



PSSI PERSPECTIVES — 31

SUPPLIERS IN CHAINS: SHEIN'S TROUBLING IPO

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EXECUTIVE SUMMARY

- SHEIN, the fast-fashion giant with a troubled history, plans to go public in the U.S. in 2024. It is reportedly seeking a [\\$90 billion](#) valuation, underwritten by [major investment banks](#) including JPMorgan Chase and Goldman Sachs.
- SHEIN has either concealed its practices or willfully misled consumers and lawmakers in the [U.S.](#) and [EU](#) regarding its record on [human rights](#), [workers' rights](#), [environmental damage](#), [consumer product toxicity levels](#), and [customs regulations](#).
 - a. SHEIN has been [demonstrably](#) and [repeatedly](#) linked to **forced labor** from Xinjiang, China. Both internal [audits](#) and external [reports](#) have raised substantial concerns about the health and safety of SHEIN's workforce.
 - b. SHEIN faces a multitude of **criminal allegations** including at least 93 open cases of [copyright violation](#), and its intellectual property infringements have been so severe as to instigate a [federal racketeering lawsuit](#).
 - c. SHEIN has demonstrated a repeated **failure to protect consumers**. Its products have been recalled for reasons such as [illegal levels of toxic chemicals](#) and [high flammability](#). One [prosecutorial investigation](#) found that SHEIN was negligent in safeguarding customer data, and subsequently tried to cover up a severe data breach which put millions at risk. It is also accused of implanting "[marketing spyware](#)" in its Android app.
- SHEIN's ambitions now face growing [bipartisan](#) resistance in the U.S. Congress. This, coupled with the fact that it is still [awaiting](#) a response from the SEC is reportedly causing SHEIN to at least consider [listing on the London Stock Exchange](#), highlighting the necessity of a unified transatlantic stance on SHEIN's egregious corporate behavior.
- Permitting SHEIN to be publicly traded on Western exchanges would condone its unethical and illegal practices. Subsequent Western investment would serve to fund and encourage the continuation of these practices, to the detriment of largely unwitting American and European investors. The SEC should reject SHEIN's IPO filing, and American lead underwriters should be barred from involvement.

OVERVIEW OF SHEIN

In the ever-evolving world of fast fashion, one name has recently risen to prominence – SHEIN. Valued at some [\\$66 billion](#), more than [H&M and Zara](#) combined, the world’s [third-largest](#) startup is looking to [go public](#) in the U.S. in 2024. Should SHEIN successfully launch its stock via an Initial Public Offering (IPO), it would have manifold financial and ethical repercussions, and would set an important precedent for the corporate behavior and business practices Western capital markets are willing to fund.

SHEIN dominates the [U.S. fashion market](#), boasting [over 65 million users](#) in 2022 and [surpassing Amazon](#) in terms of shopping app downloads. It ships to [over 150 countries](#) and is the [17th most visited](#) website in the world, with the U.S. accounting for [38% of its traffic](#). Key to SHEIN’s success is its massive network of [influencers](#) who market its products to younger and [comparatively less affluent](#) consumers hungry for a [taste of luxury](#). These influencers help the company trim marketing costs, and persuade digitally native Gen-Z and Millennials to concentrate on SHEIN’s clothes and branding instead of its troubling operations.

SHEIN’s highly aggressive pricing strategy has also been enabled by pervasive corner-cutting throughout its operations. Moreover, SHEIN has been able to undercut its American competitors by circumventing customs and labor rights in order to take over the ultra-cheap, ultra-fast fashion market. SHEIN’s success signals that in the current regulatory environment, Chinese companies can [dominate](#) their American counterparts through unfair, unethical, and, at times, illegal trade practices. SHEIN’s remarkably effective strategy for exploiting these regulatory loopholes has turned extraordinary profits and attracted investments by major venture capital and private equity firms, including [Sequoia Capital and General Atlantic](#).

This year, SHEIN is aiming even higher. In its effort to become publicly traded in the U.S., SHEIN is reportedly seeking a valuation of [\\$90 billion](#), [which would almost certainly make it the largest IPO](#) in 2024. With [lead managers](#) including some of the most prominent institutions in investment banking – JPMorgan Chase, Goldman Sachs, and Morgan Stanley – the stage is set for a flood of American and allied investment into this secretive Chinese enterprise. As American legislators have increasingly [decried](#) the IPO, this resistance has reportedly caused SHEIN to [consider listing in London](#) instead. Although it is unclear whether this is SHEIN’s actual intention, or an attempt to pressure the SEC into approving a U.S.-based listing, regulatory action on the IPO is clearly at a crucial stage. This report serves to highlight some of the malign practices which public investment in SHEIN would fund.

COMPANY RISK PROFILE

Uyghur Oppression and Forced Labor

SHEIN has been [demonstrably](#) and [repeatedly](#) linked to forced labor. Specifically, it has been found to source cotton from Xinjiang, a region so rife with forced labor that there is a [blanket ban](#) on Xinjiang-sourced products entering American markets.

In 2022, SHEIN’s own internal audit found that 83% of its suppliers had “[major risks](#),” including “working hours” and “fire and emergency preparedness.” A further 12% of its suppliers were noted as committing “[zero tolerance violations](#),” which include underage labor, forced labor, and severe health and safety issues. Multiple external investigations into SHEIN’s working conditions have reported that some of its factory employees [work up to 18 hours a day with no weekends](#), face [severe pay dockings](#) for mistakes, and are forced to [wash their hair during lunch breaks](#) due to their lack of free time amidst grueling shifts.

Criminal Allegations

Beyond SHEIN's human rights violations overseas, the company is facing pressure in the U.S. over allegations that it has repeatedly, and intentionally, sold replicas of artists' work without permission or compensation. Its alleged violations range from copying the designs of [small indie artists](#) to some of its major competitors, such as [UNIQLO](#) and [H&M](#). With [at least 93 open cases](#) of alleged copyright or trademark infringement, SHEIN's repeated intellectual property [violations](#) have been so widespread as to instigate a [federal racketeering lawsuit](#).¹

Moreover, 15% of SHEIN's products have been found to exceed the regulatory limits set by the EU for [hazardous chemicals](#). In the [U.S.](#) and [UK](#), SHEIN children's clothes were recalled due to their excessive flammability, while in Canada they were recalled for containing "[20 times the amount of allowable lead in children's products](#)." SHEIN has further been accused of [sidestepping U.S. customs law](#) to avoid paying import duties.

In a new lawsuit, rival company Temu alleges that SHEIN uses "[mafia-style](#)" methods such as "intimidation and detention scare tactics against suppliers... including false imprisonment." The lawsuit also describes "a larger pattern of behavior by Shein to subvert and abuse the U.S. legal system." While PSSI cannot verify all of the claims against SHEIN, a disregard for legal norms is clearly part of the company culture.

SHEIN also has an atrocious data privacy record. SHEIN and its parent company² paid [\\$1.9 million](#) in a settlement after an [investigation](#) by the Attorney General of the State of New York "revealed that the company failed to properly safeguard consumers' information prior to the data breach, failed to take adequate steps to protect many of the impacted accounts after the breach, and downplayed the extent of the cyber-attack to consumers." Worse still, SHEIN has been accused of putting "[marketing spyware](#)" in its Android app, which would read and send data that was copied to the clipboard to [remote servers](#). The potential implications of a Chinese app implementing any kind of spyware against Western consumers cannot be underestimated in light of the blurred lines between business and government in China. SHEIN's persistent breaches of legal and ethical standards demonstrate a total disregard for consumer protection, intellectual property, public health, and data security.

Opaque Corporate Structure

Little is known about SHEIN's internal structure and organization, and even less about its enigmatic founder.³ This is seemingly [by design](#), making it more difficult to investigate misdeeds and prepare legislative or regulatory action against the company. For example, SHEIN's recent relocation of its headquarters from [China](#) to [Singapore](#) may be an attempt to "[circumvent China's tough new rules on overseas listings](#)."

SHEIN has not publicly disclosed its corporate structure, and efforts to investigate it have resulted in various companies being mentioned as potential parent or sister entities by secondary sources.⁴ These companies include [Zoetop Business](#) in Hong Kong and [Nanjing Lingtian Information Technology](#) in mainland China. Exemplifying this confusion, the office of the New York State Attorney General has referred to

¹ Racketeering refers to an organized intention to violate U.S. laws.

² At the time of the data breach, Zoetop Business was considered to be SHEIN's parent company, although that may no longer be the case.

³ SHEIN was founded by Chris Xu, also known as [Sky Xu](#) and [Xu Yangtian](#). He [stays out of the public spotlight](#), refusing interviews and only rarely issuing press releases.

⁴ While [attempts](#) to map out SHEIN's structure have been made, they are often outdated, contradictory, and lacking input from the firm itself.

Zoetop Business as SHEIN’s [parent company](#),⁵ contradicting organizations like [FOREX](#) and the [Business & Human Rights Resource Centre](#). SHEIN’s opaque corporate and supply chain structure forces investigators, and investors, to deal with the company from an informational disadvantage.

SHEIN claims to have built long-term relationships with over 5,000 private manufacturing contractors who adhere to its “[stringent standards](#).” Yet it has attempted to [shift blame](#) to these suppliers when caught violating intellectual property. Amidst the further allegations of slave-labor-sourced cotton, toxic products, and numerous other labor and consumer rights violations, SHEIN clearly cannot – or will not – effectively manage this large network of third-party contract manufacturers. This, like other elements of SHEIN’s corporate structure, serves to diffuse and deflect responsibility.

Deceptive Marketing

SHEIN’s website, until recently, [falsely claimed](#) that its factories were “certified” by the International Organization for Standardization (ISO), a claim which the ISO has categorically rejected, as it does not certify companies, but merely issues and establishes standards. SHEIN’s website also claimed that the company was “proudly in compliance with strict fair labor standards set by international organizations like SA8000.” Social Accountability International, the organization that administers the SA8000 standard,⁶ has also [rejected](#) this assertion, stating that SHEIN has not been certified, nor even been in contact with the organization. Today, all references to the ISO, Social Accountability International, or SA8000 have been removed from SHEIN’s website.

SHEIN’s pretensions to “[sustainability](#)” and “[accountability](#)” are misleading in light of the extreme [environmental damage](#) which results from its [virulently wasteful](#) business model. SHEIN habitually leverages online content creators, as in one recent instance when it [paid for](#) a group of well-known influencers to tour its facilities, seemingly to have them [spout talking points](#). SHEIN seeks to control the narrative by flooding the internet with brand-approved content, drowning out independent reports of illegal and unethical practices in favor of [curated demonstrations](#) of highly automated factories and “[innovation centers](#).” In essence, SHEIN has weaponized content creators, leveraging their public influence and image to mask the company’s lack of operational transparency and accountability.

⁵ The [court filings](#) from this proceeding state in a footnote that “Respondents have represented to the NYAG that, as a result of a corporate restructuring, Zoetop is no longer operational and U.S. operations for the brands involved in the data breach that is the subject of this Assurance – SHEIN and ROMWE – have been taken over by SHEIN Distribution Corporation.” However, since Zoetop was undeniably operational at the time of the data breach, it was treated as a respondent in the settlement proceedings: “Accordingly, both SHEIN Distribution Corporation and Zoetop are the Respondents and signatories to this Assurance.”

⁶ “The [SA8000 Standard](#) is based on internationally recognized standards of decent work, including the Universal Declaration of Human Rights, ILO conventions, and national laws. SA8000 applies a management-systems approach to social performance and emphasizes continual improvement—not checklist-style auditing.”

POLITICAL CONTEXT

Intense Lobbying Efforts

Public disclosures show that SHEIN has spent nearly [\\$1.8 million](#) on U.S. Congressional lobbying, presumably to shift focus away from various aspects of its malfeasance. In the European Union, SHEIN's [lobbyists](#) have [targeted](#) bills such as:

- Proposal for a regulation on prohibiting products made with forced labor on the Union market ([2022/453](#))
- Proposal for a regulation on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation ([2021/706](#))
- Proposal for a directive on Corporate Sustainability Due Diligence ([2022/71](#))

The first of these ([2022/453](#)) is an EU initiative to hold companies responsible for using forced labor, even if the specific goods in question were manufactured by a third party. The latter two — ([2021/706](#)) and ([2022/71](#)) — oblige sellers to disclose their supply chains while penalizing companies which violate EU standards, leading to an environment of greater corporate transparency and accountability regarding production processes and supply chains.

While PSSI was not able to identify the specific legislative initiatives targeted by SHEIN in the U.S., we can infer from its efforts to influence EU legislation that SHEIN is committed to reducing the labor and legal standards to which it may be held accountable.

Political Pushback

SHEIN's ever-growing list of scandals has spurred bipartisan urgency among U.S. legislators to challenge its planned entrance into U.S. capital markets. Senator Marco Rubio (R-FL), Vice Chair of the Senate Intelligence Committee, has [urged the SEC](#) to block SHEIN's IPO. Concurrently, Representative Blaine Luetkemeyer (R-MO), a current member of the House Select Committee on the CCP, is [pursuing legislation](#) to bar SHEIN from being listed in the U.S., warning that SHEIN "warrants extreme caution from regulators, customers and investors," and adding that the SEC ought to "apply maximum scrutiny to SHEIN's business and management before letting it anywhere near our capital markets." Chairman of the House Select Committee on the CCP, Representative Mike Gallagher (R-WI) has [expressed interest](#) in closing the de minimis loophole, referencing SHEIN directly.⁷ Furthermore, Representative Jennifer Wexton (D-VA) [stated](#) that lawmakers "must take action to hold SHEIN accountable." On May 1, 2023, Rep. Wexton was one of two dozen U.S. representatives who [called on the SEC](#) to halt SHEIN's IPO.

For its part, the SEC has delayed responding to SHEIN's IPO filing for over three months, and has [yet to produce a response](#) at the time of this writing. This is highly unusual, given that the SEC strives, and typically manages, to respond [within 27 calendar days](#). The delay may signal hesitancy to engage with the potentially

⁷ The 'de minimis loophole' exempts packages under \$800 from import duties and reduces U.S. customs scrutiny, which may allow some prohibited products to enter the United States. [SHEIN](#) takes advantage of this by shipping many small packages directly to consumers, incurring no taxes but producing extraordinary environmental costs.

explosive implications of this unusually large and controversial IPO in New York. The increasingly inhospitable climate in the U.S. towards SHEIN's planned IPO has reportedly caused SHEIN to [look toward London](#) as an alternative listing location. Although it is unknown whether this is an attempt to pressure the SEC or a legitimate strategic shift, the implications of this listing on a Western exchange remain appalling. The China Securities and Regulatory Commission is also [yet to approve](#) the deal, another potential roadblock in SHEIN's quest for public investment.⁸

THE BOTTOM LINE

SHEIN has actively worked to conceal and mislead consumers and legislators on both sides of the Atlantic, circumventing [U.S.](#) and [EU](#) laws in areas such as [human rights](#), [workers' rights](#), [environmental damage](#), [toxicity levels](#), and [customs regulations](#). Not only has SHEIN successfully avoided meaningful consequences stemming from these violations, but it has profited enormously from them.

U.S. government approval of SHEIN's IPO would effectively forgive flawed, unethical, and even illegal business practices on the part of a major Chinese conglomerate. Such an endorsement by the SEC would severely undermine the principles of fiduciary responsibility, and signal a blatant disregard for egregious corporate abuses. Furthermore, the flood of Western investment that this public listing could unleash would directly fund the continuation and expansion of such practices, further incentivizing unethical and illegal cost-cutting measures. In short, it is unconscionable that SHEIN be permitted by the U.S. government to continue its present operations unhindered, much less be actively financed by largely unwitting American and European retail investors via its upcoming IPO. Thus, U.S. lead managers should be precluded from participating in this highly troubling Chinese equity offering.

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⁸ Despite relocating its headquarters to Singapore, SHEIN's large network of third-party Chinese manufacturers still make it beholden to certain Chinese regulatory and legislative requirements.