2015 U.S. Fashion Industry Benchmarking Study

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in collaboration with the
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Introduction

As we were preparing this study for publication, we were closely watching the U.S. Congress. After several very intense months and years of advocacy work on our priority issues, initiatives like the African Growth and Opportunity Act (AGOA), the Generalized System of Preferences (GSP), preferences for Haiti, and of course, Trade Promotion Authority (TPA), were finally under discussion in Washington, D.C. As of this writing, we’ve still got work to do to finalize these programs—and of course, to conclude the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP)—but I’m pleased to find that our advocacy activities align with our members’ priorities.

There are a lot of fascinating results in the following pages. I especially want to highlight the importance of AGOA. This year, AGOA is ranked fourth among all Free Trade Agreements and preference programs by survey respondents in terms of utilization, with more than 1/3 using the agreement to save money on duties and support the region’s developing manufacturing industry. Even more respondents support long-term renewal as well as renewal of the third-country fabric provision, evidence that we might see even more companies heading to Africa if the program is renewed soon. AGOA represents an important sourcing opportunity—especially when you consider that almost every other trade program is utilized by 30 percent or fewer respondents, and many are not utilized at all.

The TPP remains central, with 79 percent saying the agreement will impact their business practices. We’re still a long way from realizing benefits for the industry—and we have a lot of work to do to ensure it’s worthwhile for fashion brands and retailers, since 83 percent support abandoning the “yarn-forward” Rule of Origin in Free Trade Agreements and 45 percent say the TPP Short-Supply List should be expanded.

The following pages examine the industry’s thinking on these issues, as well as business and sourcing practices and the outlook for the next five years. This year, we also draw comparisons to last year’s study, providing insight on how the industry is evolving. (Hint: As the industry continues to globalize, we need fewer trade barriers, not more!)

Thank you to the 30 companies, both members and non-members, who participated, and especially to Dr. Sheng Lu at the University of Rhode Island for helping us develop the questions, crunch the numbers, and deliver the final report for the second year in a row. We would not have this valuable information without you.

We hope you find this information valuable, too, and as always, please feel free to contact us with any questions.

With best regards,

Julia K. Hughes
President
United States Fashion Industry Association (USFIA)
Executive Summary

Overall, respondents remain optimistic about the five-year outlook for the U.S. fashion industry. Like last year, they are most concerned about increasing production or sourcing costs, but they expect increases to be more modest this year.

- Respondents remain positive about the five-year outlook for the industry, with 89 percent optimistic or somewhat optimistic—the exact same percentage as last year.
- This optimism seems it will lead to job growth in the industry. More than half of respondents expect to hire more employees in the next five years, including sourcing specialists, fashion designers, supply chain/logistics specialists, buyers and merchandisers, and market analysts.
- 43 percent rank rising production or sourcing costs as their greatest or second-greatest business challenge in 2015, compared with 81 percent in 2014. Nearly 90 percent also report rising costs as one of the top three restraints on increased profitability in 2015.
- Nevertheless, cost pressure seems to be reduced this year—62 percent expect either modest or slight cost increases, down from 78 percent in 2014. Around 10 percent even expect costs to decline this year, while nobody expected so in 2014.

Consistent with our 2014 findings, U.S. fashion companies are NOT moving away from China, and Bangladesh remains a popular sourcing destination with high growth potential, though not quite as high as last year.

- 100 percent of respondents report sourcing from China, and 50 percent source from Bangladesh in 2015.
- Consistent with last year’s findings, as many as 43 percent of respondents expect no change or even a slight increase in sourcing value or volume from China in the next two years. Another 47 percent expect a slight decrease. For most respondents, it is not a realistic option to move away from China yet, which remains a mature and reliable sourcing base with no ideal replacement.
- Bangladesh is regarded as one of the top five sourcing destinations with the highest growth potential. 42 percent of respondents expect to increase sourcing value or volume from Bangladesh in the next two years, though this figure declined from 65 percent in 2014.

Companies continue to diversify their sourcing, though free trade agreements (FTAs) and preference programs remain underutilized. The results further show that abandoning the strict "yarn-forward" Rule of Origin and reducing documentation requirements could lead to more companies taking advantage of trade agreements.

- Respondents source from 41 countries in 2015. China, Vietnam, India, Indonesia, and the United States are the top five by volume or value, consistent with the official trade statistics.
- More than half of respondents (53 percent) source from 10+ countries, an increase from 41 percent last year. In general, larger companies seem to have a more diversified sourcing base than smaller companies.
- FTAs and preference programs remain underutilized. The top FTAs and preference programs among respondents—CAFTA-DR, NAFTA, and the U.S.-Jordan FTA—are utilized by more than 50 percent of respondents. The fourth-ranked program, AGOA, is utilized by 37 percent of respondents. However, all other agreements and preference programs have utilization rates of 30 percent or lower, if they are utilized at all.
- 87 percent support reducing documentation requirements for importing and exporting textiles and apparel under FTAs and preference programs, while 83 percent support abandoning the strict "yarn-forward" Rule of Origin and adopting a more flexible one in future trade agreements.
The U.S. fashion industry is a critical Trans-Pacific Partnership (TPP) stakeholder, as close to 80 percent of respondents expect implementation will impact their business practices. However, the restrictive rules in the agreement limit the potential.

- Respondents currently source from five TPP partners: Vietnam, the United States, Peru, Mexico, and Malaysia.
- TPP has a huge potential to create new trade opportunities and shape new patterns of textile and apparel trade in the Asia-Pacific region in the long term. 72 percent of respondents indicate they will source more textiles and apparel from TPP partners after the implementation of the agreement. Additionally, 48 percent expect to strategically adjust or redesign their supply chain based on TPP.
- However, the restrictive rules limit TPP’s potential. In fact, 45 percent of respondents say the TPP Short-Supply List should be expanded, and comments indicate the proposed “yarn-forward” Rule of Origin is a major hurdle to the industry realizing real benefits from TPP.

For companies to increase sourcing from the African Growth and Opportunity Act (AGOA), long-term renewal as well as renewal of the “third-country fabric” provision are critical.

- Respondents currently source from five AGOA beneficiaries: Mauritius, Kenya, Lesotho, Madagascar, and South Africa.
- 48 percent and 41 percent, respectively, support long-term renewal of AGOA and renewal of the “third-country fabric” provision. Approximately 1/3 support immediate renewal of the agreement and extension of the “third-country fabric” provision to all beneficiaries.
- Additionally, 37 percent believe renewing AGOA will benefit their companies while 26 percent will source more from AGOA if the program is renewed for a longer term.

U.S. fashion companies continue to express interest in expanding sourcing in the United States in the next two years as they further diversify their sourcing. However, there is no evidence that companies are shifting their business models back to manufacturing.

- The United States ranks fifth among respondents’ sourcing destinations, with 53 percent sourcing at home. These companies also source from 22 other countries, including 100 percent from China and 100 percent from Vietnam.
- Nearly 39 percent expect to increase sourcing value or volume from the United States in the next two years; 80 percent of those companies are already sourcing in the United States.
- Consistent with our findings in 2014, overall, larger companies with more diversified sourcing bases are more likely to increase their sourcing from the United States than smaller companies and/or companies with less diversified sourcing bases.
- Among those respondents planning to increase sourcing from the United States in the next two years, as many as 60 percent intend to further diversify their sourcing, as well. Furthermore, almost all respondents planning to increase sourcing from the United States also expect to increase sourcing from Asia, Central America, and the Caribbean Basin.
I. Business Environment in the U.S. Fashion Industry

Top Business Challenges in 2015

![Figure 1: Top 10 Business Challenges for the U.S. Fashion Industry in 2015](image)

Note: Total score for each business issue is calculated based on weighted average as follows: 1\(^{st}\) importance = 5 points, 2\(^{nd}\) importance = 4 points, 3\(^{rd}\) importance = 3 points, 4\(^{th}\) importance = 2 points and 5\(^{th}\) importance = 1 point.

To gauge the overall business environment of the U.S. fashion industry, we asked respondents to select the top five existing or potential issues that pose the greatest challenge to their businesses in 2015, and rank the issues in order of importance (Figure 1).

First, despite the decline in the price of oil and the appreciation of the U.S. dollar, increasing production or sourcing cost remains the top concern by the U.S. fashion industry in 2015, with 43 percent of respondents ranking the factor as either their greatest or second-greatest business challenge. Nearly 90 percent also report rising costs as one of the top three restraints on increased profitability in 2015.

Second, the market environment poses greater challenges for the U.S. fashion industry than internal management issues. Compared with last year’s study, respondents are more concerned about market environment challenges, including: market competition in the United States, meeting consumers’ demand and building consumers’ confidence, the economic outlook in developed countries, compliance with trade regulations, currency value and impact of exchange rates on competitiveness, political tensions in developing countries (Table 1). Meanwhile, challenges posed by internal management issues seem less pressing this year compared with last year, including: managing supply chain risk, finding a new sourcing bases other than China, investment and upgrading technology, recruitment and retention of human talent (Table 1).

Third, respondents expect non-economic factors to have a more significant impact on their businesses. Among the top ten challenges in 2015, three are policy or political issues: compliance with trade regulations, political tensions in developing countries, and trade protection risk in countries other than the United States (Figure 1). Moreover, 42 percent of respondents say policy regulations are among the top three restraints on increased profitability in 2015, an increase from 33 percent in 2014. The results remind us that as the U.S. fashion companies become more global
in nature, the industry faces more complex and diversified business challenges beyond economic factors alone.

**Table 1: Top Business Challenges for the U.S. Fashion Industry: Rank in 2015 vs. 2014**

<table>
<thead>
<tr>
<th>Issues</th>
<th>Rank in 2015</th>
<th>Rank in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing production or sourcing cost</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Market competition in the United States</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Meeting consumers' demand</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Manage supply chain risks</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Economic outlook in developed economies</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Compliance with trade regulations</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Currency value and impact of exchange rate on competitiveness</td>
<td>7</td>
<td>16</td>
</tr>
<tr>
<td>Finding a new sourcing base other than China</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Political tensions in developing countries</td>
<td>9</td>
<td>14</td>
</tr>
<tr>
<td>Trade protectionism risk in countries other than the U.S.</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Trade protectionism risk in the United States</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Investment and updating technology</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>HR issues, including talent recruitment and retention</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Intellectual property right protection</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Economic outlook in emerging markets</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Market competition in markets other than the United States</td>
<td>16</td>
<td>15</td>
</tr>
</tbody>
</table>

**Industry’s Outlook in the Next Five Years**

**Figure 2: Respondents' Five-Year Outlook for the U.S. Fashion Industry**

- Optimistic: 68%
- Somewhat optimistic: 21%
- Neutral: 11%
Respondents are overall positive about the five-year outlook for the industry, with 89 percent optimistic or somewhat optimistic (Figure 2). In 2014, 4 percent were somewhat pessimistic about the five-year outlook, but this year, no respondents are pessimistic.

Industry outlook varies by company type (Figure 3), with self-identified retailers (71 percent optimistic) and manufacturers/suppliers (75 percent optimistic) more optimistic than self-identified brands (65 percent optimistic) and importers/wholesalers (56 percent optimistic).

**Demand for Human Talent in the Next Five Years**
The increased optimism seems it will lead to job growth in the industry over the next five years. In 2015, for most categories of positions in Figure 4, more than half of respondents will either somewhat or substantially increase hiring in the next five years, whereas in 2014, nearly 50 percent said they would maintain their current workforce. As shown in Figure 4, demand for sourcing specialists, fashion designers, supply chain/logistics specialists, buyers and merchandisers, and market analysts seem most likely to increase, while demand for sewing machine operators and general management administrative positions seem least likely to increase, or may even decline. This contrast implies the changing business priorities of respondents in the years ahead, along with the ongoing structural readjustment of the U.S. fashion industry.

II. Sourcing Practices in the U.S. Fashion Industry

Sourcing Bases and Sourcing Models

![Image of Figure 5: How Diversified is Your Company’s Sourcing Base?]

![Image of Figure 6: Diversity of Sourcing Base and Company’s Size]
As the industry globalizes, respondents continue to diversify their sourcing. As shown in Figure 5, more than half of respondents (53 percent) source from 10+ countries, an increase from 41 percent last year. In comparison, respondents sourcing from less than 5 countries declined from 18 percent in 2014, to less than 14 percent in 2015. **In general, larger companies seem to have a more diversified sourcing base than smaller companies.** For example, all respondents that source from more than 20 countries report having more than 1,000 employees, while all respondents with less than 75 employees source from just 1-3 countries (Figure 6).

![Figure 7: Respondents' Current Sourcing Base](https://via.placeholder.com/150)

Note: Respondents were asked to select all sourcing destinations they are currently using. Utilization rate in the above figure is calculated by dividing the frequency of each country’s utilization by total number of respondents.

As another reflection of the U.S. fashion industry’s global reach and impact, respondents source from 41 countries in 2015 (Figure 7). Consistent with the official trade statistics, China (100 percent of respondents) and Vietnam (90 percent of respondents) are the two most-utilized sourcing destinations, followed by India (80 percent), Indonesia (67 percent) and the United States (53 percent). Among the top 10 sourcing destinations, eight are located in Asia, suggesting that the region as a whole remains the most important source of textiles and apparel for U.S. fashion companies.

The results also suggest the Trans-Pacific Partnership (TPP) and the African Growth and Opportunity Act (AGOA) are incredibly important for the U.S. fashion industry. Among the 41 countries currently utilized by respondents, five are TPP members (Vietnam, the United States, Peru, Mexico, Malaysia) and five are AGOA beneficiaries (Mauritius, Kenya, Lesotho, Madagascar, South Africa). More detailed analysis on the potential impact of TPP and AGOA on the U.S. fashion industry can be found in Part III of this report.
This year, we asked respondents to describe their sourcing model, and “direct sourcing from a selected supplier and mill matrix using companies’ own design and selecting fabric from the mill resource” turns out to be the most popular, with 93 percent currently using this method. Around 37 percent use suppliers’ designs occasionally. In comparison, fewer respondents get directly involved in handling cut-make-and-trim (CMT) or fabric selection (Figure 7). The results illustrate that it is increasingly important for suppliers to have the capacity to supply textile inputs such as fabric in order to function as an apparel-sourcing base.

Pressure of Sourcing Cost

While rising sourcing cost remains the top business challenge for the U.S. fashion industry, the overall cost pressure is modest in 2015 and even has reduced from last year. Approximately 62
percent of respondents expect either a modest or slight sourcing cost increase, down from 78 percent in 2014 (Figure 9). Another 28 percent expect no change in their sourcing cost, an increase from 18 percent in 2014. Finally, around 10 percent even expect costs to decline, while nobody expected costs to decline in 2014.

**Figure 10: Factors Impacting Sourcing Cost in 2015**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Total Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of labor</td>
<td>121</td>
</tr>
<tr>
<td>Cost of raw materials</td>
<td>107</td>
</tr>
<tr>
<td>Cost of shipping</td>
<td>96</td>
</tr>
<tr>
<td>Cost associated with compliance with trade policies and regulations</td>
<td>66</td>
</tr>
</tbody>
</table>

*Note: Respondents were asked to rank the impact of each factor on sourcing cost from 1 (no impact) to 5 (very high impact). The total score for each factor is calculated based on weighted average as follows: 1=0 point, 2=1 point, 3=2 points, 4=3 points and 5=4 points.*

**Furthermore, respondents rank cost of labor and cost of raw materials as the two factors with the largest and second largest impact on their sourcing costs in 2015 (Figure 10), the same as last year.** This result is not surprising given the labor-intensive nature of apparel and other fashion products, and the observed rising costs of labor and material worldwide in recent years. However, it is interesting to note that *shipping cost* is ranked the third most important factor impacting sourcing cost this year, moving up from fourth last year. This likely reflects the impact of the months-long labor dispute at the West Coast ports, which caused significant delays and may push companies to use more expensive, alternative shipping routes and methods.

**Additionally, although costs associated with compliance with trade policies and regulations moves down in rank this year, as many as 57 percent still consider this factor to have a medium to high impact on their sourcing costs in 2015.** This is a reminder that it is more than necessary to continue eliminating trade barriers and cutting “red tape” at borders so as to help U.S. fashion companies manage and reduce their overall costs.

**Emerging Sourcing Trends**

Looking ahead, several emerging sourcing trends are worth watching:
First, U.S. fashion companies will continue diversifying their sourcing. As shown in Figure 11, 56 percent of respondents expect their sourcing will become more diversified in the next two years; among these respondents, about half currently source from more than 10 countries. Given the substantial uncertainties in the market (Figure 1), U.S. fashion companies may use diversification as a way of mitigating the business risks and upward pressure on sourcing cost. However, it shall be noted that only 3 percent of respondents expect to substantially diversify their sourcing in the near future. This may be because it takes time to build mutual trust and relationships with new vendors, especially when the typical sourcing model today requires close coordination among all parties in the supply chain (Figure 8).

Second, U.S. fashion companies are NOT moving away from China, but are actively seeking supplementary sourcing destinations. Despite the concern about rising costs in China in recent years, when asked how their sourcing value or volume from China will change in the next two years, as many as 43 percent expect no change, or even a slight increase. Another 47 percent expect sourcing value or volume from China will decrease in the next two years, but only to a slight degree. Less than 7 percent of respondents say they expect to significantly decrease sourcing from China.

In comparison, respondents express an even stronger interest in increasing sourcing from other Asian countries in the next two years, particularly Vietnam, India, Bangladesh, and Indonesia (Figure 12). However, as previously noted, it is increasingly important that countries have the capacity to locally supply textile inputs such as fabric to function as an apparel sourcing base today (Figure 8). Thus, it is not a realistic option yet for U.S. fashion companies to move away from China, which remains a mature, reliable sourcing base, and heavily rely on Vietnam, Bangladesh and Indonesia, where the local textile industries are still developing. On the contrary, we shall not forget that even apparel manufactured in Vietnam, Bangladesh, and Indonesia contains textile inputs from China.
Third, Bangladesh will remain a popular sourcing destination, but it is also facing major challenges, and we’re seeing significantly less enthusiasm about the country. Bangladesh is the 6th most-utilized sourcing destination this year, with 50 percent of respondents currently sourcing there (Figure 7). Bangladesh is also among the top five sourcing destinations with the highest growth potential (after Vietnam, India, and the United States, as shown in Figure 12). About 42 percent of respondents expect to increase sourcing value or volume from Bangladesh in the next two years, though this figure sharply declined from 65 percent in 2014.

The consistent interest in expanding sourcing from Bangladesh among U.S. fashion companies is closely connected with companies’ strong desire to find sourcing destinations to supplement China. However, to be considered a candidate, Bangladesh has to compete with other leading suppliers in the region, particularly Vietnam, India, and Indonesia. For respondents currently sourcing from Bangladesh, 87 percent also source from Vietnam, 67 percent from India, and 60 percent from Indonesia. Additionally, some express concerns about the ongoing political tensions in Bangladesh, which continues to pose challenges to doing business in the country.
Fourth, U.S. fashion companies continue to express interest in sourcing more from the United States as part of their diversification strategies. The United States is the 5th most-utilized sourcing destination this year with 53 percent of respondents currently sourcing at home (Figure 7). These companies also source from 22 other countries, with 100 percent sourcing from China and 100 percent sourcing from Vietnam.

![Figure 13: For Respondents that Source from the United States, from Where Else Do They Also Source?](image)

**Note:** Data above only includes respondents currently sourcing from the United States. Respondents were asked to select all sourcing bases they are currently using. Utilization rate in the above figure is calculated by dividing the frequency of each country’s utilization by the total number of qualified respondents.

Furthermore, U.S. fashion companies continue to indicate strong interest in sourcing more products from the United States in the near future. Nearly 39 percent expect to increase sourcing value or volume from the United States in the next two years; 80 percent of these companies are already sourcing in the United States. Consistent with our findings in 2014, larger companies (Figure 14a) with more diversified sourcing bases (Figure 14b) are more likely to increase their sourcing from the United States than smaller companies and/or companies with less diversified sourcing bases. In terms of business type, self-identified retailers are more willing to commit to sourcing “Made in USA” products than self-identified importers/wholesalers, brands, and manufacturers (Figure 14c).
Note: Data above only includes respondents planning to increase sourcing value or volume from the United States in the next two years.
However, companies expecting to increase sourcing in the United States do not expect to cut back on imports. Rather, sourcing in the United States seems to be a component of a strategy to diversify sourcing overall. Among respondents expecting to increase sourcing from the United States in the next two years, as many as 60 percent intend to further diversify (Figure 15). Furthermore, almost all respondents expecting to increase sourcing from the United States also expect to increase sourcing from Asia, Central America, and the Caribbean Basin (Figure 16).

Finally, although U.S. fashion companies are interested in sourcing more "Made in USA" products, there is no evidence that companies are shifting their business models back to manufacturing. Respondents are more focused on strengthening their capacity in fashion design, product development, marketing, and distribution in the next five years (Figure 4).

III. Trade Policy and the U.S. Fashion Industry

Utilization of Enacted Free Trade Agreements and Preference Programs

This year, we asked respondents to tell us whether they utilize any of the Free Trade Agreements (FTAs) and preference programs enacted by the United States, as well as whether they utilize any other international trade agreements. Theoretically, FTAs and preference programs should help companies save money on import tariffs and more easily obtain access to foreign markets. However, most of the FTAs/preference programs enacted between the United States and its trading partners are underutilized (Figure 17). In addition, despite asking respondents about all U.S. programs this year, we see no major change in FTA/preference program utilization rates from the findings in the 2014 study when we examined just 12 key FTAs/preference programs and found similar low utilization rates.

In 2015, the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR), North America Free Trade Agreement (NAFTA), U.S.-Jordan Free Trade Agreement, and African Growth and
Opportunity Act (AGOA) are the four most-utilized FTAs/preference programs by respondents, with utilization rates of 70 percent, 67 percent, 52 percent, and 37 percent, respectively. However, all other agreements and preference programs have utilization rates of 30 percent or lower, and several are not used at all by respondents.

The low utilization of FTAs/preference programs is not surprising given that Asia currently serves as the primary sourcing base for U.S. fashion companies (Figure 7) and there are few FTAs/preference programs between the United States and Asian countries. Some respondents also express concerns about the strict, complicated Rule of Origin and heavy documentation requirements for FTAs/preference programs. Many say it is not worth the duty savings given the time and resources required to comply with the FTAs/preference programs and obtain the required documents from the suppliers.

It is important to note that the reported low utilization of FTAs/preference programs is further supported by the official trade statistics. According to the U.S. Department of Commerce’s Office of Textiles & Apparel\(^1\), although the United States has negotiated more FTAs/preference programs, textiles and apparel imported under FTAs/preference programs as a percent of total textile and apparel imports actually dropped from 15.1 percent in 2008 to 14.6 percent in 2014. By value, about 23 percent of U.S. textile and apparel imports from CAFTA-DR, 15 percent from NAFTA, and 5

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percent from AGOA in 2014 actually did not claim the duty-free treatment granted by the FTAs/preference programs.

On the other hand, consistent with the findings in the 2014 study, most FTAs/preference programs are primarily used for import purposes only by respondents. There are a few exceptions, including NAFTA, CAFTA-DR, U.S.-Israel FTA, and HOPE, HOPE II, and HELP with Haiti, which are used both for import and export purposes by respondents (Figure 18). This result can be linked to the sourcing model adopted by U.S. fashion companies today, under which suppliers of finished goods in most cases are also responsible for the procurement of raw textile materials. However, because of the limited local textile supply capacity in some NAFTA and CAFTA countries as well as in Haiti, U.S. fashion companies sometimes may have to provide textile inputs when sourcing finished apparel products from these regions.

**Potential Impact of the Trans-Pacific Partnership (TPP)**

The Trans-Pacific Partnership (TPP) is one of the most important FTAs under negotiation by the United States, with 11 other countries in the Asia-Pacific region. The U.S. fashion industry is a critical TPP stakeholder. Statistics show the 12 TPP partners altogether imported $65 billion worth of textiles and $154 billion worth of apparel in 2013, which accounted for a world import share of 20 percent and 32 percent, respectively (WTO, 2015).² In 2014, around 55 percent of U.S. textile and

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apparel exports (or $13.3 billion) went to the other 11 TPP partners, and 17 percent of U.S. textile and apparel imports (or $17.8 billion) came from the TPP region.³

The survey results show that TPP matters for the U.S. fashion industry, with as many as 79 percent of respondents saying implementation of the agreement will impact their business practices (Figure 19). Specifically:

- 72 percent expect to source more textiles and apparel from TPP partners, suggesting the imminent impact of TPP for the U.S. fashion industry could be trade creation.
- Fewer than 10 percent expect to source less from non-TPP members after the implementation of the agreement, suggesting the trade diversion effect of TPP could be limited.
- 48 percent expect to strategically adjust or redesign their supply chain based on TPP, implying TPP could be a game changer and has the potential to shape new patterns of textile and apparel trade in the Asia-Pacific region in the long term.
- However, as few as 7 percent expect to export more products to TPP partners, while only 10 percent expect to invest more in TPP partners (building factories, operating retail stores and e-commerce operations) after implementation of the agreement. It seems the U.S. fashion industry hasn't focused much on TPP's potential to promote exports and achieve greater market access.
- Additionally, 45 percent say the TPP Short-Supply List should be expanded, and comments indicate the proposed “yarn-forward” Rule of Origin is a major hurdle to the industry realizing real benefits from the agreement. In fact, as many as 83 percent support or strongly support abandoning the strict “yarn-forward” Rule of Origin and adopting a more flexible one in future FTAs (Figure 21). This suggests that the benefit of TPP for the U.S. fashion industry

and the utilization of the agreement will largely depend on the Rule of Origin. In particular, there is a strong call among U.S. fashion companies to make the textile and apparel Rule of Origin less restrictive and more flexible in TPP.

**African Growth and Opportunity Act (AGOA) and Its Renewal**

The African Growth and Opportunity Act (AGOA) is a non-reciprocal trade preference program that provides duty-free treatment to U.S. imports of certain products from eligible sub-Saharan African countries. Among 49 potential beneficiaries, 39 currently are eligible for the preference benefits, and 24 are further eligible for the “third-country fabric” provision, which allows for a certain quantity of AGOA apparel exports to be produced from yarns and fabrics of any origin. The current authorization of AGOA expires on September 30, 2015, and the bill to renew AGOA has been introduced to the U.S. Congress in April 2015. At the time of this writing, the U.S. House and U.S. Senate passed the bill but differences need to be reconciled before it can be signed into law, though we’re hopeful it will happen very soon.

As shown in Figure 20, for companies to increase sourcing in the African Growth and Opportunity Act (AGOA) region, long-term renewal as well as renewal of the “third-country fabric” provision are critical, with 48 percent and 41 percent supporting the initiatives, respectively. Additionally, 37 percent support immediate renewal of AGOA, and 33 percent support extending the “third-country fabric” provision to all AGOA beneficiaries. Finally, 37 percent believe renewing AGOA will benefit their companies, while 26 percent expect to source more from AGOA if the program is renewed for a longer term.

The above result is a reminder to policymakers that quick, long-term renewal matters, especially because sub-Saharan Africa is still at the nascent stage as a sourcing destination for the U.S. fashion

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industry (Figure 7). As one respondent put it: “seamless and long-standing renewal of AGOA is an important precursor to developing Africa further.” Another respondent commented: “the lack of action on AGOA, has impacted the volume of our imports from beneficiaries. The unpredictability of the program makes commitment difficult.” Therefore, to encourage U.S. fashion companies to make long-term commitments to the region, it is critical that AGOA can be extended for a long term (ideally, at least 10 years) and include elements such as the flexible Rule of Origin to create a stable, foreseeable, and business-friendly environment.

*Other Trade Policy Priorities*

<table>
<thead>
<tr>
<th>Figure 21: What is Your View on the Following Trade Policy Initiative?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce U.S. import tariff rate for apparel &amp; fashion accessories</td>
</tr>
<tr>
<td>Reduce documentation requirements for importing and exporting textiles and apparel under free trade agreements</td>
</tr>
<tr>
<td>Reduce U.S. import tariffs rate for textiles (fiber, yarn and fabrics)</td>
</tr>
<tr>
<td>Abandon strict “yarn-forward” rule of origin and adopt more a flexible one in future trade agreements</td>
</tr>
<tr>
<td>Immediate renewal of the Generalized System of Preferences (GSP) and extend benefits to textiles, apparel, and footwear</td>
</tr>
<tr>
<td>Negotiation of regulatory coherence and initiatives to harmonize regulations and create global standards</td>
</tr>
<tr>
<td>Negotiation of cumulation for fashion, apparel, and textile products in all existing U.S. FTAs and preference programs</td>
</tr>
<tr>
<td>Immediate renewal of the Nicaragua TPL in CAFTA-DR</td>
</tr>
<tr>
<td>Include environmental standards in any future free trade agreement established between the United States and its trading partners</td>
</tr>
<tr>
<td>Include labor standards in any future free trade agreement established between the United States and its trading partners</td>
</tr>
<tr>
<td>Include clause addressing “currency manipulation” in any future free trade agreement established between the United States and its trading partners</td>
</tr>
</tbody>
</table>

In addition to TPP and AGOA, respondents were surveyed about their views on additional, specific trade policy initiatives (Figure 21).

First, respondents strongly call for further elimination of tariff and non-tariff trade barriers. In fact, 90 percent support reducing U.S. import tariff rate for textiles (i.e. fiber, yarn, fabrics) while respondents unanimously support reducing the U.S. import tariff rate for apparel and fashion accessories. Additionally, 73 percent support negotiation of regulatory coherence and initiatives to harmonize regulations and create global standards.

Second, 87 percent support reducing documentation requirements for importing and exporting textiles and apparel under FTAs. Another 83 percent support abandoning the strict “yarn-forward” Rule of Origin and adopting a more flexible one in future trade agreements. Because many of the documentation requirements are dealing with country of origin, more simplified and flexible rules will help cut “red tape” at the border and improve the utilization rate of enacted FTAs/preference programs.
Third, respondents widely support immediate renewal of the Generalized System of Preferences (GSP) and Nicaragua Tariff Preference Level (TPL) in CAFTA-DR. Specifically, 83 percent support or strongly support the immediate renewal of GSP and extension of the benefits to textiles, apparel, and footwear. Another 68 percent support or strongly support the immediate renewal of the Nicaragua TPL. No respondent opposes either initiative.

Fourth, whether to include environmental standards, labor standards, and “currency manipulation” provisions in future trade agreements is controversial among respondents. Although 50 percent and 48 percent, respectively, support including environmental and labor standards in any future trade agreements between the United States and trading partners, the percentages were much lower than the 86 percent and 85 percent in 2014. In comparison, the percentage opposing the two initiatives increased this year, from 4 percent to 15 percent for environmental standards, and from 4 percent to 21 percent for labor standards. We see similar results with regard to the “currency manipulation” provision in future trade agreements. Only 31 percent indicate support for the initiative this year, much lower than the 45 percent in 2014. In addition, 24 percent either oppose or strongly oppose the initiative, up from 11 percent last year.
VI. Respondents’ Profile

This benchmarking study was based on a survey of 30 executives at the leading U.S. fashion companies from March 2015 to April 2015. The study incorporates a balanced mix of respondents representing the various types of businesses in the U.S. fashion industry today. About 80 percent of respondents are self-identified retailers, 57 percent self-identified brands, 57 percent self-identified importers/wholesalers, 13 percent self-identified manufacturers/suppliers, and 7 percent provide various fashion related services (Figure 22).

In terms of business size, 90 percent of respondents report having more than 100 employees, including 60 percent with more than 1,000 employees (Figure 23). This suggests that the findings well reflect the views of the most influential players in the U.S. fashion industry.

Additionally, 100 percent of respondents represent companies with headquarters or major management offices located in the United States. A handful of respondents also have headquarters or major management offices located in Asia-Pacific, Europe, and/or North and South America (Figure 24). In addition to 100 percent selling products in the United States, over half of respondents report selling products in Canada, Western Europe, Mexico, and Asia (Figure 25). These patterns reflect the global nature of fashion business today and the close connection of the U.S. fashion industry with markets around the world.
About Dr. Sheng Lu

Dr. Sheng Lu is an assistant professor from the Department of Textiles, Fashion Merchandising and Design at the University of Rhode Island. With over 40 publications in academic and trade journals, Sheng’s research focuses on the economic and business aspects of the global soft-goods industry (textile, apparel and related retailing), including international trade, trade policy, and the governance of global apparel value chain. Sheng received the 2014 Rising Star Award from the International Textile and Apparel Association (ITAA) in recognition of his research and teaching excellence. He is also the recipient of the Paper of Distinction Award at the 2014 ITAA annual conference for his study on the textile and apparel specific-sectoral impact of the Trans-Pacific Partnership (TPP). Sheng received his Ph.D. from the University of Missouri in Textile and Apparel Management in 2011. From 2009 to 2010, Sheng worked with the U.S.-China Business Council in Washington D.C., conducting policy analysis and market research for U.S. multinationals having business with China. Sheng will join the Department of Fashion and Apparel Studies at the University of Delaware as an assistant professor in fall 2015.

About the United States Fashion Industry Association (USFIA)

The United States Fashion Industry Association (USFIA) represents the fashion industry: textile and apparel brands, retailers, importers, and wholesalers based in the United States and doing business globally. Founded in 1989 as the United States Association of Importers of Textiles & Apparel with the goal of eliminating the global apparel quota system, USFIA now works to eliminate the tariff and non-tariff barriers that impede the industry’s ability to trade freely and create economic opportunities in the United States and abroad. Headquartered in Washington, D.C., USFIA is the most respected voice for the fashion industry in front of the U.S. government as well as international governments and stakeholders. With constant, two-way communication, USFIA staff and counsel serve as the eyes and ears of our members in Washington and around the world, enabling them to stay ahead of the regulatory challenges of today and tomorrow. Through our publications, educational events, and networking opportunities, USFIA also connects with key stakeholders across the value chain including U.S. and international service providers, suppliers, and industry groups.

More Information: www.usfashionindustry.com