China's Unreliable Entity List – Implications for PVH

February 5, 2025

KEY POINTS

- China added PVH and Illumina to the Unreliable Entity List (UEL), while keeping its reasoning and actual penalties vague.
- PVH issued a statement expressing deep disappointment, and surprise, at the Mofcom decision. Its SEC filing suggests that the company is preparing for all possible scenarios, including having to shut part or all of its China business.
- PVH's fate in China is tied to US-China political dynamics and China's domestic economic weakness.
- Barring extraordinary developments, an outright exit by PVH from the Chinese market seems unlikely. Shutting such a major foreign retailer would disrupt the domestic job market and send a chilling effect across the international investor community in China.

MOFCOM ANNOUNCEMENT

China's Ministry of Commerce (Mofcom) announced on February 4 that it has **made a determination to add New York-based clothing group PVH Corp. and biotech firm Illumina to its Unreliable Entity List.** Without disclosing details, the ministry stated that both companies "have violated the principles of normal market transactions by **suspending normal trade with Chinese enterprises** and adopting discriminatory measures against them, seriously harming the legitimate rights and interests of Chinese enterprises." The ministry said that, based on the UEL procedures, it will **take unspecified corresponding measures** against these entities based on China's laws and regulations.

The addition of PVH to the UEL aligns with our expectation as noted in our December memo when the ministry announced that PVH, the owner of Calvin Klein and other brands, had been found to have engaged in "**improper Xinjiang-related practices,"** phrasing that is widely understood to refer to the company's (as well as many other multinationals') termination of sourcing from Xinjiang or partnering with any Xinjiang-related businesses due to the region's alleged employment of Uyghur forced labor.

PVH'S RESPONSE

PVH said in a statement that it was "deeply disappointed" by China's decision, adding that it maintains strict compliance with all relevant laws, regulations and standards. The company also **said it would continue engaging with relevant authorities to work towards a resolution**. In its SEC filing on February 4, the company said, **"**at this time, we do not know what measures MOFCOM will determine to impose." **PVH, however, suggested that it is preparing for different scenarios, including the worst – ceasing its China operations entirely.**

PVH's SEC filing states:

"According to the UEL Provisions, potential measures for entities placed on the UEL can include monetary fines, restrictions or prohibitions on engaging in import and export activities related to China or making investments in China, entry denial of our relevant personnel into China, restrictions or revocation of work permits, stay or residence status of our relevant personnel in China, or other measures. **The practical impact of any such restrictions or prohibitions could include our inability to produce goods in China for sale elsewhere, our inability to sell goods on a wholesale or retail basis in China, or our inability to make investments in China. If, as a result of any such measures, it is necessary for us to cease operations in**

China entirely, it may result in charges related to excess inventory and difficulty collecting trade receivables, among other things. We may also incur material non-cash impairment charges if we are unable to recover the carrying value of our goodwill, other indefinite-lived intangible assets and long-lived assets."

UEL AS BEIJING'S LEVERAGE

Thus far, Mofcom has **been vague about what penalties PVH may face**. The agency's announcement came just as the Trump administration started imposing a 10% additional tariff from February 4 on all Chinese imports for Beijing's role in continued fentanyl inflows into the United States. That Mofcom's UEL move was accompanied by other Chinese retaliatory measures, including limited tariff hikes and antitrust probes, confirmed our earlier analysis that **the UEL would be used by Beijing as leverage to negotiate with the incoming Trump administration.**

Based on China's 2020 UEL regulation, if violations are found to be relatively light, blacklisted companies may face monetary fines. For severer infringements, companies could be restricted or banned from making investments in China and their senior executives could be prohibited from entering China. The UEL mechanism also allows companies to be removed from the list if they correct their practices.

BOTTOM LINE

China's domestic economic weakness, which may be exacerbated by rapid foreign investment outflows, could still deter Beijing from taking the most extreme measures on PVH, such as forcing the company to exit the Chinese market. But if China eventually decides that PVH must leave, it would be an extraordinary move, sending chilling messages to other multinationals in the country.

It is highly unlikely that PVH, as an American company, would "correct" its alleged misconducts and resume sourcing cotton from Xinjiang, as doing so would violate US and international laws that require companies to avoid any supply chains potentially tainted by forced labor.

This situation highlights the incompatibilities between Chinese and foreign laws that multinationals face. **Other companies that have stopped sourcing cotton, solar panels, or tomatoes from Xinjiang could also be targeted.**

The ultimate determining factor in how this plays out will be political, tied to broader developments in U.S.-China negotiations on issues such as **trade, fentanyl, and geopolitics**.