



UNITED STATES
FASHION INDUSTRY
ASSOCIATION

Sourcing Trends & Outlook for 2016

February 11, 2016

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INTRODUCTION

As we're writing this report, we're celebrating big news – the 12 Trans-Pacific Partnership (TPP) partner countries signed the agreement on February 4th in Auckland, New Zealand, the next step towards ratifying and implementing this historic agreement.

United States Fashion Industry Association (USFIA) members know, however, that it's likely to be several years before we are able to take advantage of the duty savings, as there's a tough battle ahead for the U.S. Congress to approve it in an election year. And, of course, the United States is just one of the remaining 11 partners who need to approve it. (Malaysia's Parliament already did the week before the signing!)

Still, as we've learned in our recent webinar series on the TPP details, it's not too early for companies to start doing their homework on TPP – what's available in the region, and how this extremely complex agreement can work with current supply chains.

As we stated in our testimony at the International Trade Commission (ITC) hearing on TPP on January 15th, USFIA has supported the TPP and the opportunity it represents from the start. The TPP is the first agreement totally negotiated after the elimination of the global quota regime for textiles and apparel. It offered the opportunity to be the first agreement that recognized the importance of the entire supply chain to support U.S. jobs in the fashion industry.

Unfortunately, the TPP falls short. There are certainly benefits in the agreement for USFIA member companies, but it maintains the basic restrictive provisions that have existed since the negotiation of NAFTA in the early 1990s—which ignore the international scope of the fashion industry.

We applaud the conclusion of the TPP. With the average U.S. duty at 16 percent, and peaks as high as 32 percent, there is the potential for substantial cost savings. And of course we are not just talking about U.S. duties. The elimination of duties in the other TPP countries will also provide a substantial benefit.

So, in this report, we're taking a spotlight look at Vietnam and Malaysia so you can see what you can easily source from the region—as well as a look at handbags, wallets, and flat goods, which are all duty free on Day One when the TPP goes into effect.

Nevertheless, we remain disappointed that the negotiators missed the opportunity to craft an agreement that recognizes the way that fashion brands and retailers do business. The lengthy duty phase-outs for many key products, and the reliance on a yarn-forward rule of origin, limit opportunities for our members to reach new consumers in the TPP countries and limit our opportunities to create jobs in the United States. We'll be interested to see if the trends in our 2016 report—especially regarding China's dominance and the fact that

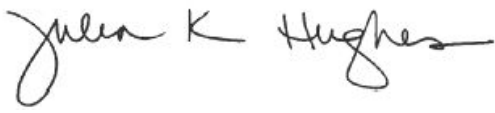


companies still don't really take advantage of FTAs—remain the same after the TPP becomes law.

In the following pages, we've provided our third-annual look at the trends from the U.S. Department of Commerce Office of Textiles & Apparel (OTEXA) data – what are we sourcing, where does it come from, and how much of it is duty free. This year, in addition to our spotlights on Vietnam and Malaysia, we're also taking a look at other key markets—including a glimpse at global trends, since we know many of our companies are selling overseas, too.

We hope you find this data useful as you are thinking about your sourcing strategy for the coming years—and especially as you are getting started on your TPP homework!

With best regards,

A handwritten signature in black ink that reads "Julia K. Hughes". The signature is written in a cursive style with a long horizontal stroke at the end.

Julia K. Hughes, President, United States Fashion Industry Association



OVERVIEW: Sourcing Trends for 2015

Despite the many barriers to trade for the fashion industry, 2015 was another strong year based on the volume and growth of U.S. textile and apparel imports.

Overall, total textile and apparel imports grew 6.9 percent in quantity, and are up by 4 percent in value. This is a substantial increase compared to 2014, when total U.S. imports grew by 2.2 percent. Not only did imports grow faster during 2015, but imports also increased from almost all of the major suppliers to the United States.

Reflecting the overall increase in imports, all types of imports grew during 2015, too. Apparel imports are up by 6 percent, made-ups and home textiles are up by 8 percent, and both yarn imports and fabrics imports grew by 6 percent. (See the Addendum for charts showing the top suppliers.)

If we take a deeper dive into the data, four key trends emerge:

1. China remains the dominant supplier...
2. But Vietnam continues to grow, with sustained growth expected thanks to the TPP and a Free Trade Agreement with the EU.
3. Bangladesh is back.
4. Despite high duty rates, companies aren't utilizing FTAs and other preference programs.



TREND #1: China remains the dominant supplier...

China remains the dominant supplier of all textiles and apparel to the United States. In 2015, U.S. textile and apparel imports from China grew 8 percent, which equals an increase of 2298.9 million SME. The increase is only slightly smaller than total annual apparel imports from 5th-ranked Mexico, which we consider a top supplier!

China is the dominant supplier in all categories, supplying 41 percent of apparel, 38 percent of fabrics, 20 percent of yarns, and 67 percent of made-ups to the United States.

Despite the fact that sourcing executives are concerned about the rising costs in China, U.S. imports from China continue to grow. Indeed, successful sourcing strategies remain focused on the opportunities that will be created by the Trans-Pacific Partnership (TPP), as well as a commitment to maintain a diversified base for production. But there's simply no substitute for China. As we found in our 2015 benchmarking study, 100 percent of our members source from China—and 43 percent expect no change or a slight increase in their China sourcing over the next two years.

With strong growth from May through August, the value of U.S. textile and apparel imports from China hit a record of more than \$5 billion for the month of August. However, since then there is a sharp drop in imports for the rest of 2015. At this point it is hard to know if this is the beginning of a new trend for sourcing, or a temporary decrease linked to a slowing global economy. This is one of the trends that we will be watching in 2016.



TREND #2:

But Vietnam continues to grow, with sustained growth expected.

Asia as a whole remains the fastest-growing supplier of textiles and apparel to the United States, but Vietnam stands out as the third-largest source for U.S. imports. Vietnam remains the second-largest supplier of apparel with 11 percent of the market share and the third-largest supplier of fabrics with 6.9 percent of the market share. And, apparel imports from Vietnam continue to surge by double digits, up 13.9 percent during 2015.

We don't expect to see Vietnam overtake China anytime soon, if ever, but companies are increasingly looking to Vietnam, and we only expect to see Vietnam's market share grow when the Trans-Pacific Partnership (TPP) is finally implemented and companies can source duty free from the country. According to our 2015 benchmarking study, 90 percent of our members already source from Vietnam, and Vietnam was ranked the top country from which respondents expect to increase sourcing, with 90 percent saying they will increase or strongly increase sourcing from Vietnam over the next two years.

However, it's important to remember one thing. Vietnam's industry is still developing, and manufacturers rely on inputs from—you guessed it!—China. Of course, the TPP rule of origin prohibits these items from entering the United States, or any other TPP partner country, duty free.

Another opportunity for Vietnam, and many USFIA members, could be the EU-Vietnam FTA, which was just finalized in December 2015. The combination of duty-free access to the world's largest consumer markets—the United States and the EU—will create an incentive for more investment in Vietnam.



TREND #3: Bangladesh is back.

One year ago, it appeared that suppliers in Bangladesh were losing orders from U.S. brands and retailers. But 2015 saw a terrific surge in apparel imports, which made Bangladesh the fastest-growing major apparel supplier for the year. Bangladesh still ranks as the third-largest apparel supplier to the U.S. market, shipping 6.8 percent of apparel imports—though those imports grew 16 percent in quantity and nearly 12 percent in value!

One explanation for the jump in sourcing from Bangladesh is that the fashion industry sees substantial progress in the effort to improve factory conditions and worker safety in Bangladesh. As hoped, the creation of the Alliance for Bangladesh Worker Safety and the Accord on Fire & Building Safety in Bangladesh following the April 2013 Rana Plaza factory collapse has helped apparel brands and retailers maintain sourcing in the country. Many companies have committed money and resources to improve safety, and programs such as Better Work and funding through the World Bank and IFC are also making a difference.

In addition, there seems to be a shift in what products companies are sourcing from Bangladesh. Imports of man-made fiber apparel are up by 29 percent for 2015, more than double the growth of cotton apparel. Likewise, U.S. imports of made-ups and home textiles are also surging, with cotton home textiles and made-ups growing by 19 percent, with some products such as cotton tablecloths and napkins surging more than 2000 percent.



TREND #4:
Despite high duty rates, companies still aren't utilizing FTAs and other preference programs.

USFIA supports the elimination of duties on textiles, apparel, and other fashion items, especially through the negotiation of FTAs and preference programs—and we're very excited about new FTAs signed in recent months, like the Trans-Pacific Partnership (TPP) and the EU-Vietnam FTA.

But looking at the historical trends, a duty-free trade agreement does not guarantee that trade will expand.

Despite textiles and apparel having some of the highest duty rates in the Tariff Schedule, in 2015, only 14.8 percent of U.S. apparel imports by quantity were duty-free under a FTA, QIZ, or other unilateral preference program. This represents a decrease from 2014, when 15 percent of U.S. apparel imports by value entered duty free. It's not a lot, especially when you consider the top three suppliers of textiles and apparel—China, India, and Vietnam, with 62.65 percent of market share—and the top four suppliers of apparel—China, Vietnam, Bangladesh, and Indonesia, with 64.87 percent of the market share—enter the United States with high duties.

In our 2015 benchmarking study, members expressed strong support for making it easier to use FTAs. For example, 87 percent of members support reducing the 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. We don't want to discount the TPP and the many opportunities in it—and overall, we support any agreement that reduces trade barriers! But it's a shame that the textile and apparel products must meet a strict rule of origin when the overwhelming majority of the industry supports greater flexibility in free trade agreements.



Sourcing Spotlight: Vietnam

Vietnam is one of the strongest suppliers to the U.S. market. As noted, Vietnam is the second-largest supplier of apparel to the United States with 11 percent of the market share, and the third-largest supplier of fabrics with 6.9 percent of the market share. And, apparel imports from Vietnam continue to surge by double digits, up 13.9 percent in 2015. Below is a snapshot of the U.S. imports from Vietnam during 2015.

2015 Total Imports from Vietnam to the United States

Category	Unit	2015	2014	Change
Total	SME	4,368,635,820	3,983,016,057	9.68
Apparel	SME	3,135,554,988	2,751,065,125	13.98
Non-Apparel	SME	1,233,080,832	1,231,950,932	0.09
Yarns	SME	51,072,335	61,903,983	-17.5
Fabrics	SME	836,042,989	821,726,392	1.74
Made-Ups	SME	345,965,508	348,320,557	-0.68

Looking at the top U.S. imports of apparel from Vietnam, we see real opportunities under the TPP, despite the yarn-forward rule of origin. Actually, one of the most obvious is available for the third-largest category of apparel imports from Vietnam: man-made fiber dresses. All dresses will be duty-free upon entry into force of the agreement, and there are a number of man-made fiber fabrics on the TPP Short Supply List that could be used to produce dresses if the fabric is not currently available from TPP countries.

2015 Top Apparel Imports from Vietnam to the United States by Market Share

Category	Unit	2015	2014	Change	2015 % Share	2014 % Share
352, Cotton Underwear	Doz	38,050,988	36,516,319	4.2	8.01	8.43
659, Man-Made Fiber Other Apparel	Kgs	18,619,313	14,308,569	30.13	6.14	5.17
636, Man-Made Fiber Dresses	Doz	6,756,894	6,148,810	9.89	5.86	5.85
348, Cotton Trousers & Shorts, Women's & Girls'	Doz	17,019,441	14,908,545	14.16	5.8	5.58
639, Man-Made Fiber Knit Tops, Women's & Girls'	Doz	18,881,181	15,604,450	21	5.4	4.9



Sourcing Spotlight: Malaysia

TPP also provides some interesting sourcing opportunities in Malaysia. Malaysia ranks #21 in apparel imports to the United States. And exports of fabrics from Malaysia to the United States nearly doubled from 2014 to 2015.

2015 Total Imports from Malaysia to the United States

Category	Unit	2015	2014	Change
Total	SME	198,152,886	167,985,578	17.96
Apparel	SME	109,794,115	106,529,779	3.06
Non-Apparel	SME	88,358,771	61,455,799	43.78
Yarns	SME	39,026,420	31,386,813	24.34
Fabrics	SME	30,815,370	15,959,540	93.08
Made-Ups	SME	18,516,981	14,109,445	31.24

Malaysia's top apparel export to the United States by market share is cotton woven men's and boys' shirts. Lucky for Malaysia—and many companies—the TPP includes a provision that allows dress shirts from Malaysia and Vietnam only to immediately go to zero duties upon entry into force. In addition, the agreement's Short Supply List allows most cotton fabrics used in dress shirts to be sourced from anywhere in the world.

2015 Top Apparel Imports from Malaysia to the United States by Market Share

Category	Unit	2015	2014	Change	2015 % Share	2014 % Share
340, Cotton Woven Shirts, Men's & Boys'	Doz	683,198	736,224	-7.2	6.93	8.81
652, Man-Made Fiber Underwear	Doz	883,625	920,741	-4.03	5.98	7.34
347, Cotton Trousers & Shorts, Men's & Boys'	Doz	659,011	418,987	57.29	4.96	3.72
339, Cotton Knit Tops, Women's & Girls'	Doz	1,571,927	1,746,727	-10.01	4.76	6.24
338, Cotton Knit Shirts, Men's & Boys'	Doz	1,470,424	1,355,411	8.49	4.45	4.84



Sourcing Spotlight: Nepal

As we're writing this report, the U.S. Senate just approved the Customs reauthorization legislation, sending it to President Obama for a signature. The bill includes a provision that allows the President to authorize new duty-free benefits for Nepal, which suffered a devastating earthquake in April 2015. The preferential treatment will remain in effect for 10 years, until December 31, 2025, and includes a variety of textile items, including many travel goods classified in Chapter 42, some carpets classified in Chapter 57, most hats and headwear in Chapter 65, and some wool gloves, blankets, needlecraft sets, and knit and woven shawls, scarves, and headbands.

2015 Top Imports from Nepal to United States by Market Share

Category	Unit	2015	2014	Change	2015 % Share	2014 % Share
352, Cotton Underwear	Doz	38,050,988	36,516,319	4.2	8.01	8.43
659, Man-Made Fiber Other Apparel	Kgs	18,619,313	14,308,569	30.13	6.14	5.17
636, Man-Made Fiber Dresses	Doz	6,756,894	6,148,810	9.89	5.86	5.85
348, Cotton Trousers & Shorts, Women's & Girls'	Doz	17,019,441	14,908,545	14.16	5.8	5.58
639, Man-Made Fiber Knit Shirts & Blouses, Women's & Girls'	Doz	18,881,181	15,604,450	21	5.4	4.9

Nepal remains a minor supplier to the U.S. market. With only \$52 million in total imports during 2015, the country ranks #71 in textile and apparel imports to the United States, and #48 in apparel. This provision presents an exciting opportunity, not only to help build up Nepal and its textile and apparel industries, but also for companies to save on duties.

2015 Total Imports from Nepal to the United States

Category	Unit	2015	2014	Change
Total	SME	6,521,567	6,914,573	-5.68
Apparel	SME	4,335,468	4,637,898	-6.52
Non-Apparel	SME	2,186,099	2,276,675	-3.98
Yarns	SME	64,584	53,529	20.65
Fabrics	SME	200,423	129,500	54.77
Made-Ups	SME	1,921,092	2,093,646	-8.24



Sourcing Spotlight: Handbags, Wallets, & Flat Goods

We're looking at handbags, wallets, and flat goods because we might soon see new duty-free opportunities in this category. First, these products will be duty free on Day One of the Trans-Pacific Partnership (TPP). Second, the International Trade Commission (ITC) is conducting its annual review of the Generalized System of Preferences (GSP), and this year, is considering adding these items to the eligibility list.

While China dominates production of cotton, man-made fiber, and leather handbags, wallets, and flat goods, several TPP and GSP countries are among the top producers, too.

For cotton handbags, GSP beneficiary India is the #2 supplier to the United States, while the Philippines and Cambodia rank #5 and #6, respectively--and Cambodia increased exports by 27 percent in 2015. And, TPP partner Vietnam ranks #3, with a nearly 5 percent increase in these exports in 2015.

2015 Top Importers of Cotton Handbags

Country	Rank	Unit	2015	2014	% Change	% Share
China	1	Kgs	7,541,058	7,422,920	1.59	79.11
India	2	Kgs	763,523	926,996	-17.63	8.01
Vietnam	3	Kgs	493,307	470,471	4.85	5.18
Hong Kong	4	Kgs	188,088	186,498	0.85	1.97
Philippines	5	Kgs	157,843	325,082	-51.45	1.66
Cambodia	6	Kgs	72,498	56,872	27.48	0.76
Nepal	7	Kgs	63,302	80,040	-20.91	0.66
Italy	8	Kgs	41,095	60,257	-31.8	0.43
Bangladesh	9	Kgs	37,218	19,248	93.36	0.39
France	10	Kgs	28,715	26,217	9.53	0.3



Sourcing Spotlight: Handbags, Wallets, & Flat Goods, Continued

For leather handbags and wallets, Vietnam ranks #2 behind China, and saw a solid increase in these exports in 2015. Meanwhile, India, the Philippines, Cambodia, and Indonesia--all GSP beneficiaries--are among the Top 10 suppliers, with the Philippines increasing exports by an impressive 46 percent in 2015.

2015 Top Importers of Leather Handbags & Purses (Data in Numbers)

Country	Rank	2015	2014	% Change	% Share
China	1	223,820,912	204,874,878	9.25	87.04
Vietnam	2	9,039,424	7,996,189	13.05	3.52
India	3	5,856,953	6,569,402	-10.84	2.28
Philippines	4	3,308,894	2,255,864	46.68	1.29
Hong Kong	5	2,945,907	2,239,889	31.52	1.15
Cambodia	6	2,631,316	2,493,883	5.51	1.02
Italy	7	2,398,143	2,415,992	-0.74	0.93
Indonesia	8	1,463,626	1,457,495	0.42	0.57
Mexico	9	979,431	863,668	13.40	0.38
Taiwan	10	809,481	145,852	455.00	0.31

On the next page, we take a look at man-made fiber products. Vietnam ranks #3 in both man-made fiber handbags and man-made fiber flat goods--and large increases in exports of both in the past year.

Cambodia, the #2 supplier of man-made fiber handbags to the United States in 2015, increased exports by more than 200 percent!

Likewise, TPP partner Mexico, and GSP beneficiaries India, Cambodia, Thailand, and the Philippines all had strong surges of man-made fiber flat goods in the same year.



Sourcing Spotlight: Handbags, Wallets, & Flat Goods, Continued

2015 Top Importers of Man-Made Fiber Handbags

Country	Rank	Unit	2015	2014	% Change	% Share
China	1	Kgs	11,818,626	10,675,512	10.71	89.22
Cambodia	2	Kgs	334,826	110,908	201.9	2.53
Vietnam	3	Kgs	322,374	194,968	65.35	2.43
Italy	4	Kgs	126,640	138,082	-8.29	0.96
Philippines	5	Kgs	113,827	36,082	215.47	0.86
India	6	Kgs	101,958	55,916	82.34	0.77
Hong Kong	7	Kgs	91,357	166,321	-45.07	0.69
Mexico	8	Kgs	78,571	60,956	28.9	0.59
Indonesia	9	Kgs	63,430	35,063	80.9	0.48
Bangladesh	10	Kgs	57,732	8,858	551.75	0.44

2105 Top Importers of Man-Made Fiber Flat Goods

Country	Rank	Unit	2015	2014	% Change	% Share
China	1	Kgs	3,878,048	3,779,450	2.61	85.53
India	2	Kgs	130,289	82,842	57.27	2.87
Vietnam	3	Kgs	123,465	49,690	148.47	2.72
Cambodia	4	Kgs	95,023	29,309	224.21	2.1
Taiwan	5	Kgs	77,087	44,987	71.35	1.7
Hong Kong	6	Kgs	63,608	35,778	77.79	1.4
Thailand	7	Kgs	55,325	17,119	223.18	1.22
Philippines	8	Kgs	26,878	18,572	44.72	0.59
Mexico	9	Kgs	18,140	14,234	27.44	0.4
Italy	10	Kgs	14,487	8,813	64.38	0.32



Turning Global: A Look at the WTO Data

As we like to say at USFIA, our members are no longer just importers—they're exporters and global brands, too. So, we're also taking a look at global trends.

On October 29, 2015, the World Trade Organization (WTO) released the annual International Trade Statistics report, providing a comprehensive overview of global trade developments during 2014. This year, the report also looks back on the past 20 years, dissecting major trends in world trade over two decades since the WTO's formation.

According to the WTO, merchandise exports from WTO members totaled \$18 trillion in 2014. "The last 20 years have confirmed that world gross domestic product (GDP) and world merchandise exports move in tandem but export growth is much more volatile than GDP growth," they explain.

And, despite the global financial crisis, the share of world trade in GDP is 10 percent higher today than 20 years ago. In 2014, world merchandise exports rose slightly less than in 2013, mainly due to a drop-off in the growth of both agricultural exports as well as fuel and mining exports. And world merchandise exports had the fastest growth in 2014, rising to 4 percent from 2.5 percent in 2013.

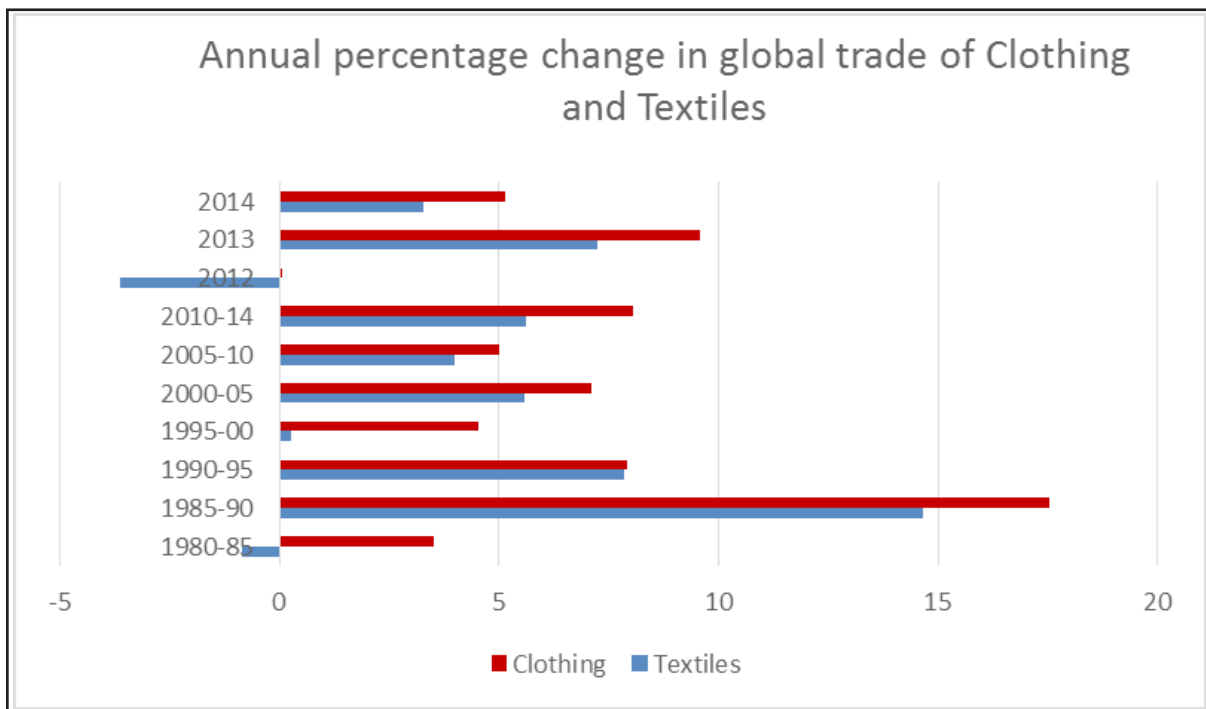


WTO Report: What's Happening with Textiles & Apparel Globally?

For global trade in textiles and apparel, the WTO looked at trends from the past 35 years, tracking trade during the Multi-Fiber Arrangement as well as the impact of the elimination of the global quota system.

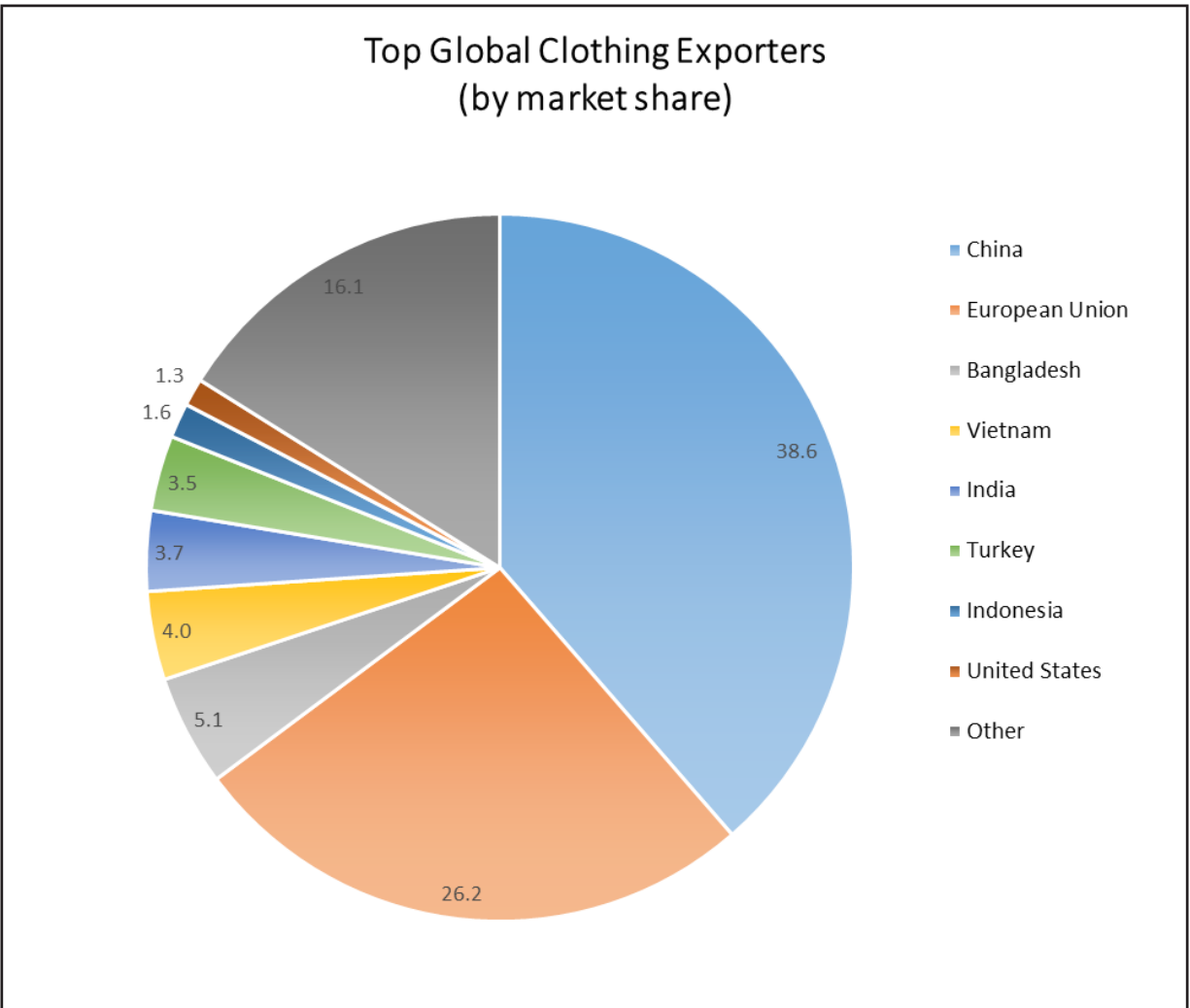
Interestingly, the greatest surge in trade in textiles and apparel came during the late 1980s—when the global quota system was at its most restrictive! The years from 1985 to 1990 were the only time when trade in textiles and in apparel surged by double digits.

Looking at the following table, there was a decline in global trade in textiles and apparel only during 2012. Otherwise, global trade in textiles and apparel remains strong.



WTO Report: Top Global Apparel Exporters

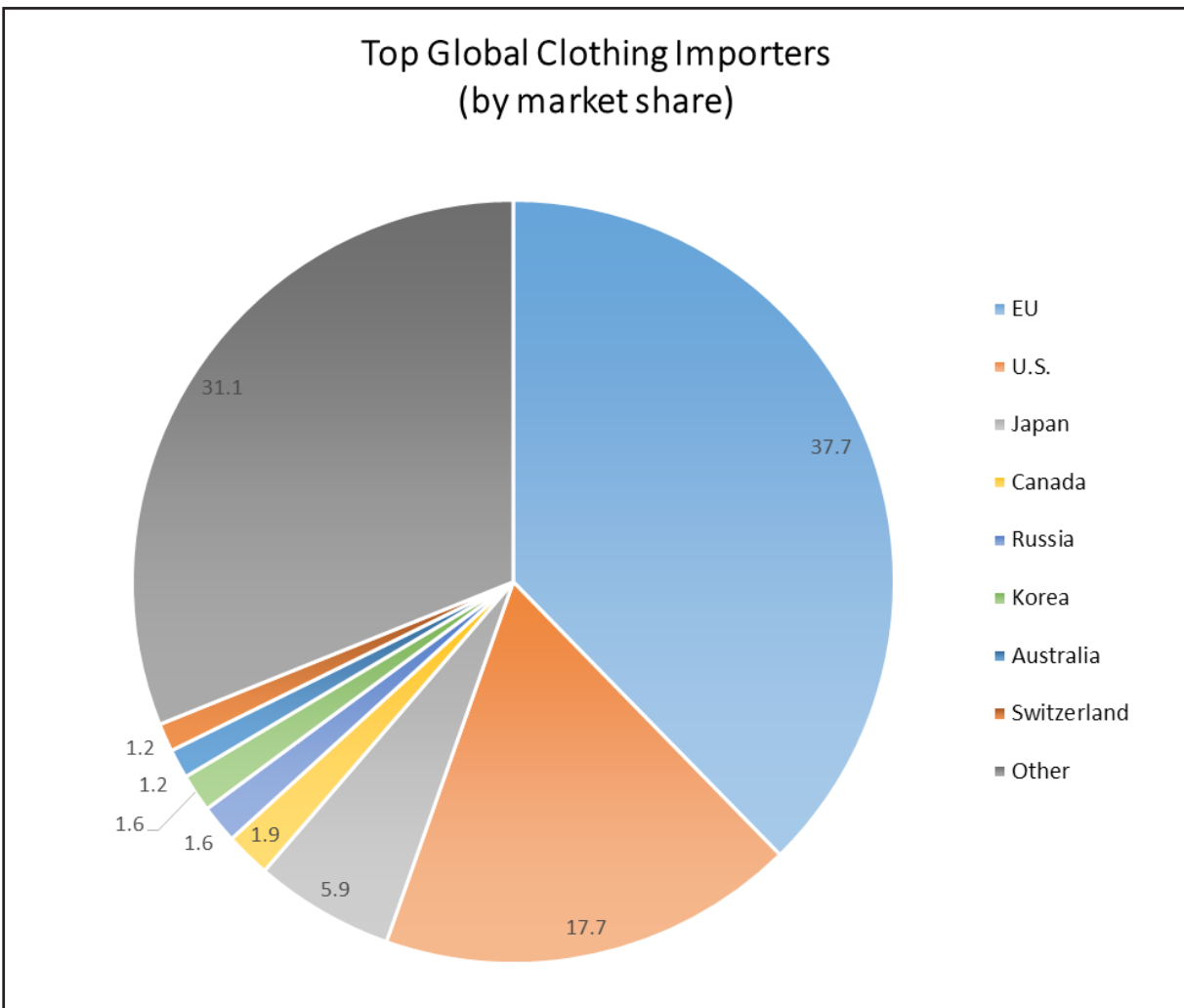
Following is a chart showing the world's exports of apparel. China and the European Union remain the only regions with double-digit market share of global apparel exports. While China remains steady, supplying 38 percent of global apparel exports, the EU brought their share up to 26.2 percent in 2014, growth of 1 percent.



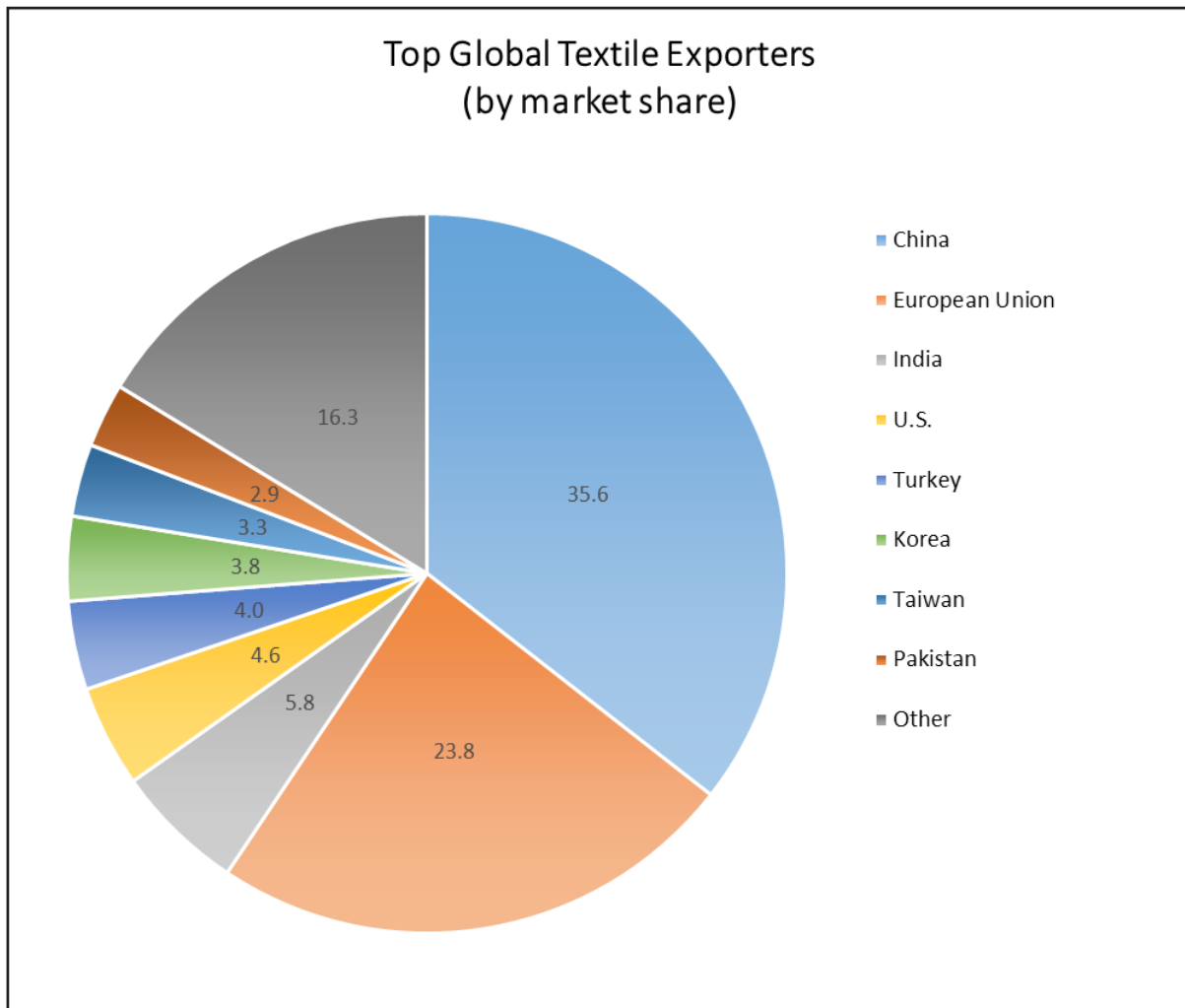
WTO Report: Top Global Apparel Importers

The European Union remains the top world apparel importer in 2014, buying 37 percent of the world's clothing! Of the top eight clothing importers, only the EU increased its market share—and even that was an increase of 0.2 percent over 2013. All of the remaining top eight apparel importers either imported less clothing, or remained steady from 2013.

The top three world apparel importers—EU, United States, Japan—imported almost 2/3 of all apparel in 2014. The other countries that imported more than 1 percent of the world's apparel are Canada, Russia, Korea, Australia, and Switzerland.



WTO Report: Top Global Textile Exporters



During 2014, global textile exports grew 3 percent, less than 1/2 the growth in 2013. While almost all of the top 8 world textile importers saw an improvement over the global slump in 2012, only Taiwan is no longer losing trade.

China is the largest world textile exporter, supplying more than 1/3 of all textiles. The EU is close behind supplying nearly 1/4 of the world's textiles, followed by India, supplying just 5 percent.

The United States is fourth, with 3 percent growth in 2014.

The other major textile exporters in 2014 are Turkey, Korea, Taiwan, and Pakistan, which saw the biggest drop with a 10 percent decline from the previous year.



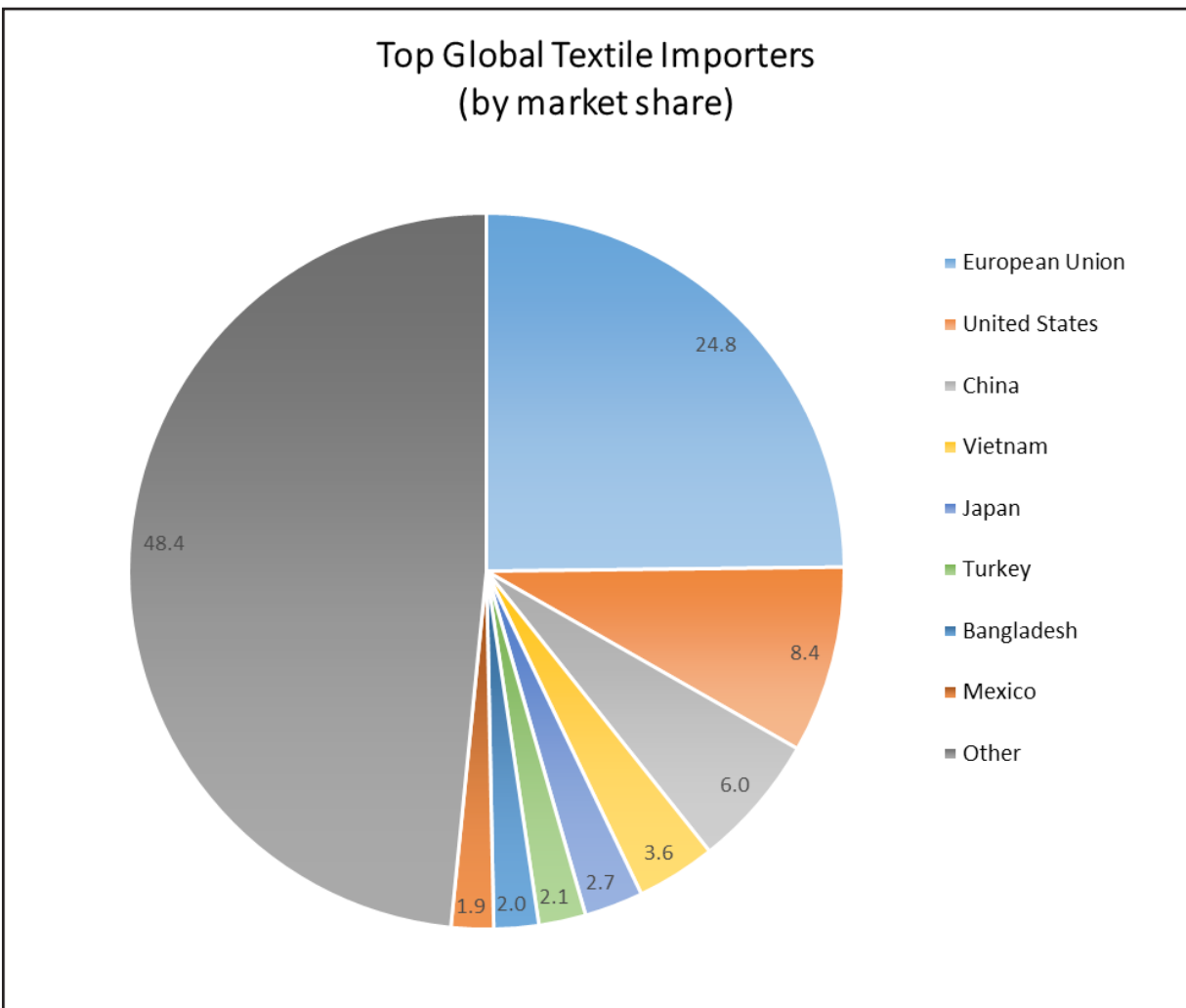
WTO Report: Top Global Textile Importers

In 2014, the European Union and United States remained the major importers of textiles. The EU is the biggest buyer, grabbing 24 percent of the world's textiles. The U.S. follows, purchasing just 8 percent of the world's textiles. Actually, the United States and all of the remaining top eight importers combined import just over a quarter of the world's textiles.

China is third, but saw a dramatic decline in growth, from an impressive 9 percent growth in 2013, to -6 percent in 2014.

Vietnam is fourth, and imports continued to grow by double digits in 2014.

Japan, Turkey, Bangladesh, and Mexico follow—though the biggest increase in textile imports in 2014 occurred in 7th-ranked Bangladesh, where imports jumped by 14 percent.



The Crystal Ball: The Sourcing & Policy Outlook for 2016 (And Beyond!)

In January 2016, USFIA President Julia K. Hughes provided her perspective to just-style on what lies ahead for the industry. (You can find the article with her thoughts as well as the thoughts of other industry leaders at https://www.just-style.com/analysis/outlook-2016-ten-sourcing-takeaways_id126986.aspx.)

Below, we've published Julie's entire interview, which provides insight into the outlook for sourcing, retail, and key policy initiatives.

Question #1

What do you see as the biggest challenges—and opportunities—facing the apparel industry in 2016, and why?

Let's start with the opportunities. Obviously, new trade agreements present some of the biggest opportunities for our industry. If you look at the data, fashion brands and retailers typically are not big users of free trade agreements, in the United States or elsewhere. According to recent U.S. Customs & Border Protection data, only 14.8 percent of U.S. imports of textiles and apparel were duty-free because they qualified for a Free Trade Agreement or a unilateral trade preference program. And despite the fact that our industry is charged some of the highest duties in the U.S. Tariff Schedule, brands and retailers report very low utilization rates of the majority of U.S. trade agreements—with most being used by 30 percent or fewer by the leading brands and retailers who participated in USFIA's 2015 Fashion Industry Benchmarking Study.

However, we're hopeful that new agreements with countries where the industry is already sourcing, like the Trans-Pacific Partnership (TPP) and the EU-Vietnam Free Trade Agreement, will encourage companies to take a fresh look at the benefits of free trade. While the TPP still has a restrictive yarn-forward rule of origin, which really doesn't represent the realities of global value chains, there are some significant sourcing opportunities in the agreement for those products that will be duty-free on Day One and also have access to non-TPP inputs thanks to the TPP Short Supply List. For example, both dresses and skirts will be duty-free as soon as TPP goes into effect. And there are quite a few fabrics that are included on the Short Supply List that are used to make dresses and skirts. The key to success will be if companies are able to spend the time and resources learning how to take advantage of the TPP opportunities. (And a plug for USFIA—we are helping our members do so with exclusive analysis, a comprehensive webinar series, and meetings with the U.S. trade negotiators.)

Now, the challenges. Last year, we discussed trade protectionism—and this remains a challenge, especially if we consider the out-of-touch rules of origin and market access schedule in the TPP. And ethical sourcing also continues to be at the forefront, as



companies are committed to ensuring their supply chains are not only compliant, but also ethical. This is increasingly challenging at a time when costs of raw materials, labor, shipping, and logistics continue to rise.

Related, supply chain and cargo security is another concern. Between labor strife and natural disasters threatening to shut down operations, to the risk of terrorism (and the necessary response to it) impacting shipping and logistics, companies must be vigilant. Today, supply chains must be compliant, and ethical, and secure—oh yes, and companies must continue to make the right product at the right price for their consumers!

As we are planning our educational activities for our members for the year ahead, we're working to address all of these challenges: tackling trade protectionism and providing education on complex free trade agreements, understanding how to improve our supply chains, as well as learning how ACE works in advance of the implementation deadline, understanding U.S. and international customs rules and new policies, and in this era where the fashion industry is truly global, dealing with everything from e-commerce logistical headaches to IP protections as our members look to expand around the world.

Question #2

What's happening with sourcing? How is the sourcing landscape likely to shift in 2016, and what strategies can help apparel firms and their suppliers to stay ahead?

Sourcing trends remain stable. China remains dominant, Vietnam is on the rise, and after a dip last year, we're seeing Bangladesh rebound, probably thanks to the ongoing activities by both brands and retailers that source in Bangladesh as well as by the Bangladeshi industry and government officials. The industry commitment to improve conditions for workers, as well as remediation plans to guarantee safe buildings, offers support for sourcing in Bangladesh.

The shifts that we see with sourcing mainly focus on continuing diversification. USFIA's smaller member companies source from about 6-10 countries, while large brands and retailers source from 20 or more. We don't see this diversification fading. If anything, companies will continue to diversify their supply chains to find the best product at the best price, and especially to prepare for potential risks to the supply chain. With the completion of the TPP negotiations, we expect companies will continue to investigate new sourcing opportunities from the TPP partners (especially Vietnam and Malaysia). And now that we have more certainty with AGOA duty-free benefits guaranteed until 2025, we also expect companies to take another look at the region.

Made in America is part of the diversification story. In our 2015 benchmarking study, 53 percent of members said they source from the United States. Meanwhile, 39 percent of members expect to increase sourcing from the US in the next two years, with 80 percent



of those already sourcing from the US expecting to do more. Digging into the numbers, we find that larger companies with more diversified sourcing strategies are more likely to source in the United States. Those who said they source in the US also source from 22 other countries—and 100% from China and 100% from Vietnam. There is interest in making it in America, especially when it comes to “smart” apparel and accessories and technical textiles, as well as samples and products that need to hit the market immediately—but the conversation around Made in America should change to become part of an overall, complex, global strategy for niche products, and not reshoring product that is currently made overseas.

To stay ahead, it’s important for companies to get involved in the policy process. Companies should participate in benchmarking studies to ensure we have accurate data, and participate in advocacy efforts, either on their own or through their associations, or both. Government officials need to hear from the brands and retailers who are creating high quality jobs in the United States, creating new technologies, and creating the products that consumers need and want. In particular, they need to hear from companies why it’s important for trade agreements to recognize the realities of their business practices and the supply chain, and understand how you make decisions, and especially how your sourcing model leads to quality products for American consumers and supports quality jobs in the United States.

Question #3

What should apparel firms be doing if they want to remain competitive into the future? What will separate the winners from the losers?

It’s important to build a network. Companies have lawyers and brokers and tax firms and factories and associations. It’s important to ensure you have partners you trust, and get them talking to one another. (Even USFIA is building a network! We have partnered with several companies and non-profits with expertise in a wide range of issues, from global trade management and logistics, to sustainable cotton production, to help us bring critical information to our members.)

An internal network is necessary, too. Your company’s sourcing, compliance, customs, and government affairs teams can no longer remain in their own silos; everyone must work together and share information. There are many great products out there to help companies manage global trade operations and connect all of these moving pieces.

And most importantly, companies should share information with one another. Our industry is notoriously secretive, but we’ve found that our members who are willing to come to meetings and discuss their experiences and challenges are able to learn from one another, better manage the risks, and continue to grow.



Question #4

What keeps you awake at night? Is there anything else you think the apparel industry should be keeping a close eye on in the year ahead? Do you expect 2016 to be better than 2015, and why?

Here in Washington, D.C., we are already spending a lot of time talking about—and lying awake at night thinking about—the 2016 presidential and congressional elections. I’m concerned about how the 2016 election will impact trade policy—and not just because most of the presidential candidates have expressed, at best, trepidation about TPP and expanding global trade, and at worst, outdated protectionist viewpoints. There is a battle going on between the Obama Administration and the Senate Majority Leader about the schedule for Congress to vote on TPP. The campaigns and the primaries will make it difficult for the Congress to vote on TPP before the election in November. It’s possible the vote could come during the lame-duck session in December 2016. But a growing number of Washington insiders are saying that they think TPP will not be approved before we have a new U.S. President and a new Congress—and that is cause for concern!

Among the many issues apparel companies need to watch, e-commerce is changing the way companies do business. E-commerce is the fastest-growing retail channel for many brands and retailers—but it also presents many challenges, from tax implications as your goods cross borders to countries where you may not have brick-and-mortar operations, to customs issues when your customer wants to make a return. This is an example of an area where it’s essential for companies to have a network in place and remain engaged with industry experts to ensure they are following the rules, so trade can expand, not be stopped at the border.

In 2016, it’s going to be all about trade facilitation—from working to implement new trade agreements like TPP to create growth opportunities, to partnering with government agencies around the world to ensure companies know how to get their products to their consumer as efficiently as possible, to linking up with the industry experts and developing new educational tools so companies have the best, most current information needed to help their businesses grow.



ADDENDUM - TOTAL TEXTILES & APPAREL

2015 U.S. General Imports - Total Textiles & Apparel (In Millions)

Region	Square Meter Equivalentents (SMEs)				U.S. Customs Value			
	2015	2014	% Change	% Share	2015	2014	% Change	% Share
World	63,523.893	59,373.169	6.99	100	111,928.090	107,460.166	4.16	100
ASEAN	8,418.331	7,887.152	6.73	13.25	22,052.445	20,553.804	7.29	19.7
NAFTA	3,429.843	3,510.414	-2.3	5.4	5,960.775	6,155.707	-3.17	5.33
CAFTA	3,156.209	3,095.378	1.97	4.97	8,424.497	8,233.763	2.32	7.53
Sub Sahara Africa	276.588	280.127	-1.26	0.44	1,030.802	1,035.848	-0.49	0.92

Country	Rank	Square Meter Equivalentents (SMEs)				U.S. Customs Value			
		2015	2014	% Change	% Share	2015	2014	% Change	% Share
China	1	11,385.74	10,780.02	5.62	41.84	30,541.02	29,793.77	2.51	35.86
Vietnam	2	3,135.55	2,751.07	13.98	11.52	10,563.85	9,268.66	13.97	12.40
Bangladesh	3	1,869.94	1,609.71	16.17	6.87	5,401.43	4,834.11	11.74	6.34
Indonesia	4	1,264.03	1,246.39	1.42	4.64	4,937.51	4,832.78	2.17	5.80
Honduras	5	1,114.37	1,084.78	2.73	4.09	2,673.53	2,582.43	3.53	3.14
Cambodia	6	1,051.48	1,020.71	3.02	3.86	2,481.98	2,478.75	0.13	2.91
India	7	1,023.54	956.68	6.99	3.76	3,665.39	3,400.90	7.78	4.30
Mexico	8	898.40	916.85	-2.01	3.30	3,556.80	3,732.35	-4.70	4.18
El Salvador	9	813.00	788.69	3.08	2.99	1,950.01	1,903.85	2.42	2.29
Pakistan	10	590.97	586.27	0.80	2.17	1,433.38	1,459.53	-1.79	1.68
Nicaragua	11	485.39	482.45	0.61	1.78	1,466.99	1,512.61	-3.02	1.72
Sri Lanka	12	484.12	413.07	17.20	1.78	2,037.45	1,759.21	15.82	2.39
Philippines	13	353.70	338.97	4.35	1.30	1,109.84	1,103.56	0.57	1.30
Guatemala	14	350.16	338.18	3.54	1.29	1,426.49	1,338.72	6.56	1.67
Haiti	15	336.36	313.87	7.16	1.24	895.28	854.16	4.81	1.05
Thailand	16	322.11	315.10	2.22	1.18	1,017.78	1,018.77	-0.10	1.20
Sri Lanka	16	496.131	425.578	16.58	0.78	2,042.265	1,766.136	15.63	1.82
Nicaragua	17	488.109	483.812	0.89	0.77	1,472.078	1,515.032	-2.84	1.32
Germany	18	477.455	431.415	10.67	0.75	354.987	378.132	-6.12	0.32
Israel	19	449.309	526.671	-14.69	0.71	273.315	308.242	-11.33	0.24
Philippines	20	396.891	379.464	4.59	0.62	1,187.636	1,194.809	-0.6	1.06



ADDENDUM - APPAREL

2015 U.S. General Imports - Apparel (In Millions)

		Square Meter Equivalents (SMEs)				U.S. Customs Value			
Region	Rank	2015	2014	% Change	% Share	2015	2014	% Change	% Share
World		27,215.70	25,645.66	6.12	100.00	85,164.73	81,781.13	4.14	100.00
ASEAN		6,254.60	5,790.37	8.02	22.98	20,701.21	19,264.96	7.46	24.31
CAFTA		3,049.86	2,992.82	1.91	11.21	8,348.90	8,161.87	2.29	9.80
NAFTA		947.65	968.11	-2.11	3.48	4,150.78	4,318.08	-3.87	4.87
Sub-Sahara Africa		254.38	260.16	-2.22	0.93	1,013.75	1,020.66	-0.68	1.19
Country	Rank	2015	2014	% Change	% Share	2015	2014	% Change	% Share
China	1	11,385.74	10,780.02	5.62	41.84	30,541.02	29,793.77	2.51	35.86
Vietnam	2	3,135.55	2,751.07	13.98	11.52	10,563.85	9,268.66	13.97	12.40
Bangladesh	3	1,869.94	1,609.71	16.17	6.87	5,401.43	4,834.11	11.74	6.34
Indonesia	4	1,264.03	1,246.39	1.42	4.64	4,937.51	4,832.78	2.17	5.80
Honduras	5	1,114.37	1,084.78	2.73	4.09	2,673.53	2,582.43	3.53	3.14
Cambodia	6	1,051.48	1,020.71	3.02	3.86	2,481.98	2,478.75	0.13	2.91
India	7	1,023.54	956.68	6.99	3.76	3,665.39	3,400.90	7.78	4.30
Mexico	8	898.40	916.85	-2.01	3.30	3,556.80	3,732.35	-4.70	4.18
El Salvador	9	813.00	788.69	3.08	2.99	1,950.01	1,903.85	2.42	2.29
Pakistan	10	590.97	586.27	0.80	2.17	1,433.38	1,459.53	-1.79	1.68
Nicaragua	11	485.39	482.45	0.61	1.78	1,466.99	1,512.61	-3.02	1.72
Sri Lanka	12	484.12	413.07	17.20	1.78	2,037.45	1,759.21	15.82	2.39
Philippines	13	353.70	338.97	4.35	1.30	1,109.84	1,103.56	0.57	1.30
Guatemala	14	350.16	338.18	3.54	1.29	1,426.49	1,338.72	6.56	1.67
Haiti	15	336.36	313.87	7.16	1.24	895.28	854.16	4.81	1.05
Thailand	16	322.11	315.10	2.22	1.18	1,017.78	1,018.77	-0.10	1.20
Dominican Republic	17	275.17	264.00	4.23	1.01	793.46	742.96	6.80	0.93
Egypt	18	223.53	207.41	7.77	0.82	849.65	824.00	3.11	1.00
Jordan	19	217.84	205.13	6.19	0.80	1,246.07	1,135.10	9.78	1.46
Taiwan	20	113.56	118.40	-4.09	0.42	329.70	350.94	-6.05	0.39



ADDENDUM - APPAREL (CONTINUED)

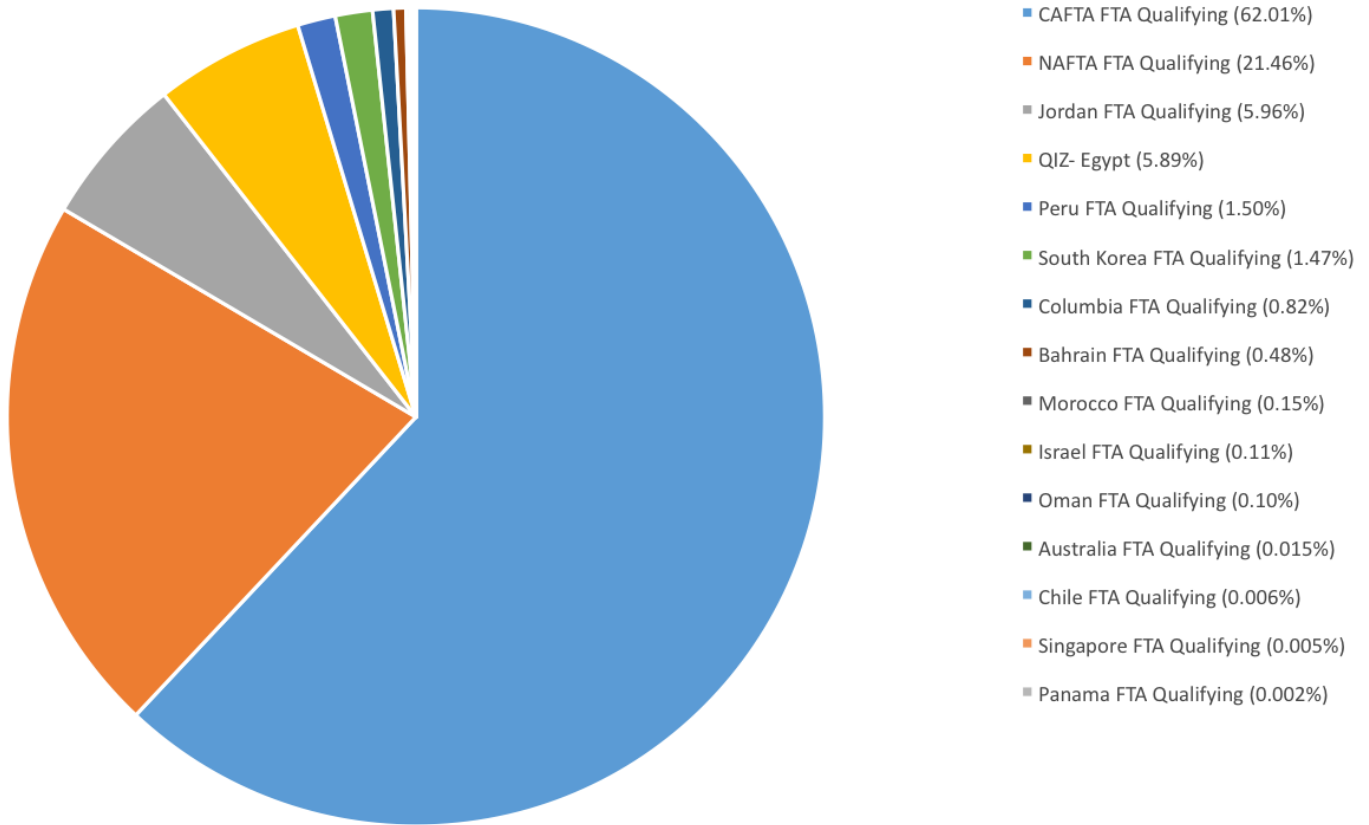
2015 Duty-Free Apparel Imports (In SME)

	Total 2015	Preference 2015	Preference Apparel Imports 2015		
			% Growth 2015	Share 2015	Share 2014
World	27,215,698,554	4,022,347,524	2.4	14.8	15.3
AGOA	238,610,812	235,005,568	-4.8	98.5	98.6
CAFTA	3,049,857,618	2,239,107,732	4.9	73.4	71.3
NAFTA	947,654,664	774,927,161	-4.2	81.8	83.6
CBTPA	337,856,356	176,594,270	3.2	52.3	54.3
Australia	889,494	524,533	27.2	59.0	45.5
Bahrain	17,452,686	17,419,149	-3.1	99.8	98.9
Chile	223,159	207,199	3.6	92.8	94.4
Colombia	32,997,685	29,743,798	11.1	90.1	88.7
Egypt	223,531,087	212,773,097	7.8	95.2	95.2
Israel	11,097,202	4,133,629	-23.6	37.2	26.5
Jordan	217,836,531	215,279,201	7.0	98.8	98.1
Korea	68,802,003	53,058,523	3.7	77.1	73.7
Morocco	15,155,590	5,440,788	-3.7	35.9	41.0
Oman	3,815,302	3,618,009	58.0	94.8	99.9
Panama	294,452	57,558	32.1	19.5	53.2
Peru	56,089,509	54,287,897	-8.6	96.8	97.2
Singapore	1,889,079	169,412	221.6	9.0	2.0



ADDENDUM - APPAREL (CONTINUED)

U.S. FTA World Apparel Imports 2015



ADDENDUM - FABRICS

2015 U.S. General Imports - Fabrics (In Millions)

		Square Meter Equivalents (SMEs)				U.S. Customs Value			
Region	Rank	2015	2014	% Change	% Share	2015	2014	% Change	% Share
World		11,988.412	11,225.562	6.8	100	6,469.500	6,241.017	3.66	100
NAFTA		1,171.941	1,191.982	-1.68	9.78	707.203	721.614	-2	10.93
ASEAN		1,065.859	1,041.931	2.3	8.89	375.999	376.861	-0.23	5.81
CAFTA		23.304	19.936	16.89	0.19	13.521	12.525	7.95	0.21
Sub-Sahara Africa		16.879	16.958	-0.46	0.14	8.229	7.624	7.94	0.13
Country	Rank	2015	2014	% Change	% Share	2015	2014	% Change	% Share
China	1	4,560.530	4,085.195	11.64	38.04	1,959.658	1,799.444	8.9	30.29
India	2	995.843	1,010.793	-1.48	8.31	376.444	351.065	7.23	5.82
Vietnam	3	836.043	821.726	1.74	6.97	221.511	228.256	-2.96	3.42
Korea	4	802.366	844.421	-4.98	6.69	510.823	528.193	-3.29	7.9
Canada	5	743.573	682.494	8.95	6.2	389.674	398.943	-2.32	6.02
Taiwan	6	540.372	505.135	6.98	4.51	364.088	345.792	5.29	5.63
Mexico	7	428.368	509.488	-15.92	3.57	317.528	322.671	-1.59	4.91
Germany	8	398.018	357.543	11.32	3.32	235.413	249.400	-5.61	3.64
Turkey	9	370.546	285.023	30.01	3.09	198.268	166.586	19.02	3.06
Israel	10	295.804	368.147	-19.65	2.47	98.567	116.775	-15.59	1.52
Italy	11	251.905	149.584	68.4	2.1	360.791	351.012	2.79	5.58
Japan	12	240.075	217.733	10.26	2	353.522	349.531	1.14	5.46
Pakistan	13	154.925	143.298	8.11	1.29	115.293	114.597	0.61	1.78
Saudi Arabia	14	136.701	143.230	-4.56	1.14	31.768	39.131	-18.82	0.49
Thailand	15	119.105	128.936	-7.62	0.99	84.457	86.476	-2.33	1.31
France	16	103.934	128.727	-19.26	0.87	83.553	96.946	-13.81	1.29
United Arab Emirates	17	101.502	87.967	15.39	0.85	40.885	44.988	-9.12	0.63
Luxembourg	18	101.245	75.912	33.37	0.84	82.289	33.288	147.2	1.27
Brazil	19	67.124	70.005	-4.12	0.56	28.727	29.350	-2.12	0.44
Netherlands	20	62.351	43.290	44.03	0.52	48.419	50.099	-3.35	0.75



ADDENDUM - MADE-UPS

2015 U.S. General Imports - Made-Ups (In Millions)

		Square Meter Equivalents (SMEs)				U.S. Customs Value			
Region	Rank	2015	2014	% Change	% Share	2015	2014	% Change	% Share
World		21,167.996	9,549.540	8.28	100	18,869.257	18,002.060	4.82	100
NAFTA		838.934	822.527	1.99	3.96	768.631	751.977	2.21	4.07
ASEAN		644.237	635.702	1.34	3.04	817.666	750.723	8.92	4.33
CAFTA		63.238	58.087	8.87	0.3	53.845	49.017	9.85	0.29
SubSahara Africa		4.700	2.474	90.02	0.02	4.691	4.027	16.5	0.02
Country	Rank	2015	2014	% Change	% Share	2015	2014	% Change	% Share
China	1	14,287.233	3,098.836	9.07	67.49	0,492.090	10,015.073	4.76	55.6
India	2	2,289.020	2,067.697	10.7	10.81	3,134.342	2,870.170	9.2	16.61
Pakistan	3	1,843.387	1,741.770	5.83	8.71	1,459.896	1,466.282	-0.44	7.74
Mexico	4	719.286	721.402	-0.29	3.4	585.506	543.091	7.81	3.1
Vietnam	5	345.966	348.321	-0.68	1.63	487.175	435.515	11.86	2.58
Bangladesh	6	326.250	278.052	17.33	1.54	200.306	170.625	17.39	1.06
Turkey	7	191.993	205.561	-6.6	0.91	503.522	484.650	3.89	2.67
Indonesia	8	131.216	135.617	-3.25	0.62	86.971	82.913	4.89	0.46
Israel	9	128.618	128.855	-0.18	0.61	101.118	104.631	-3.36	0.54
Canada	10	119.648	101.126	18.32	0.57	183.126	208.887	-12.33	0.97
Taiwan	11	101.996	89.255	14.28	0.48	103.914	86.857	19.64	0.55
Portugal	12	73.075	65.811	11.04	0.35	136.304	131.914	3.33	0.72
Cambodia	13	68.763	62.684	9.7	0.32	58.528	36.005	62.56	0.31
Bahrain	14	53.062	45.941	15.5	0.25	76.115	69.331	9.78	0.4
Thailand	15	51.737	51.588	0.29	0.24	90.739	102.979	-11.89	0.48
Italy	16	51.711	47.682	8.45	0.24	180.935	193.959	-6.72	0.96
Egypt	17	50.933	46.246	10.13	0.24	169.126	171.720	-1.51	0.9
Korea	18	37.285	40.764	-8.53	0.18	68.526	64.522	6.2	0.36
Hong Kong	19	27.955	20.080	39.21	0.13	52.394	45.848	14.28	0.28
Germany	20	26.667	20.736	28.6	0.13	49.464	47.793	3.5	0.26



ADDENDUM - Yarn

2015 U.S. General Imports - Yarn (In Millions)

		Square Meter Equivalents (SMEs)				U.S. Customs Value			
Region	Rank	2015	2014	% Change	% Share	2015	2014	% Change	% Share
World		3,151.787	2,952.408	6.75	100	1,424.601	1,435.962	-0.79	100
NAFTA		471.313	527.790	-10.7	14.95	334.156	364.031	-8.21	23.46
ASEAN		453.640	419.144	8.23	14.39	157.570	161.257	-2.29	11.06
CAFTA		19.810	24.533	-19.25	0.63	8.230	10.349	-20.48	0.58
Sub-Sahara Africa		0.630	0.532	18.32	0.02	4.128	3.536	16.76	0.29
Country	Rank	2015	2014	% Change	% Share	2015	2014	% Change	% Share
China	1	634.930	605.472	4.87	20.15	226.631	212.022	6.89	15.91
Korea	2	565.382	413.561	36.71	17.94	101.115	89.907	12.47	7.1
Mexico	3	321.729	347.256	-7.35	10.21	165.156	176.582	-6.47	11.59
Indonesia	4	310.723	264.591	17.44	9.86	103.851	99.042	4.85	7.29
India	5	255.761	223.974	14.19	8.11	94.278	95.061	-0.82	6.62
Taiwan	6	160.526	164.772	-2.58	5.09	56.723	57.246	-0.91	3.98
Canada	7	149.584	180.534	-17.14	4.75	169.001	187.449	-9.84	11.86
Turkey	8	139.509	156.093	-10.62	4.43	97.615	97.774	-0.16	6.85
Portugal	9	76.729	69.647	10.17	2.43	33.492	29.127	14.99	2.35
Pakistan	10	52.833	45.708	15.59	1.68	19.464	18.286	6.44	1.37
Vietnam	11	51.072	61.904	-17.5	1.62	17.446	22.905	-23.83	1.22
Germany	12	48.696	48.906	-0.43	1.55	42.940	45.972	-6.6	3.01
Japan	13	42.126	48.426	-13.01	1.34	27.265	31.201	-12.62	1.91
Malaysia	14	39.026	31.387	24.34	1.24	9.741	9.881	-1.42	0.68
Thailand	15	38.939	46.301	-15.9	1.24	19.684	22.054	-10.74	1.38
Latvia	16	36.013	34.515	4.34	1.14	5.889	6.580	-10.49	0.41
Italy	17	29.566	44.139	-33.02	0.94	51.401	59.635	-13.81	3.61
Czech Republic	18	20.522	7.320	180.36	0.65	8.177	4.041	102.33	0.57
Spain	19	19.264	13.089	47.18	0.61	10.900	8.240	32.27	0.77
France	20	15.088	12.752	18.32	0.48	25.734	23.106	11.37	1.81

