor clearance items by up to 90%.

To support speed, consistency, and cost management, Shein has further developed a strategic base of approved raw material vendors, from whom suppliers in the Shein network must source material from²⁷. This also decreases sourcing costs for Shein's strategic suppliers.

Supplier development and support

To support supplier efficiency, Shein invests in their capacity and technology, sometimes purchasing machinery for them²⁸. Shein also maintains one of the shortest billing cycles in the industry, ensuring fast payments to suppliers²⁹. Shein is known to rate suppliers by their on-time, in-full delivery and, seemingly uniquely, their speed to market, with top suppliers paid within 1 week and the worst performers paid in 45 days.

Temu doesn't procure any products from suppliers but rather acts as the intermediary between the final consumer and suppliers, in essence operating a platform-based model. Temu will sell data to third parties to increase revenue streams and advise on demand scheduling to suppliers, who in turn will bid for the work³⁰. However, in contrast to Shein's more developmental approach to suppliers, Temu, whose supplier network consists of low-cost manufacturers, facilitates supplier competition whereby suppliers compete for orders in bidding wars, where the lowest price wins the contract³¹. This constant price competition ensures that Temu can continuously offer the lowest possible prices across its platform. Suppliers deliver selected goods to Temu's warehouses, where Temu handles logistics, customer service, after-sales support, and marketing, allowing manufacturers to focus purely on production without additional operational burdens, creating higher levels of price competitiveness³².

Data-driven supply chain

Shein's success is largely supported by its data-centric approach to fashion retail. The company relies on big data analytics to harvest and track consumer data from the Shein app, which leverages AI-driven algorithms to subsequently share data in real-time with its supply base³³. Using these insights, Shein's vast design team, all of whom are equipped with automated design software and rely on consumer insights from the Shein app, are enabled to design and launch between 2,000 – 10,000 new styles on its platform daily.

The Temu platform collects extensive user data and detailed in-app activity logs. Additionally, Temu gathers third-party consumer data in the form of market reports, creating comprehensive user profiles that enhance targeted marketing and product recommendations³⁴. This data is sold to suppliers, enabling them to refine their product offerings based on consumer behaviour³⁵.

Logistics & Cost Optimisation

Temu's logistics strategy is built around cost efficiency, using shipping methods to reduce expenses and maintain low consumer prices. Key cost-saving logistics practices include³⁶:

- Tail-end flight bookings – Temu buys airline cargo space at discounted rates once a plane has already broken even, securing cheaper freight costs.
- Optimised packaging – The company combines heavy and lightweight goods in shipments to fully utilise cargo capacity, further reducing costs.
- Direct shipments – Orders are shipped directly from warehouses in China to consumers via sorting centres, allowing bypassing of certain tariffs.

Temu has strategically chosen the Pearl River Delta region (Hong Kong, Guangzhou, Shenzhen) as its main logistics hub, benefiting from high shipping capacity and strong transport infrastructure. Additionally, the company operates a warehouse in Mexico, where it previously paid no import taxes when shipping into the US, further cutting costs and maintaining low retail prices. Temu's US-based warehouse is primarily used for handling returns, where returned items are repackaged and resold at lower prices³⁷. This minimises product losses and ensures that items do not go to waste.

Shein's fulfilment network is designed for cost efficiency and rapid global shipping. The company has no permanent physical stores, although the use of "pop-up" stores has recently emerged, relying instead on direct shipping from China-based warehouses and third-party logistics (3PL) providers for last-mile delivery³⁸. About 1 million Shein packages are shipped

daily³⁹, primarily from Guangdong, China, taking advantage of China's 2018 export tax waiver for direct-to-consumer companies. Along with this and other measures, Shein can undercut competitors by ~24%⁴⁰.

While most orders are shipped directly from China, Shein also operates strategic warehouses in the US, Europe, and Asia to store in-demand inventory for quicker delivery⁴¹. The company offers free returns for the first refunded item, with standard shipping relying on ground transportation and express shipping using airfreight services like FedEx, UPS, and DHL⁴².

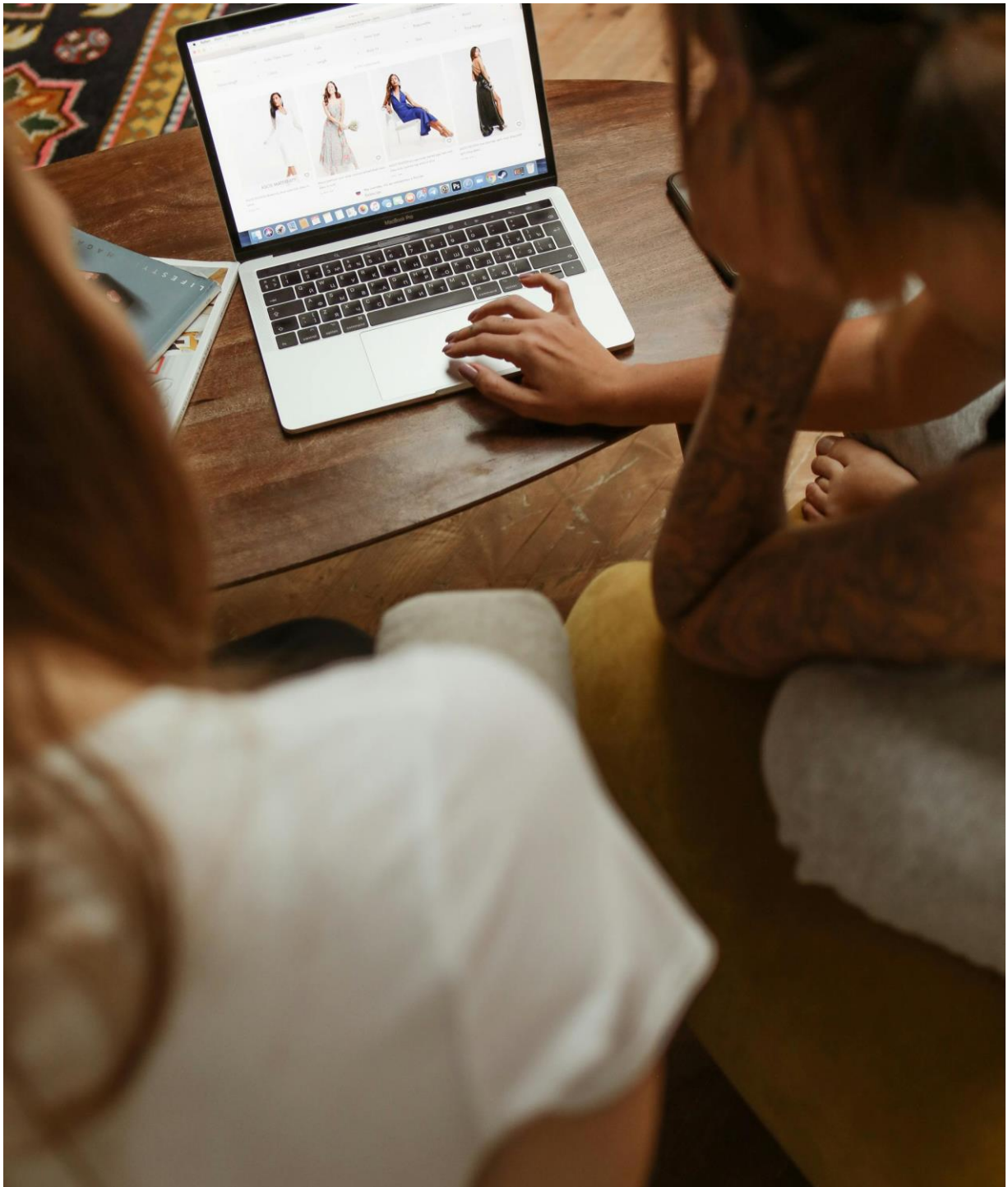
As part of its global expansion strategy, Shein has established manufacturing hubs outside of China, including Türkiye and Brazil⁴³, both of which offer low labour costs and skilled textile workforces. The company's entry into these markets allows it to diversify supply chains and reduce risks associated with geopolitical tensions and trade regulations. Additionally, some of its jeans and dresses are sourced from Sri Lanka and Bangladesh, further broadening its supplier base⁴⁴.

Sustainability, Ethical Concerns & Global Expansion

Shein has faced significant scrutiny over labour practices, sustainability, and sourcing ethics. One of the allegations is that the company sources cotton from China's Xinjiang province, where reports suggest human rights violations against Uyghur people⁴⁵. In response, Shein states that it only sources cotton from approved suppliers in India, Australia, Brazil, and the US.

The company has also been criticised for poor working conditions and exploitative labour practices among its supplier factories, as many operate in low-wage environments with demanding production targets⁴⁶.

To improve its sustainability credentials, Shein launched evoluSHEIN in 2022, a product initiative aimed at promoting preferred materials and responsible manufacturing processes. Products under this initiative must contain at least 30% preferred materials and be produced by suppliers with above-average audit scores⁴⁷. Additionally, all suppliers are required to sign Shein's Supplier Code of Conduct (SCoC)⁴⁸.



Quantifying the impact of offshore e-commerce retailers

To estimate the impact of Shein and Temu on the SA R-CTFL industry, this study draws on previous research and industry-validated impact ratios conducted by the R-CTFL Masterplan in 2018. To evaluate the impact on local manufacturing directly, this report utilises local sourcing data between 2020 and 2024 from the R-CTFL Masterplan's aggregation data⁴⁹. The impact metric and corresponding definitions can be found in Table 3 below and variable ratios in Table 4.

Table 3: Impact evaluation metrics

Impact metrics	Metric definition
SA R-CTFL market share (MS)	Share of total R-CTFL sales captured by Shein & Temu under different growth scenarios
SA R-CTFL e-commerce MS	Share of total e-commerce R-CTFL sales captured by Shein & Temu under different growth scenarios
Sales value of R-CTFL MS	Value of R-CTFL sales captured by Shein & Temu under different growth scenarios

Local CTFL manufacturing sales	Value of associated local manufacturing sales from retail sales captured by Shein & Temu sales under different growth scenarios
Local CTFL manufacturing jobs	Number of jobs associated with manufacturing sales not materialising due to captured sales by Shein & Temu under different growth scenarios
Local R-CTFL retail jobs	Number of retail jobs displaced associated with lost market share due to captured sales by Shein & Temu under different growth scenarios

Table 4: R-CTFL Masterplan Variables used

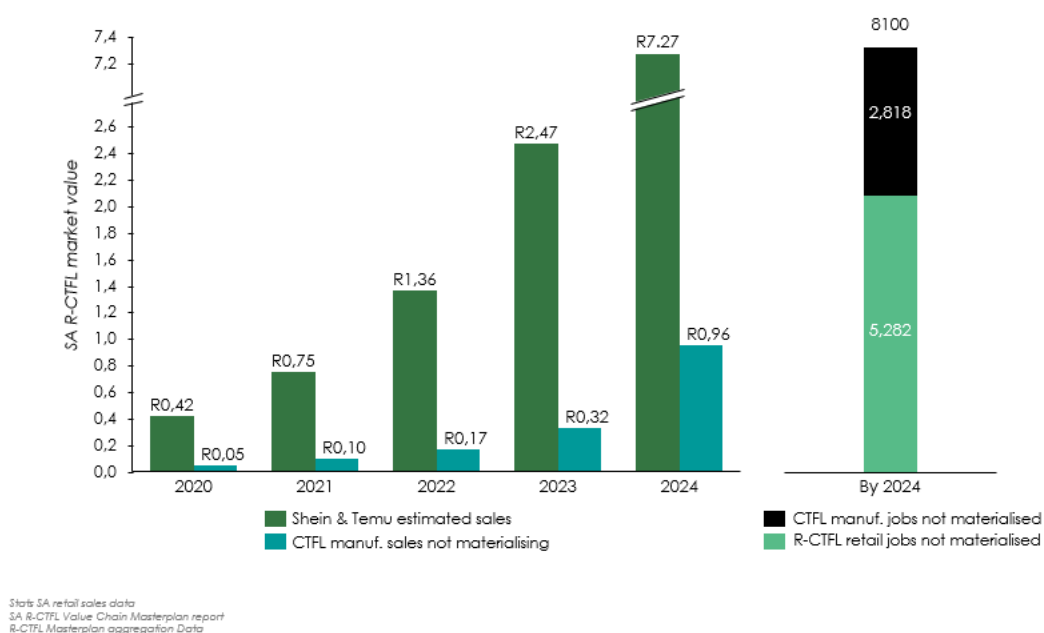
Metric	Value	Comments
(a). SA R-CTFL retailer sales (2016)	R165.1bn	
(b). Retailer CTFL procurement (2016)	R69.9bn	
(c). Implied input margin %	57.7%	= 1 – [b/a]
(d). Value of SA CTFL manufacturing sales	R31.2bn	
(e). SA CTFL manufacturing jobs	92,146	
(f). SA R-CTFL retail jobs	120,000	
(g). Implied Rand of SA CTFL manufacturing sales per manufacturing job	R339,157 per job	= d/e
(h). Implied Rand of SA R-CTFL retail sales per retail job	R1,376,658 per job	= a/f

Note on table 4: the values of (a), (b), (d), (e) and (f) are baseline levels, used in 2018 to inform the ratios noted in (c), (g) and (h). This report's analysis utilises the latest actuals with sources noted in the methodology.

Impact of offshore e-commerce retailers to date

Utilising the above approach, the impact of Shein and Temu's presence in the SA CTFL market was estimated between 2020 and 2024. As illustrated in Figure 6, the analysis performed reveals that in 2024, Shein and Temu account for approximately R7.3-billion in CTFL sales (3.6% of the total SA R-CTFL market, or 37.1% of the SA e-commerce R-CTFL market). The opportunity cost, given current levels of local sourcing by South African retailers is thus estimated to be approximately R960-million in lost SA CTFL manufacturing sales, accounting for roughly 2,818 CTFL manufacturing jobs and 5,282 R-CTFL jobs not materialising.

Figure 6: Shein & Temu impact, 2020 – 2024 (R-billions, jobs)



Projected growth of offshore e-commerce retailers to 2030

SCENARIO DEFINITION

To project the impact of offshore e-commerce retailers on the SA CTFL industry from 2025 to 2030, this report employs measures to first attempt to project the various growth scenarios of Shein and Temu in SA through to 2030, with each growth scenario encompassing an associated impact on the SA CTFL industry in terms of the impact metrics mentioned earlier in this report. Table 5 below details the three growth scenarios considered, followed by a discussion in the sub-sections that follow.

Table 5: Growth scenarios of Shein and Temu

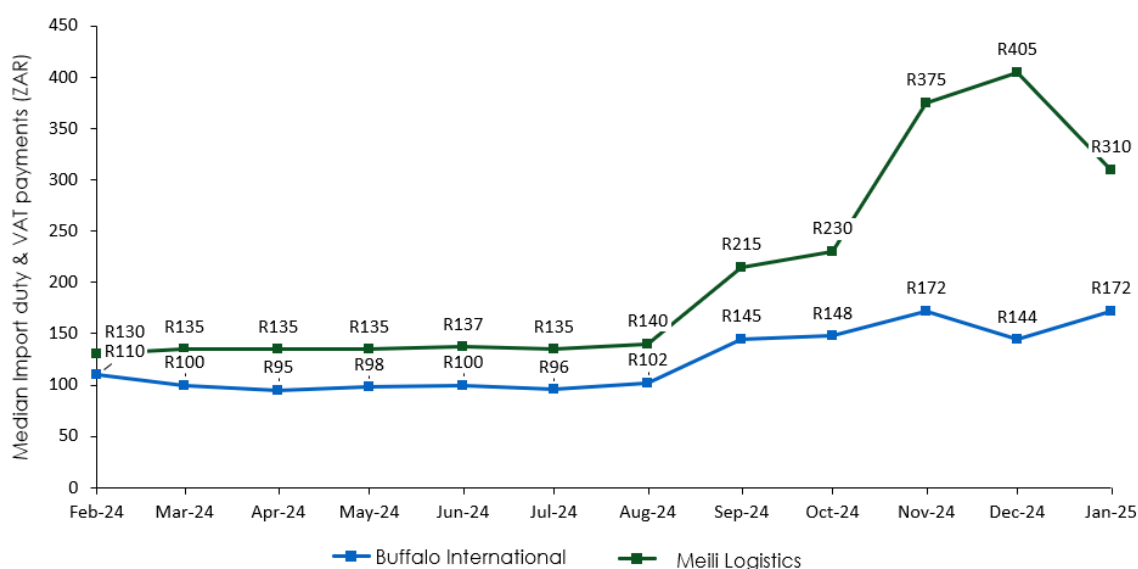
Low growth	Middle growth	High growth
<p>Scenario context:</p> <ul style="list-style-type: none"> Application of customs/SARS tax legislation resulting has material impact on Shein/Temu price competitiveness Additional policy & regulation is adopted in line with comparator economies Shein & Temu improve labour & sustainability standards for improved market access, which reduces pricing advantage Shein & Temu sales in SA grow at slower pace than R-CTFL e-commerce growth of 10.4% <p>Scenario factor:</p> <ul style="list-style-type: none"> Shein & Temu SA R-CTFL sales grown at 5% p.a. to 2030 	<p>Scenario context:</p> <ul style="list-style-type: none"> Application of customs/SARS tax legislation resulting has impact on Shein/Temu price competitiveness Shein/Temu roughly maintain e-commerce market share of 37% Shein & Temu sales in SA grow at same pace as R-CTFL e-commerce growth of 10.4% <p>Scenario factor:</p> <ul style="list-style-type: none"> Shein & Temu SA R-CTFL sales grown at 10.4% p.a. to 2030 	<p>Scenario context:</p> <ul style="list-style-type: none"> Application of customs/SARS tax legislation has limited impact - Shein/Temu still more price competitive than local Shein/Temu continue to take additional e-commerce market share away from local Shein & Temu sales in SA grow at double the pace of R-CTFL e-commerce growth of 10.4% <p>Scenario factor:</p> <ul style="list-style-type: none"> Shein & Temu SA R-CTFL sales grown at 20.8% p.a. to 2030
<ul style="list-style-type: none"> Overall SA market grown to 2030 at 2% p.a. as per SARB GDP forecast 		

Limited growth scenario

The limited impact scenario is based on the premise that the recent customs and tax legislation ends up having a material impact on the price competitiveness of Shein and Temu. This further implies that not only is the tax large enough to have a meaningful impact, but that it's adequately enforced. Moreover, and in line with the observations of policy and regulations in comparator countries, SA adopts a further suite of policies that continues to level the playing field in the local market. Examples of these policies include stronger enforcement of the Consumer Protection Act and a full audit to see whether these offshore online e-commerce retailers adhere to all the requirements of the Act, the addition of handling fees placed on offshore e-commerce retailer packages, localisation or local value chain related pressures similar to the Masterplan objective of 65% local sourcing by 2030.

This scenario is further supported by recent research conducted by Slant Research provides some early evidence of the effectiveness of customs and VAT legislation, where there has been a clear increase in the value of customer payments made to Buffalo International and Meili Logistics (known 3rd party logistic service providers for Shein) on Shein orders, which in turn corresponds with an early decline in the 2025 market share compared to 2024⁵⁰.

Figure 7: VAT Payments captured from 3rd party logistics providers⁵¹



This scenario is further supported by the apparent intentions of Shein to improve labour and sustainability standards, perhaps to enable public listings on international stock exchanges⁵². Either way, this will likely have inflationary outcomes on Shein product, which in turn is likely to negatively impact demand in SA.

Based on the above factors, the low(er) impact scenario applies a 5% p.a. growth on Shein and Temu sales from the 2024 baseline, which is less than half the estimated p.a. growth rate of the SA CTFL e-commerce growth rate of 10.4%⁵³. Implicitly, the factors that are destined to accelerate the growth of CTFL e-commerce in SA are assumed to have less of an impact on Shein and Temu as these are outweighed by the inflationary outcomes associated with increased tax and ESG compliance as mentioned above.

Given Shein and Temu are growing at a slower pace than the CTFL e-commerce market, they are expected to lose e-commerce market share under this scenario. However, since the 5% p.a. is still greater than the 4.1% p.a. that the overall market is growing, Shein and Temu will accumulate additional market share overall.

Moderate growth scenario

The middle growth scenario is based on the premise that Shein and Temu's sales growth in SA is linked to the same trends driving the growth of the SA CTFL e-commerce market in SA as mentioned in Section 3.

This scenario assumes that imposed tax legislation in SA to some extent enables a levelling of the playing field in the SA CTFL e-commerce market. However, the competitive advantage derived from Shein and Temu's supply chain and business models will mean that while the legislative playing field is balanced, these retailers are still able to outcompete the incumbents in terms of speed, flexibility, and variety. Moreover, it is further assumed in this scenario that there is no further policy and regulatory moves made that have an impact on Shein and Temu.

Based on this assumption, the middle growth scenario applies a 10.4% p.a. growth on absolute sales for Shein and Temu from the 2024 baseline, which is in line with overall growth of the e-commerce market in its entirety⁵⁴. Implicitly, the factors that are expected to propel the CTFL e-commerce market forward in SA are expected to have an equal impact on the growth of Shein and Temu sales.

High growth scenario

This scenario is based on the premise that Shein and Temu's rapid accumulation of both overall CTFL and e-commerce CTFL market share continues. This scenario imagines a situation where the recently enforced tax legislation in SA doesn't have a material impact on Shein and Temu's ability to compete on price in the SA market, either because the quantum of the taxation is not large enough or because the enforcement is not adequate at the point of entry.

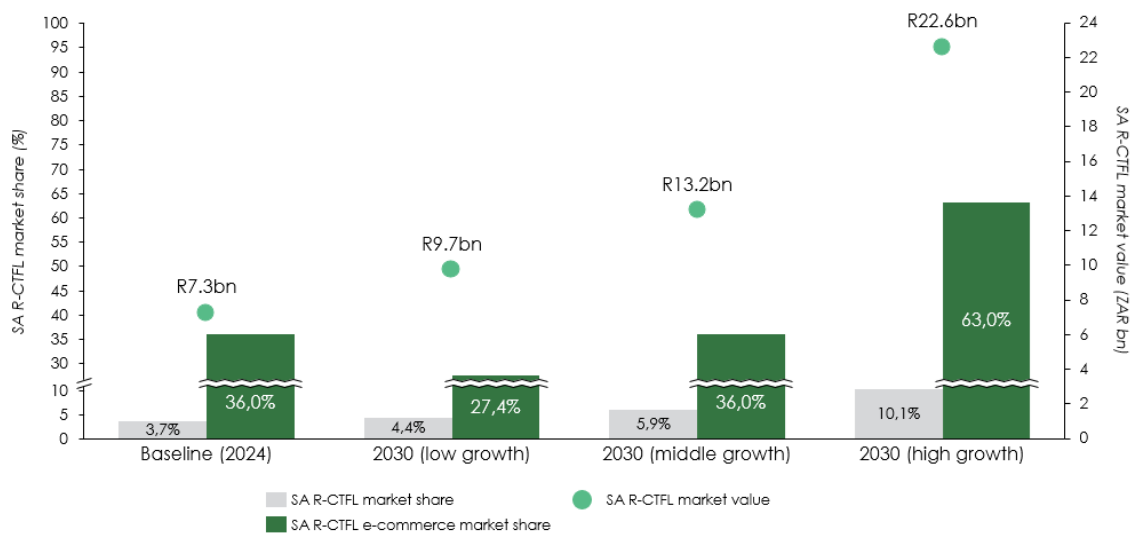
Given this, it implies that Shein and Temu will continue to operate in an uneven environment compared to other retailers operating in the market, coupled with their ability to leverage the

supply chain and business models to achieve speed, flexibility and variety, the two retailers are expected to rapidly accumulate market share under this scenario, to the extent that a majority of the e-commerce market is dominated by these players.

Based on this thinking, the scenario applies a 20.8% p.a. growth in absolute sales of Shein and Temu. Given that this growth is higher than both the growth of the overall CTFL market, as well as the e-commerce CTFL market, Shein and Temu are expected to accumulate significant market share over the next 5-years in both segments.

SCENARIO OUTCOMES

Figure 8: Modelled Shein & Temu market share and sales value under to 2030



Looking at Figure 7 and applying the growth outcomes detailed in the scenarios above reveals the following outcomes for each by 2030;

Currently, Shein and Temu have recorded sales of R7.3-billion from entry in 2020 up until 2024. These sales translate into a 3.7% market share of the overall CTFL market and a 36.0% market share in the CTFL e-commerce market.

Applying the scenario of low growth of 5% p.a. to Shein and Temu's baseline sales, by 2030, the value of CTFL sales would increase from R7.3-billion to R9.7-billion, causing the overall market share of CTFL to increase to 4.4%. However, this increase does not lead to an increase in e-commerce CTFL market share, which decreases to 27.4% by 2030.

The middle growth scenario of 10.4% (in line with the projected growth of the SA CTFL e-commerce market) sees the value of CTFL sales increase to R13.2-billion by 2030, increasing

both the overall CTFL market share to 5.9% and e-commerce CTFL market share to the same level seen in 2024 of 36.0%.

Within the high growth scenario of 20.8% of Shein and Temu, CTFL sales increase to R22.6-billion by 2030, with both overall CTFL market share and e-commerce CTFL market share almost doubling to 10.1% and 63.0% respectively.

Projected impact of offshore e-commerce retailers to 2030

SA CTFL MARKET LOCAL SOURCING SCENARIOS

The extent to which Shein and Temu's accumulated market share and associated sales value impacts the local CTFL industry is largely dependent on how much product would have been sourced locally if that market share was not accumulated. For example, if zero % of CTFL product was sourced locally, then Shein and Temu's accumulated sales would have zero impact on the local manufacturing base. As such, this report considers the impact of the Shein and Temu growth scenarios against 3 different local sourcing scenarios. These are detailed in the subsection that follows.

Local sourcing stays at 32%

According to the Masterplans aggregation data, which essentially tracks local sourcing data annually for the Masterplan signatories, current local sourcing sits at 32% of total sourcing. This scenario assumes that there is no change in this metric to 2030. Implicitly, this assumes that there is zero additional import substitution that takes place.

Local sourcing reaches 45%

This scenario depicts a reality where continued efforts are taken by retailers to grow the relative proportion of local sourcing in their overall sourcing profiles, with local sourcing representing 45% of total product sourced by 2030. This would imply a p.a. growth rate in the local sourcing % of 7.1%.

Local sourcing reaches 65%

This scenario depicts a reality where the Masterplan is successful in driving its mandate of reaching 65% of all SA CTFL product being sourced locally by 2030. This scenario would require rapid import substitution over the next 5-years.

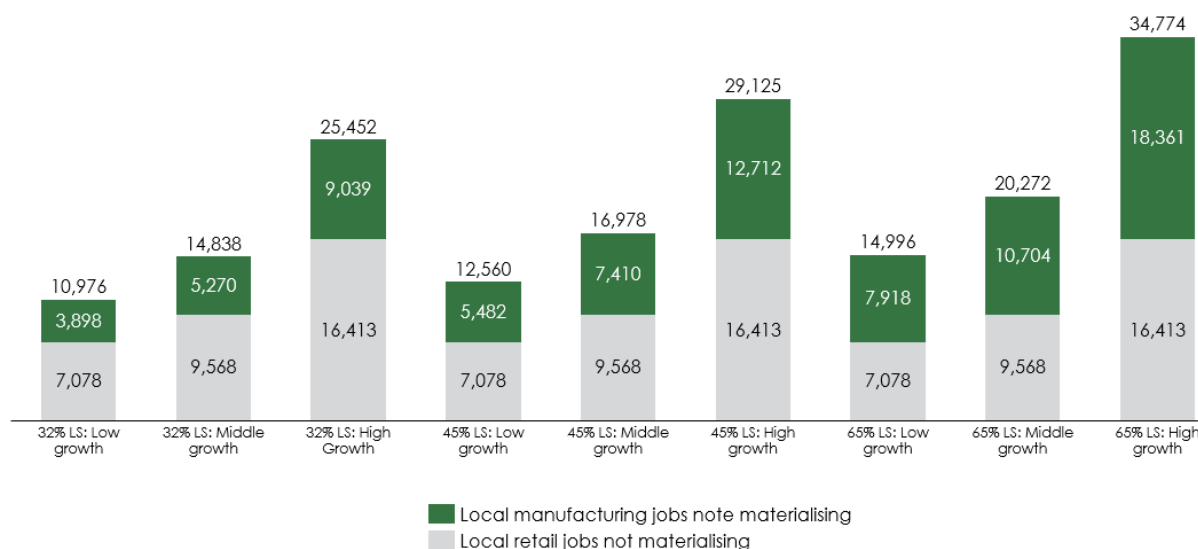
PROJECTED IMPACT

Table 6: Summary of Impact Scenarios³

	Low growth		Middle growth		High growth	
32% local by 2030	R-CTFL sales value:	R9.74bn	R-CTFL sales value:	R13.17bn	R-CTFL sales value:	R22.60bn
	R-CTFL MS:	4.4%	R-CTFL MS:	5.9%	R-CTFL MS:	10.1%
	E-commerce R-CTFL MS:	27.4%	E-commerce R-CTFL MS:	36.0%	E-commerce R-CTFL MS:	63.0%
	SA manuf. sales not materialising:	R1.32bn	SA manuf. sales not materialising:	R1.79bn	SA manuf. sales not materialising:	R3.07bn
	SA manuf. jobs not materialising:	3,898	SA manuf. jobs not materialising:	5,270	SA manuf. jobs not materialising:	9,039
	SA retail jobs not materialising:	7,078	SA retail jobs not materialising:	9,568	SA retail jobs not materialising:	16,413
45% local by 2030	R-CTFL sales value:	R9.74bn	R-CTFL sales value:	R13.17bn	R-CTFL sales value:	R22.60bn
	R-CTFL MS:	4.4%	R-CTFL MS:	5.9%	R-CTFL MS:	10.1%
	E-commerce R-CTFL MS:	27.4%	E-commerce R-CTFL MS:	36.0%	E-commerce R-CTFL MS:	63.0%
	SA manuf. sales not materialising:	R1.86bn	SA manuf. sales not materialising:	R2.51bn	SA manuf. sales not materialising:	R4.31bn
	SA manuf. jobs not materialising:	5,482	SA manuf. jobs not materialising:	7,410	SA manuf. jobs not materialising:	12,712
	SA retail jobs not materialising:	7,078	SA retail jobs not materialising:	9,568	SA retail jobs not materialising:	16,413
65% local by 2030	R-CTFL sales value:	R9.74bn	R-CTFL sales value:	R13.17bn	R-CTFL sales value:	R22.60bn
	R-CTFL MS:	4.4%	R-CTFL MS:	5.9%	R-CTFL MS:	10.1%
	E-commerce R-CTFL MS:	27.4%	E-commerce R-CTFL MS:	36.0%	E-commerce R-CTFL MS:	63.0%
	SA manuf. sales not materialising:	R2.69bn	SA manuf. sales not materialising:	R3.63bn	SA manuf. sales not materialising:	R6.23bn
	SA manuf. jobs not materialising:	7,918	SA manuf. jobs not materialising:	10,704	SA manuf. jobs not materialising:	18,361
	SA retail jobs not materialising:	7,078	SA retail jobs not materialising:	9,568	SA retail jobs not materialising:	16,413

³ From a jobs perspective, our analysis models the jobs not materialising in manufacturing and retail as a result of Shein and Temu's accumulated market share in the R-CTFL industry. However, there is an argument to suggest that a portion of the retail jobs could be offset by an increased requirement in the logistics sector as a result of Shein and Temu's entry. This scenario has not been modeled due to the difficulty in estimating indirect job creation. As a result, the local retail jobs not materialising must be taken with this context in mind.

Figure 9: Total jobs lost per scenario



Looking at Table 6, this knock-on effect can be seen. As the value of Shein and Temu sales in the R-CTFL market increases from R9.74-billion to R22.6-billion, the impact on lost local manufacturing sales, jobs and retail jobs increases, with a higher compounded effect seen between the moderate and major impact scenarios compared to the difference between the limited and moderate impact scenarios.

A few key points to note are why the differences in metrics occur under different the scenarios:

- Manufacturing outcomes (manufacturing sales and jobs) are directly related to the local sourcing scenario envisaged, with this felt more acutely as the growth scenario for Shein and Temu increases.
- Conversely, the impact on local retail jobs is entirely agnostic of local sourcing % and is only affected by the respective growth scenario of Shein and Temu.
- It should also be noted that for the retail jobs metric, these are not implying lost jobs but rather jobs not materialising. Moreover, it should also be acknowledged that jobs that don't materialise in retail because of Shein and Temu may to some extent be offset in other areas of the economy, primarily those that are required to support the logistical operations of Shein and Temu (e.g. delivery drivers).

Key recommendations

Assessing comparator economy responses, desktop research and stakeholder insights highlights several key recommendations for further consideration.

Enhance consumer protection and fair-trade practices

Request the National Consumer Commission to conduct an audit on online, offshore retail operations ensuring alignment with the Consumer Protection Act. Namely, the following focus areas should be investigated and compliance confirmed:

- Ensure all e-commerce and international retailers have an appointed local representative
- **Product Quality and Safety Standards:** Investigate the product quality and safety standards of retailers like Shein and Temu. European regulators have previously flagged both companies for selling harmful products, including those containing carcinogenic substances.
- **Accuracy of Labelling:** Require offshore e-commerce retailers to fully disclose all information regarding product sourcing and materials. Clear, specific, and non-misleading product information is crucial, especially given past accusations against platforms like Temu for misleading discounts and fake sales.
- **Fair Pricing and Transparent Costs:** Mandate a comprehensive breakdown of all costs included in the final checkout price to prevent hidden charges.
- **Rights Regarding Returns, Refunds, and Faulty Goods:** Establish clear, efficient, and cost-competitive systems for consumers to return goods or request refunds for faulty products. These systems must be supported by clear policies and local handling representatives.

- **Protection of Personal Information Act (POPIA) Compliance:** Ensure offshore, online retailers comply with POPIA guidelines. Due to their data-reliant operations, stringent controls on data storage and distribution are essential to mitigate the high risk of data sharing and protect consumer privacy.
- **Enforce Extended Producer Responsibility compliance auditing:** Advocate for the Department of Environmental Affairs to audit offshore e-commerce retailers for EPR compliance. This ensures these retailers adhere to the same paper, packaging, and electronic waste standards as local businesses, promoting equitable waste management practices

Optimise import processing and revenue collection

Engage SARS to investigate alternative models for processing small parcels.

- **Implement a Handling Fee:** Drawing inspiration from France, consider instituting a handling fee for small parcels to resource SARS sufficiently and reduce strain on the national fiscus. This fee could be a flat rate or a percentage of the parcel's value.
- **Restrict Ports of Entry:** Revisit the R-CTFL Masterplan's recommendation to restrict the ports of entry for clearing imported small parcels to one or two key locations (e.g., OR Tambo or Durban Port). This concentration would facilitate greater upskilling and specialisation of customs officials, enhancing governance and oversight.
- **Reinstitute quarterly SARS Inter-Agency Working Group** with CTFL industry representatives: SARS to establish a senior public-private platform to engage on e-commerce and CTFL import-related issues, including but not limited to small parcels quantity tracking, illegal import seizures and reference-based pricing for duty declarations.

Investigate the consequences of mandated localisation policies

While the R-CTFL Masterplan developed a social compact to create an enabling environment to source local, comparator economies' local policies and tax regimes to incentivise or mandate localisation offer an interesting reference point for South Africa's industrial policy. While such an interventionist policy may be at odds with the political economy of the current administration, further analysis on the strengths, weaknesses and risks of such an approach may support greater understanding on how best to motivate private-sector localisation with the CTFL value chain.

Key questions such an investigation should aim to answer include:

- To what extent could such a policy create a level playing field between both brick-and-mortar stores and OERs as well as local and international retailers operating in South Africa?
- To what extent could a minimum-threshold policy hinder the aspirations of retail to localise?
- How would this impact local CTFL manufacturing both down and up the value chain?
- What are the strengths, weaknesses and potential risks of such an approach?

Strategic recommendations for retail and manufacturing in South Africa

Previous recommendations have focused on addressing the disparity exploited by Shein and Temu's navigation of various tax, policy, and regulatory frameworks or loopholes. In essence these recommendations would level the playing field to ensure all that operate in the SA CTFL

market do so on equal grounds and in a way that ensures adequate consumer protection. Notwithstanding this, Shein and Temu have managed to organise their value and supply chains in a way that optimises speed, increases variety and ensures maximum efficiencies are achieved. As such, the following recommendations focus on potential steps competing retailers and manufacturers in the South African market can take to enhance their competitiveness.

END-TO-END DATA INTEGRATION OF THE SUPPLY CHAIN

Retailers and manufacturers need to modernise and connect their data systems to enable smooth, two-way information sharing. On the one hand, this would require retailers accessing supplier capacity and capability data, whilst on the other, ensuring suppliers have access to accurate and timely demand insights harvested through retail's customer touchpoints. Optimising the digital side of the supply chain will allow for better production planning using advanced tools like AI to match demand with available production, as well as to highlight where gaps in the existing supply base exist based on expected or observed demand. Manufacturers, in turn, should ensure their systems can link with retailer platforms to use observed demand signals to proactively develop and co-create products with retail, further enhancing the value of service that is offered. It's critical to note that building this level of digital collaboration and integration requires trust, strong data security, and clear protocols, particularly when suppliers work with multiple retailers.

INVEST IN CRITICAL SKILLS DEVELOPMENT

The success of OERs such as Shein and Temu is largely driven by their strong digital platform, use of machine learning for real-time POS intelligence analysis and predictive product development. Through the analysis of the business models of Shein and Temu, what is apparent is the large use of data analytics and AI to create transparency and capacity insight into the constituent retailers' supply chains.

Furthermore, the strength of Shein and Temu's supply chain is reliant on strong product development skills, research-and-copy capabilities as well as strong cost engineering skills. These skills, along with data and computer science will be critical for firms looking to compete with offshore online.

USE SUPPLIER DEVELOPMENT, SUPPORT AND MANAGEMENT TO DRIVE PERFORMANCE

Retailers have an opportunity to set clear standards for suppliers, backed by performance targets and KPIs, that are aligned to the success of the retailer. For example, if speed is critical for retail success, suppliers should be graded on lead time. A grading system can be helpful for linking supplier performance to benefits and support, with top supply performers receiving better payment terms, larger orders, or support for upgrading equipment and processes, to name only a few incentive options. This provides the necessary motivation for suppliers to meet retail expectations and align their operations with the specific key performance criteria that are intended to drive a competitive advantage for retail.

LEVERAGING SCALE OF RETAIL TO UNLOCK ADVANTAGES FOR STRATEGIC SUPPLY BASE

Retailers have a unique opportunity to use their scale to strengthen their supplier networks and provide valuable cost optimising opportunities. By centralising raw material sourcing, as demonstrated by Shein, retailers can streamline procurement, reduce costs, and promote consistency in material quality across the value chain. This approach not only supports operational efficiency but also enhances sustainability and supply chain transparency through easier traceability and auditing. Retailers can further support suppliers by negotiating favourable financing terms or purchasing raw materials on their behalf, easing financial pressure and improving supplier liquidity. Manufacturers, in turn, should participate in these initiatives to benefit from economies of scale, simplified sourcing, and access to more favourable financial terms. Aligning production processes with centralised material specifications can further reduce complexity and improve lead times.

Appendix A: E-commerce market penetration in comparator economies

France

France's fashion e-commerce market has experienced significant growth, driven by the convenience of online shopping, increased smartphone and internet penetration, and the widespread adoption of digital payment options⁵⁵. In 2025, the market was valued at US\$23.66 billion and is expected to reach US\$56.36 billion by 2030, growing at a CAGR of 13.2%. Mobile commerce has played a dominant role in this expansion, accounting for over 70% of online fashion retail sales in 2022. The number of French internet users (aged 16 and older) purchasing fashion garments online grew by 31% from 2019 to 2021, with 37% ordering fashion items online in 2021⁵⁶. Currently, e-commerce contributes one-third of total apparel sales in the country. Business to consumer e-commerce represents 40% of all online clothing sales, reflecting the increasing preference for direct-to-consumer shopping experiences⁵⁷.

Shein has emerged as one of the largest e-retailers in France's fashion e-commerce sector. In 2023, Shein generated US\$2.45 billion in revenue from France. The rise of Shein and Temu has also significantly been noted by France's logistics sector, with 22% of parcels delivered by La Poste originating from these two platforms in 2024⁵⁸.

United Kingdom

The UK's fashion e-commerce sector continues to be a dominant force within the broader online retail market. In 2024, nearly one-third of the country's total e-commerce revenue came from online fashion sales, amounting to approximately US\$40 billion⁵⁹. The fashion e-commerce market was valued at US\$31.19 billion in 2023 and is expected to grow at a CAGR of 15.5%, reaching US\$85.51 billion by 2030⁶⁰.

Shein has solidified its position in the UK's online fashion market. The fast-fashion giant sold US\$1.41 billion worth of clothing in 2022, with sales surging to US\$1.95 billion in 2023, demonstrating its growing influence in the country's fashion e-commerce landscape⁶¹.

Türkiye

Türkiye's fashion e-commerce sector is expanding rapidly, with the market expected to reach US\$12.66 billion by 2025, accounting for 25.1% of total e-commerce sales. From 2025 to 2029, the industry is projected to grow at a CAGR of 4.1%, reaching US\$14.86 billion by 2029⁶².

In 2023, online fashion sales made up 17.2% of total retail fashion sales. This share is expected to grow by 4.5% per year, reaching 20.5% by 2027. Türkiye's strong position in fashion e-commerce is supported by its highly skilled workforce in the textile and fashion industry, making it a competitive manufacturing hub⁶³. Shein has established manufacturing hubs in Türkiye, capitalising on the country's expertise in textiles⁶⁴.

Vietnam

Vietnam's fashion e-commerce industry is on a steady growth trajectory, with the market expected to be worth US\$5.2 billion by 2025, making up 19.1% of total e-commerce sales. From 2025 to 2029, the sector is projected to grow at a CAGR of 7.8%, reaching a market value of US\$7.02 billion by 2029. The share of online fashion sales within the broader Vietnamese fashion retail market is currently 21.6% and is expected to increase at an average rate of 4.0%, reaching 25.2% by 2029.

Vietnam's overall e-commerce market has experienced rapid expansion over the past decade. The market was valued at US\$2.97 billion in 2014, increasing to US\$4.07 billion in 2015, US\$5 billion in 2016, US\$6.2 billion in 2017, US\$8 billion in 2018, and US\$11.8 billion in 2020⁶⁵. By 2022, e-commerce accounted for 7.5% of total retail sales (US\$16.4 billion), surpassing US\$20 billion in 2023⁶⁶.

Vietnam has become an increasingly attractive hub for fashion e-commerce, partly due to competitive labour costs and a strong manufacturing infrastructure. In response to evolving U.S. trade regulations, Shein has been shifting production to Vietnam, leveraging the country's favourable trade policies⁶⁷. The Vietnamese government actively supports foreign direct investment (FDI), offering tax incentives and regulatory benefits to further stimulate growth in the e-commerce and manufacturing sectors⁶⁸.

Brazil

Brazil's fashion e-commerce market is projected to reach US\$11.35 billion by 2025, making up 25.6% of total e-commerce sales in the country. From 2025 to 2029, the sector is expected to grow at a CAGR of 10.7%, reaching US\$17.06 billion by 2029.

Brazil's overall e-commerce industry has expanded significantly over the past few years. The market grew from US\$13.28 billion in 2018 to US\$28.65 billion in 2021 and US\$35.28 billion in 2023⁶⁹. Future growth is expected to continue at a CAGR of 10.14% from 2025 to 2029, with total e-commerce revenues rising from US\$48.26 billion in 2025 to US\$71.01 billion by 2029⁷⁰.

Shein has also established manufacturing hubs in Brazil, benefiting from the country's growing digital economy and strong consumer demand, as well as changing trade policies with the US⁷¹. In 2023, Shein recorded profits of US\$2.41 billion, an increase of almost 40% compared to 2022. The overall e-commerce market share in Brazil's total retail sector was 11.6% in 2021, with Shein capturing 1.4% of the country's total e-commerce sales⁷².

Appendix B:

Detailed Local and international policy responses

South Africa

South Africa has several pieces of legislation that regulate e-commerce in the country. These pieces of legislation provide requirements for operating practices for businesses and describes the measures required to protect businesses and consumers.

The first piece of legislation is the Electronic Communications and Transactions Act (ECTA) of 2002. This Act outlines requirements for businesses operating online and is the primary legislation regulating e-commerce in South Africa. It also includes consumer protection and cybersecurity measures.

The second piece of legislation is the Consumer Protection Act (CPA) of 2008. The CPA governs the rights and protections of the consumer in South Africa, including those related to e-commerce. The CPA also establishes guidelines for fair business practices, transparent pricing, and the handling of returns and refunds for online transactions. Importantly for this report, certain sections of the CPA pertain to transactions with foreign suppliers if the goods or services are supplied within South Africa.

Also linked to consumer protection is the Protection of Personal Information Act (POPIA) of 2013. POPIA regulates the collection, handling, and storage of personal information in South Africa. In the context of this study, it would mean that any business, whether based in South Africa or abroad, that involves South African consumers, must comply with POPIA to protect the privacy of the consumer, as well to prevent data breaches involving the personal information of consumers. Consent must be obtained from consumers before personal information can be collected, and the business must have in place robust security measures to safeguard personal data of the consumers.

Furthermore, is the Cybercrimes Act of 2020. This Act came into effect in December 2021 and addresses various offenses such as cyber fraud and forgery. This piece of legislation protects consumers from fraudulent activities and establishes offenses related to electronic transactions.

These legislated policies are the tools used by South Africa to maintain a safe and fair business environment for e-commerce. However, e-commerce globally is a dynamic space and changes with evolving consumer demands, supply chain shifts, and technological advancements. As such, policies and regulations need to be reviewed to keep pace and to ensure that a safe and fair business environment is maintained. This is especially important for the protection of local manufacturers who are at risk of being outcompeted by the larger offshore e-commerce retailers who are able to supply products at lower price-points.

In South Africa, two important recent policy responses have been developed to maintain a level playing field which are described below. Considerations for improved consumer protection are also discussed.

Addressing the VAT exemption of low-value parcels.

As of September 2024, the VAT policy on low-value imports in South Africa has undergone marked changes. All parcels being imported are now subject to 15% VAT regardless of their value⁷³. The importation of 'low-value parcels' from offshore e-commerce retailers is a major tax issue worldwide⁷⁴. In many countries, these parcels are treated as VAT exempt due to the administrative costs to collect the VAT from the parcels exceeding the VAT amount charged. However, the high volume of these packages being imported in South Africa, especially with the recent arrival of offshore e-commerce retailers, has had a negative impact on domestic retailers and tax authorities.

Amending the 20% flat customs rate on low-value parcels

In addition to removing the VAT exemption from low-value parcels, South Africa has amended the customs rate percentage charged on imported low-value parcels as another mechanism to ensure fair competition between local and international retailers. Up until November 2024, a flat rate of 20% was charged on all low-value parcels, compared to a 45% rate on parcels above R500⁷⁵.

South African Revenue Service (SARS) has restructured the flat customs rate to align with the World Customs Organisation's (WCO) system by having a tiered custom rate based on the category of good being imported, rather than a flat rate for all low-value goods being imported. Consequently, for imported items of clothing, the customs duty to be paid increased from the flat rate of 20%, to a standard rate of 45%. The policy reform aims to address the inequalities created by the previous custom rates and level the playing field for local retailers.

Opportunities to update the legislation to protect the consumer

A 2024 report by the Consumer Goods and Services Ombud⁷⁶ has identified the need to review and update legislation, such as the ECTA, to better protect consumers, specifically in matters relating to third-party sellers. Online marketplaces often host multiple high volume, third-party sellers who sell goods on behalf of the online marketplace. A concern noted in the

2024 Ombuds report is that consumers, when purchasing from a third-party seller, are often left with little course for redress should something go wrong – for example if a product arrives and is damaged, or if the third-party seller ‘ghosts’ the consumer once the product has been paid for. This is not only a problem in South Africa but has been noted worldwide. Updates to the legislation would require online marketplaces to conform to greater levels of transparency or take direct responsibility for third party sellers. Furthermore, legislation could consider requiring online marketplaces to ban third party sellers that are found guilty of misconduct.

France

The European Union, supported by France, has implemented several responses to the growing presence of large, offshore, online retailers to ensure fairness to local suppliers and ensure the safety of the consumer in France. Mainly these responses are due to the high volumes of low-value (< €150) products being imported: in 2024, approximately 4.6 billion low-value consignments entered the EU market, which is an equivalent of 12 million parcels per day⁷⁷. The responses by France and the EU are aimed at reducing the negative impact the imported products are having on local businesses and the environment.

Review of duty exemptions

The European Commission is seeking to impose the removal of the duty exemption that is currently in place for imported low-value products. Currently, only parcels >€150 are required to pay a variable customs duty rate up to 22% (depending on the product category). The removal of the exemption would mean all imported parcels would be subject to an import duty fee in addition to VAT. VAT is required to be paid for all parcels being imported irrespective of their value⁷⁸. The Commission is recommending that the EU consider other measures to level the playing field. One of these is a handling fee for low-value goods imported into the EU to recover the costs involved in supervising compliance of the high volume of these parcels being imported⁷⁹. Both the duty and handling fee for imported parcels will assist with the intention by the EU commission being to prevent total market dominance by offshore retailers and ensuring fair competition.

Responses aimed at restricting ultra-fast fashion

In March 2024, France's lower house of parliament approved a bill to mitigate the environmental harm caused by rapid production cycles⁸⁰. Although France has yet to bring this bill into effect ⁸¹ the proposed legislation includes several approaches that would impact the offshore e-commerce retailers that are known to be sources of ultra-fast fashion products. The bill proposes a ban on advertisements from certain ultra-fast fashion brands, an environmental surcharge to account for environmental impacts, and describes requirements to improve the transparency specifically around the product's end-of-life, requiring companies to display information on the item's environmental impact as well as its potential for reuse, repair and recycling.

Tighter inspections and closer oversight by authorities

Another initiative imposes higher levels of monitoring and enforcement at the port of entry. France has stepped up inspections of imported goods at their ports to ensure that these goods are not counterfeit or unsafe, and that they comply to the various standards and regulations set by the EU⁸².

United Kingdom

In 2024, the UK enacted the Digital Markets, Competition and Consumers Act 2024 (DMCCA) to level the playing field and promote fair competition in e-commerce⁸³. Under this act (facilitated by the Competition and Markets Authority (CMA)) retailers with large market power (defined as those firms with a global turnover above £25bn, or UK turnover above £1bn) are required to adhere to the regulations therein that focus on consumer safety and fair business practices.

Consumer protection

Regarding consumer protection, the DMCCA prohibits fake reviews, subscription traps and pressure selling, and stipulates paths of swift recourse for consumers through the CMA that can hand down fines of up to 10% of global turnover by firms who break the law⁸⁴.

Extended Producer Responsibility

The UK is introducing stricter environmental regulations to curb the environmental impact that packaging is having on the environment. A revised Extended Producer Responsibility (EPR) Scheme will become effective in October 2025 and includes requirements for businesses to include mandatory recyclability labelling on any packaging they produce or sell with their products⁸⁵. It also places the responsibility on the business to collect and report packaging data every 6 months. Businesses in scope of this regulation include businesses with a physical presence in the UK with an annual turnover exceeding £1 million, and handling over 25 tonnes of packaging⁸⁶. Large offshore e-commerce retailers will be obligated to comply and take responsibility for the packaging associated with the products sold in the UK and contribute financially to the costs of managing their packaging waste.

Calls for review of exemption thresholds

UK retailers affected by the entry to the market of large e-commerce retailers are calling for the UK government to remove the threshold for customs duties for low-value parcels⁸⁷. Currently in the UK, the threshold for import duty is £135. This means that any imported parcel valued at £135 or below is exempt from customs duty. There has however been no confirmation by UK Treasury that the country is considering customs reforms.

Türkiye

Since 2022, Türkiye has implemented significant changes to its Law on the Regulation of Electronic Commerce in response to the rapidly expanding e-commerce sector. The country's approach to modernising its legislation mainly targets E-Commerce Intermediary Service Providers (EISPs) such as Amazon Türkiye, that the country defines as "platforms that facilitate online transactions but do not sell their own products". The tighter rules for EISPs are due to their role in market competition. EISPs face stricter rules than E-commerce Service Providers (ESPs, that are defined as businesses that sell their own products through their own platforms, such as Mavi⁸⁸ or Penti⁸⁹) that act more as independent online retailers rather than marketplace facilitators. Türkiye's amendments also target those online retailers with high transaction volumes to promote competition and prevent any single or few large retailers from dominating the market.

Caps on advertising spend

Since January 2023, obligations have been placed on online retailers with an annual transactional volume of TRY 30 billion and >100,000 transactions per year⁹⁰. Large retailers that meet or exceed this transaction volume are limited to an advertisement spending cap of 2% for the portion of TRY 30 billion, and a cap of 0.3% for the portion above TRY 30 billion.

Implementing new Electronic Commerce Licenses

In January 2025, Türkiye implemented a new requirement that any EISP with an annual net transaction volume over TRY 10 billion and 100,000+ transactions/year must apply for an electronic commerce license through Türkiye's Ministry of Commerce, with license fees tiered depending on the net transaction volume, and ranges from 0.03% to 25% of their net transaction volume⁹¹. For example, an EISP with a net transaction volume of TRY 10 billion will be subject to pay a license fee of 0.03% of TRY 10 billion. An EISP with a net transaction volume that exceeds TRY 65 billion will be subject to paying a license fee of 25% of its net transaction volume. Before January 2025 Türkiye did not have licenses applicable to e-commerce businesses⁹². The objective of this obligation is to prevent market dominance and promote competition.

Customs duty revisions for low-value parcels

As seen in other countries, Türkiye implemented a marked increase in customs duty in 2024 for any imported low-value (€30 or less) parcels. For items imported from EU countries, customs duty was increased from 18% to 30%, and from 30% to 60% for low-value parcels imported from outside of the EU⁹³. These increases come just two years after the previous increase in customs duties in 2022⁹⁴, and is a response to curb the increasing importation of products from large offshore e-commerce retailers. In 2024, in addition to increasing the customs duties for low-value parcels, Türkiye also implemented a policy to lower the threshold for customs duty exemptions to €30⁹⁵.

Limitations on financial and logistical services

At the same time as implementing policy measures that increased customs duties and lowered exemption thresholds, Türkiye implemented measures around financial and logistical service restrictions for large e-commerce platforms. Large EISPs (those with an annual net transaction volume of >TRY 65 billion, and/or with more than 100,000 transactions per year, excluding cancellations and refunds) are banned from providing specific financial services such as banking or payment services⁹⁶. In addition, large EISPs cannot act as intermediaries for electronic payments beyond what is necessary for processing orders on their platforms⁹⁷. Before this regulation was implemented, an e-commerce retailer such as Amazon Türkiye could offer its own payment system, AmazonPay, and require that their own payment system be used by sellers and customers using their platform. This would have excluded healthy competition to provide payment services by third-party payment providers. Furthermore, large EISPs are banned from providing their own logistics, courier, or delivery services to any third-party sellers⁹⁸. Large EISPs may only offer services for their own sales, but not for other businesses on their platform.

Vietnam

Vietnam is aligning with global trends in their response to the arrival of large offshore e-commerce retailers. Vietnam's responses include reviewing VAT rates and implementing business registration requirements for foreign businesses.

Foreign business registration and licensing requirements:

From January 2025, foreign suppliers that have no permanent presence in Vietnam but engage in e-commerce and digital-based business in Vietnam are legally obligated to register with Vietnam's tax authorities and pay tax⁹⁹. In addition, a new law is expected to be submitted for consideration in October 2025 that will, if implemented, require foreign businesses to apply for a license from the Vietnamese Ministry of Industry and Trade, and establish a representative office in the country or have legal presence¹⁰⁰. This will empower the Vietnamese government to have effective oversight in monitoring consumer rights and fair business practices that local businesses are subject to. This initiative aims to enhance regulatory oversight and ensure that foreign platforms comply with local laws and tax obligations.

Removal of Value Added Tax threshold

In February 2025, Vietnam removed the VAT exemption on low-value parcels (< 1 million Vietnamese Dong; ~US\$ 40) being imported¹⁰¹. Previously only parcels >US\$ 40 were subject to VAT. The Vietnamese justification for this removal was to ensure a level playing field for their local retailers and curb tax revenue erosion.

VAT Adjustments

Effective from July 2025, Vietnam will be adjusting the VAT rate for foreign suppliers that conduct business through e-commerce and digital platforms. The VAT rate for foreign suppliers has been increased from 5% to 10% on their earnings from consumers in Vietnam¹⁰². This means that companies like Shein and Temu will have to pay double the previous VAT amount for their revenue generated.

Brazil

Brazil's response to large offshore e-commerce retailers focused on ensuring the same taxes are paid by local and international suppliers. Their approach also focused on effective monitoring of compliance of foreign businesses to consumer protection and tax laws by requiring these businesses to have a physical or legal presence.

Removal of customs duty exemptions on low-value products

Before 2024, low-value items under US\$ 50 were exempt from paying customs duty when entering Brazil. However, since 2024, Brazil has implemented a revised policy imposing customs duties to be levied on all imported products which is aimed at creating a more competitive environment for local businesses and to ensure that offshore retailers were contributing to tax revenue in Brazil¹⁰³. Current import duties for clothing items range between 10-35% depending on the product category¹⁰⁴.

Taxation of offshore e-commerce

Brazil has implemented policy reforms regarding the taxes that offshore retailers are required to pay. Recent changes include the implementation of a state sales tax, known as the Imposto sobre Circulação de Mercadorias e Serviços (ICMS) that directly impacts both domestic and offshore e-commerce retailers¹⁰⁵. The ICMS is a type of VAT that applies to the sale of goods and certain services in Brazil and is required to be paid by retailers on the goods entering the country. This ensures that foreign retailers selling products to consumers in Brazil pay VAT in the same way as local retailers. ICMS varies depending on the state and the nature of the product¹⁰⁶, and is paid to the state where the goods are delivered or sold.

Local representation requirements for offshore retailers

Since 2014, Brazil has been implementing local representation rules which requires foreign companies or offshore retailers to have a local representative or legal entity in Brazil if they want to sell goods or services to Brazilian consumers¹⁰⁷. This is part of the government's effort to make sure foreign businesses follow local regulations including tax laws (such as ICMS) and consumer protection regulations. Brazilian authorities note that local representation improves customer service and return and allows the Brazilian government to more effectively enforce consumer protection laws and trade regulations.

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