



UNITED STATES
FASHION INDUSTRY ASSOCIATION

2019 Fashion Industry Benchmarking Study

By

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in collaboration with the

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This year marks the sixth USFIA Fashion Industry Benchmarking survey and the results reflect the impact of uncertainty and the threat of trade wars on the fashion industry. Companies were answering the survey questions during a time of great uncertainty. There are 301 tariffs on China that include many consumer products like hats, leather and accessories. And there are Chinese tariffs on key U.S. exports including cotton. There are the threats of more trade cases with fashion products appearing on new retaliation lists. And there is the uncertainty of how the Congress and the Trump Administration will work together to approve the U.S.-Mexico-Canada Agreement (USMCA).

With all this uncertainty affecting the fashion industry, I would like to highlight just two of the findings in this year's report:

First, as USFIA has been telling Washington policy-makers, just the threat of more tariffs and a trade war has an impact on business. This year we see that impact very starkly. Sourcing executives are more cautious today and less optimistic about the five-year outlook for the U.S. fashion industry. One year ago 84 percent of survey respondents were "optimistic" or "somewhat optimistic" about the outlook for the next five years. This year that number dropped to 64 percent. And one-quarter of the respondents said they are "neutral." That is a bad sign.

Second, the biggest challenge today for the fashion industry is the impact of increasing production and sourcing costs, with 84 percent of respondents saying it is a challenge this year. Some of these cost increases are linked to the 301 action against China. A majority of the respondents to the survey said that the 301 tariffs have increased sourcing costs. That is not surprising. But as we look at the data, we see some other insights that are very troubling. Not just costs in China are increasing, but the costs to source in the main alternatives to China – especially Vietnam, Bangladesh and India -- also are soaring. And the uncertainty seems to also affect logistics and transportation costs.

Here at USFIA our mission is to support the industry and **Fashion Made Possible by Global Trade**. We hear the message from industry executives about the negative impact of uncertainty and trade wars. What can we do about it? We encourage all fashion brands and retailers to be active in Washington and join us to explain why this uncertainty and trade policy threats hurt American companies, our employees and our customers. When it comes to the 301 action against China, our message to policymakers is simple – do not impose new tariffs on any fashion products. Tariffs on fashion products already represent a big tax on American consumers. Tariffs on clothing, footwear, and other fashion products are among the highest charged on consumer products, reaching 32 percent for man-made fiber apparel and 67 percent for footwear. During 2018, American fashion brands and retailers paid more than \$12 billion dollars in tariffs on apparel and home textiles. And another \$3 billion on imported footwear.

Thanks to Dr Sheng Lu, Associate Professor in the University of Delaware's Department of Fashion & Apparel Studies, for his hard work to analyze the data and develop these important conclusions. And as always special thanks to the fashion brands and retailers who participated in the survey this year. Your insights about sourcing, sustainability and trade policy are essential to understanding where we are today and what we need to do for a successful future.

Julia K Hughes
President, U.S. Fashion Industry Association

Executive Summary

Amid the escalating trade tensions and growing uncertainties of the U.S. and world economy, respondents are more conservative about the five-year outlook for the U.S. fashion industry than they were one year ago.

- The percentage of those who are “optimistic” or “somewhat optimistic” dropped to 64 percent this year from 84 percent in 2018. Meanwhile, 25 percent of respondents feel “neutral” about the next five years, a big jump from only 4 percent in 2018.
- Nevertheless, the job market is still on a growth trajectory: all but one respondent (or 96 percent) say they plan to hire more employees in the next five years.

“China plus Vietnam plus Many” is still the most popular sourcing model among respondents. However, its details are evolving. Meanwhile, U.S. fashion companies continue to adjust their sourcing base and sourcing portfolio.

- Respondents report sourcing from as many as 48 countries or regions in 2019, led by China (100 percent), Vietnam (86 percent) and India (86 percent). Asia as a whole continues to take the lead as the dominant sourcing base for U.S. fashion companies.
- China is no longer always the top supplier for U.S. fashion companies. Around 25 percent of respondents indicate that they source MORE from Vietnam than from China in 2019, an emerging trend important to watch.
- Most respondents continue to maintain a relatively diverse sourcing base, with 57.1 percent currently sourcing from 10+ different countries or regions in 2019. 82.9 percent of respondents say they plan to source from the same number or more countries over the next two years. However, reflecting the individual company’s respective business priorities, respondents are divided on whether to increase (42.9 percent) or decrease (51.4 percent) the number of suppliers they will work with.

The Section 301 action against China is having a broad impact on U.S. fashion companies’ sourcing practices. Respondents are also deeply concerned about the negative impact of U.S.-China trade tensions on their businesses.

- The trade diversion effect of Section 301 has accelerated U.S. fashion companies’ pace of reducing sourcing from China. About 83 percent of respondents expect to decrease sourcing from China over the next two years, up further from 67 percent in 2018.
- The Section 301 action is pushing up the price of U.S. apparel imports across the board, making “increasing production and sourcing cost” the top business challenge for respondents in 2019. As much as 63 percent of respondents explicitly say the U.S. Section 301 tariff action against China “increased my companies’ sourcing cost” in 2019. As companies are moving sourcing orders to Bangladesh, Vietnam, and India, the average price of U.S. apparel imports from these countries – the main alternatives to China -- have all gone up by more than 20 percent in 2019 (January-May) year on year.
- No evidence shows that Section 301 has benefited near-sourcing from the Western Hemisphere and reshoring from the United States significantly. Instead, respondents say Section 301 has increased the production costs of textiles and apparel “Made in the USA.”
- Respondents say they are reluctant but may have to increase their retail prices, should the U.S.-China tariff war escalate further.

Despite the lingering tariff war, China will remain a dominant textile and apparel supplier for the U.S. market in the foreseeable future.

- While 83 percent of respondents expect to decrease sourcing from China over the next two years, only 6.7 percent expect to decrease sourcing from the country significantly.
- China does not have a near competitor in terms of the variety of product it can make.
- Considering speed to market, sourcing cost, flexibility & agility and compliance risk, China is also one of the few “balanced” sourcing destinations that U.S. fashion companies can choose from.
- Around 50 percent of respondents further say their Chinese vendors “lowered their price to keep sourcing orders” in response to the trade tensions.

Benefiting from U.S. fashion companies’ expected decrease in sourcing from China, Vietnam and Bangladesh are playing a bigger role as apparel suppliers for the U.S. market.

- This year, Vietnam remains the #2 sourcing destination among respondents, with a 86 percent usage rate. However, just around 7 percent of respondents plan to substantially increase apparel sourcing from Vietnam over the next two years, which reflects concerns about Vietnam’s limited production capacity and the increasing cost of sourcing from the country.
- Bangladesh is the #6 top sourcing destination, with 60 percent usage among respondents. A record high percentage of respondents (80 percent) express interest in expanding sourcing from the country in the next two years. Despite the price advantages, however, respondents still see Bangladesh not as attractive as many of its competitors regarding speed to market, flexibility & agility, and risk of compliance.

U.S. fashion companies are interested in exploring new sourcing opportunities from the United States, yet challenges remain, and the growth could be incremental.

- This year, the United States ranked #10 top sourcing base with 43 percent usage, the same as in 2018.
- “Made in the USA” apparel overall are treated as a niche product in U.S. fashion brands and retailers’ sourcing portfolio. The advantage of proximity to the market, which makes speedy replenishment for in-season items possible, is an important factor behind the more successful control of markdowns for “Made in the USA” products.
- Respondents also list a few disadvantages and challenges that prevent them from sourcing more “Made in the USA” products in the next five years, ranging from the high price, limitations in the fabric options to a shortage of skilled labor.
- Further, respondents say more information about U.S. based textile and apparel mills will be helpful to promote “Made in the USA” sourcing.

The increasing sourcing cost this year has created new incentives for U.S. fashion companies to take a fresh look at duty-saving opportunities through free trade agreements and trade preference programs.

- Respondents report overall more utilization of U.S. free trade agreements (FTAs) and trade preference programs in 2019, particularly those with countries in the Western Hemisphere, such as Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), CBTPA and Haiti (HOPE, HOPEII or HELP).
- 43 percent of respondents report using tariff preference level (TPL), commercial availability/short supply list and cumulation for apparel sourcing. Respondents also say these exceptions to the “yarn-forward” rules of origin provide important flexibilities that make U.S. fashion companies more likely to use FTAs and source from the FTA regions than otherwise.

The majority of respondents (65.5 percent) want the U.S. Congress to pass the U.S.-Mexico-Canada Free Trade Agreement (USMCA or NAFTA2.0).

- More than half of respondents explicitly say NAFTA is important to their business and they want a seamless transition from NAFTA to USMCA.
- U.S. fashion companies currently sourcing from the NAFTA region are more likely to use USMCA and vice versa.
- However, a good proportion of respondents (around 20 percent) admit they do not fully understand the rule changes in USMCA for textiles and apparel.
- Helping companies better understand the technical details of USMCA and reducing the uncertainty about its ratification will be essential to the future success of the agreement.

How to improve the competitiveness of sub-Saharan African (SSA) countries as apparel sourcing bases and make the African Growth and Opportunity Act (AGOA) more effective remain challenging.

- Respondents report sourcing from eight AGOA members in 2019, although far less often than the leading Asian suppliers.
- It is concerning that respondents' enthusiasm for using AGOA and sourcing from the SSA region is gradually diminishing.
- U.S. fashion companies are becoming more hesitant to invest in the SSA region as well. Around 45 percent of respondents say the temporary nature of AGOA is why they are holding investment back from the region.
- Despite a lack of interest in investing directly, respondents say the AGOA region needs more investment to improve its infrastructure and production capability before SSA countries can become more attractive apparel-sourcing bases.

U.S. fashion companies overall maintain a high commitment to sustainability and social responsibility in sourcing.

- 63 percent of respondents say they will allocate more resources for sustainability and social compliance over the next two years. Another 36% expect no change.
- Nearly 100 percent of respondents map their supply chains (i.e., keep records of name, location, and function of suppliers), up from 90 percent in 2017. Meanwhile, respondents say "Insufficient internal budget and/or staff" is the top challenge for them to map supply chains", "suppliers not being fully cooperative or willing to share the information" and "sourcing from too many countries/vendors" are the top challenges that prevent them from mapping the apparel supply chains more fully.
- The vast majority of respondents (96.2 percent) currently use third-party certification programs to audit. More respondents conduct both announced and unannounced audits this year (74 percent) than in 2018 (63 percent). This year, brands and retailers, in particular, conduct more comprehensive audits than in the past.

I. Business Environment in the U.S. Fashion Industry

Top Business Challenges in 2019

Figure 1: Top Business Challenges for the U.S. Fashion Industry in 2019

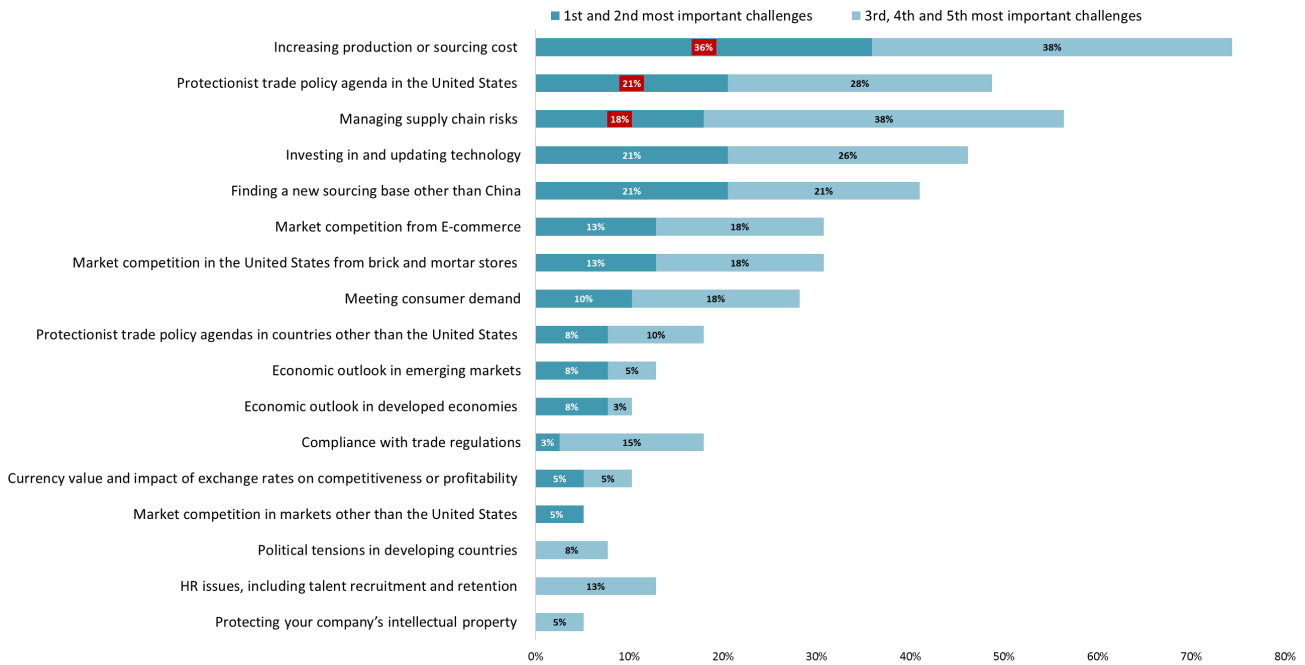


Table 1: Top Business Challenges for the U.S. Fashion Industry: Rank in 2019 vs. 2018

Top Business Challenges for the U.S. Fashion Industry in 2019	Rank in 2018	Rank in 2019 vs. in 2018
#1 Increasing production or sourcing cost	3	More important
#2 Protectionist trade policy agenda in the United States	1	No major change
#3 Managing supply chain risks	6	Much more important
#4 Investing in and updating technology	5	No major change
#5 Finding a new sourcing base other than China	7	More important
#6 Market competition from E-commerce	2	Much less important
#7 Market competition in the United States from brick and mortar stores	4	Less important
#8 Meeting consumer demand	9	No major change
#9 Protectionist trade policy agendas in countries other than the United States	12	Much more important
#10 Economic outlook in emerging markets	16	Much more important
#11 Economic outlook in developed economies	8	Less important
#12 Compliance with trade regulations	11	No major change
#13 Currency value and impact of exchange rates on competitiveness or profitability	13	No major change
#14 Market competition in markets other than the United States	14	No major change
#15 Political tensions in developing countries	15	No major change
#16 HR issues, including talent recruitment and retention	10	Much less important
#17 Protecting your company's intellectual property	17	No major change

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

Every year, we ask respondents to select the top five challenges for their businesses and rank these issues in order of importance. As shown in Figure 1 and Table 1, the results in 2019 reveal both the ongoing trends in the U.S. fashion industry and the significant impact of trade tensions this year on fashion companies' business operations. Specifically:

First, respondents report “increasing production and sourcing cost” as their top business challenge in 2019, followed by “protectionist trade policy agenda in the United States” and “managing supply chain risks.” As a reflection of respondents’ mounting concerns, nearly 40 percent of them ranked “increasing production and sourcing cost” as their 1st or 2nd top business challenge in 2019. Respectively, 74 percent, 49 percent and 56 percent of respondents rank these three issues one of their top five business challenges this year, which far exceed the concerns for other issues on the list. Notably, protectionist trade policy agenda in the United States” has been consistently listed as one of the top business challenges facing U.S. fashion companies since 2017, whereas “increasing production and sourcing cost” and “managing supply chain risks” have become more critical to respondents this year than ever before.

Figure 2: What is your overall expectation about sourcing cost this year?

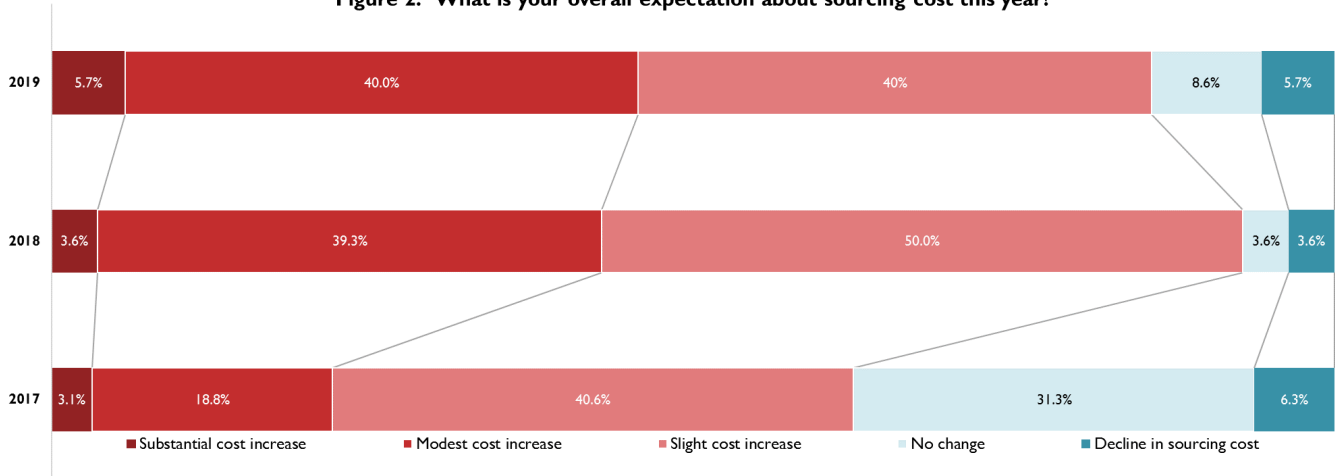
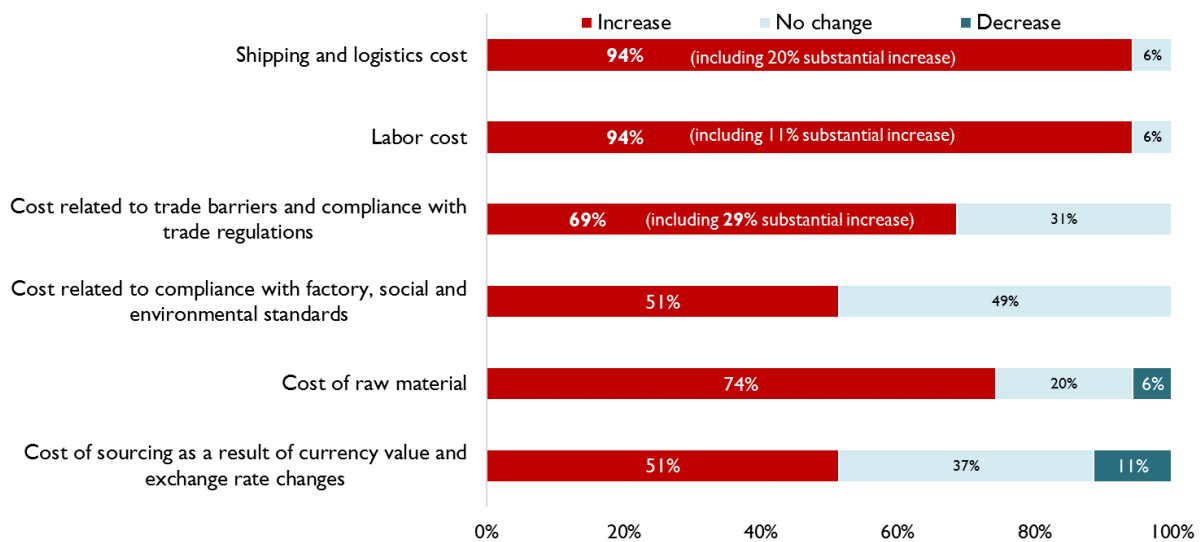


Figure 3: How do you expect the following factors impacting sourcing cost to change in 2019?



Regarding the cost pressures, specifically, more than 85 percent of respondents expect their production or sourcing cost to rise in 2019, including 45.7 percent that expect a substantial or modest increase (Figure 2). This is a new record high since 2017. In comparison, respectively only 8.6 percent and 5.7 percent of respondents say their sourcing cost will have no change or drop slightly in 2019, which is substantially fewer than two years ago.

Further, respondents identify “shipping and logistics cost”, “labor cost” and “cost related to trade barriers and compliance with trade regulations” as the top three factors that lead to the increase of sourcing cost in 2019 (Figure 3). Particularly, for the first time since we surveyed in 2014, as high as 94 percent of respondents expect their shipping and logistics cost to go up in 2019, including 20 percent that expects a significant increase.

It should be noted that companies’ high pressures for increasing sourcing cost and supply chain risk this year and their concerns for the protectionist U.S. trade policy agenda are connected. Since 2018, the Trump administration has imposed or constantly threatened to impose punitive tariffs on imports, including textiles and apparel, from leading sourcing destinations such as China, and more recently Mexico.¹ In response to the supply chain disruptions and heightened market uncertainties caused by these tariff threats, many U.S. fashion brands and retailers have had to switch to suppliers that are more expensive or pay extra to move around their products. **In fact, as much as 63 percent of respondents explicitly say the U.S. Section 301 tariff action against China “increased my companies’ sourcing cost” in 2019.** Additionally, with shipping and logistics cost unusually becoming a particular concern this year, it is a reminder that the financial burden of import tariffs on U.S. fashion companies goes far beyond the duty itself.

Second, other than the top three, a few issues related to trade tensions also pose more significant challenges to respondents in 2019. For example, “finding a new sourcing base other than China” ranked 5th top business challenge this year, up from 7th in 2018. Likewise, reflecting respondents’ increasing concerns for the retaliatory measures against U.S. products or companies under the shadow of the trade war, “Protectionist trade policy agendas in countries other than the United States” ranked 9th top business challenge this year, up from 12th in 2018.

Third, several business challenges identified in previous benchmarking studies continue to be major concerns for respondents in 2019. This includes “investing in and updating technologies” (#4 in 2019, #5 in 2018 and #4 in 2017), “market competition in the United States from e-commerce” (#6 in 2019, and #2 both in 2017 and 2018), and “market competition in the United States from brick and mortar stores and other conventional peer competitors” (#7 in 2019, #4 in 2018 and #3 in 2017). These challenges echo the transformative changes that are happening in the U.S. fashion industry, from the increasing digitalization of the apparel supply chain, adoption of big-data tools and artificial intelligence (AI) technologies to consumers’ shifting shopping behaviors.²

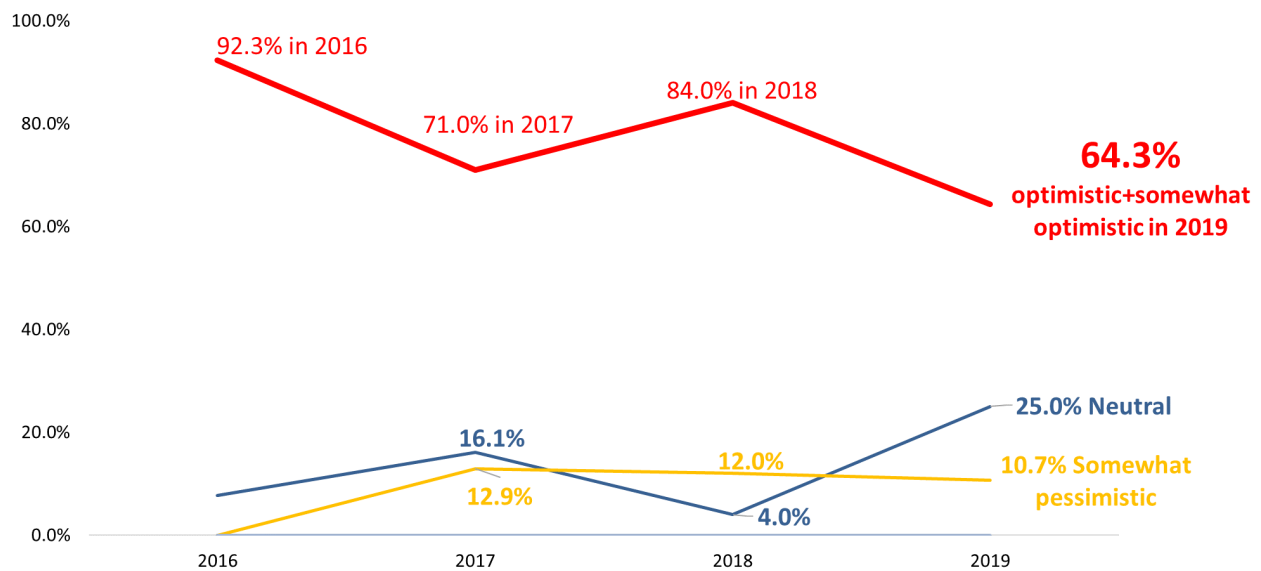
¹ Lu, S. (2019). Timeline – Trump’s track record on trade – Update. *Just-Style*. Retrieved from https://www.just-style.com/analysis/timeline-trumps-track-record-on-trade-update_id133211.aspx

² Business of Fashion and McKinsey & Company (2018). *The State of Fashion 2019*. Retrieved from <https://cdn.businessoffashion.com/reports/The State of Fashion 2019.pdf>

Industry Outlook for the Next Five Years

Amid the escalating trade tensions and growing uncertainties of the U.S. and world economy³, respondents are more conservative about the five-year outlook for the U.S. fashion industry in 2019 than they were a year ago. Specifically, the percentage of those who are “optimistic” or “somewhat optimistic” dropped to 64 percent this year from 84 percent in 2018 (Figure 4). Meanwhile, 25 percent of respondents feel “neutral” about the next five years, a big jump from only 4 percent in 2018. A good proportion of these respondents are large-scale fashion retailers (with more than 5,000 employees) that source and sell products around the world. Because of their global operations, understandably, these companies feel vulnerable to the mounting uncertainties in the current business environment. Nevertheless, similar to the results in previous years, only around 10 percent of respondents feel somewhat pessimistic about the next five years, and zero feel pessimistic. This result suggests that the overall growth trajectory of the U.S. fashion industry hasn’t fundamentally changed, thanks to the expansion of the U.S. economy, consumers’ continuous spending and the booming job market so far this year.

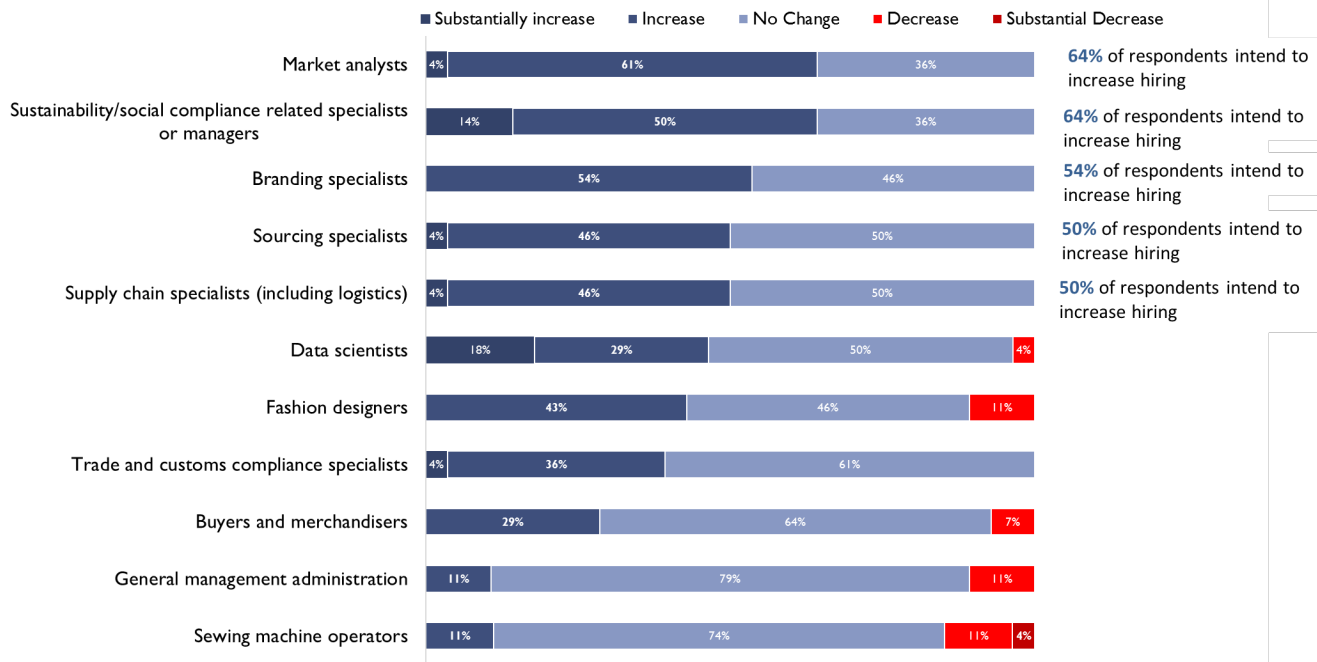
Figure 4: Respondents' Five-Year Outlook for the U.S. Fashion Industry



³ International Monetary Fund, IMF (2019). *World economic outlook, April 2019: Growth slowdown, precarious recovery*. Retrieved from <https://www.imf.org/en/Publications/WEO/Issues/2019/03/28/world-economic-outlook-april-2019>

Demand for Human Talent in the Next Five Years

Figure 5: Respondents' Expected Demand for Human Talent in the Next Five Years (From Highest Demand to Lowest Demand)



Consistent with companies' overall confidence in the industry, all but one respondent (or 96 percent) say they plan to hire more employees in the next five years, which is similar to the results in 2018 and much higher than around 80 percent from 2014-2017.

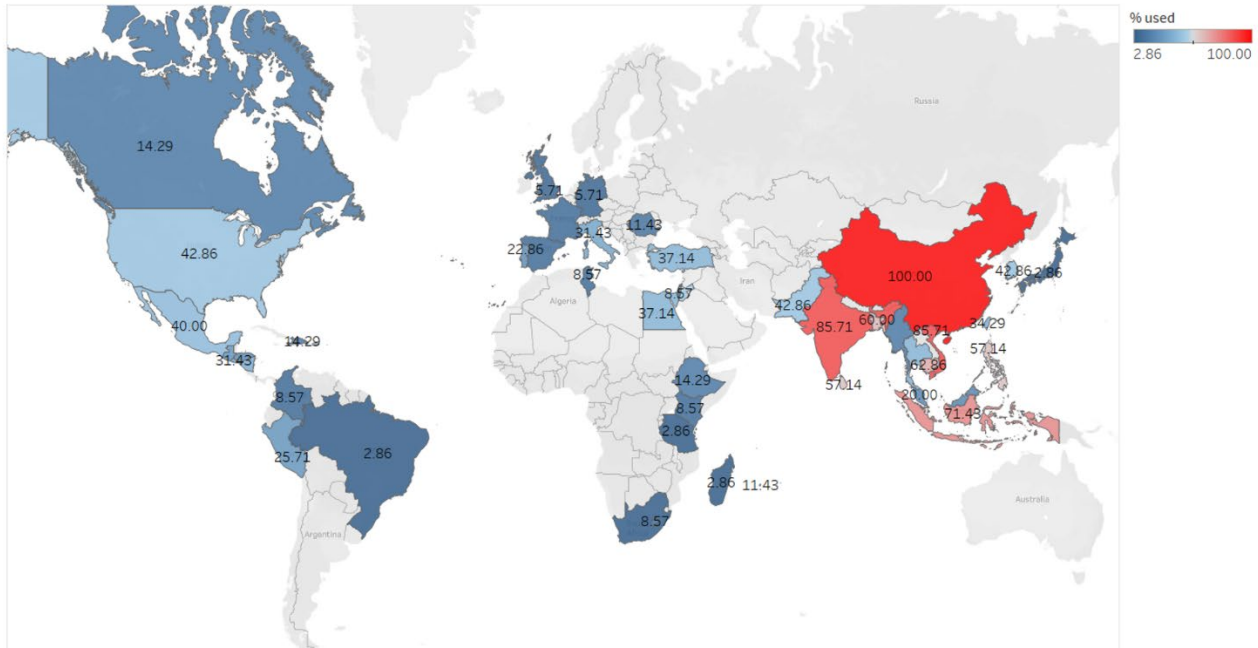
However, as we find in the past, companies' hiring plans continue to be quite unequal between different types of positions this year. As shown in Figure 4, **five types of positions—market analysts, sustainability/compliance related specialists or managers, branding specialists, sourcing specialists and supply chain specialists (including logistics)**—will be most in-demand over the next five years; meanwhile, companies are least likely to hire **sewing machine operators** or **general management administrators** in the same time frame. In particular, only 11 percent of respondents plan to increase hiring general administrators through 2024, a significant drop from around 40 percent as they indicated in the last three years' surveys.

Overall, the contrasting demand for talent reflects companies' business priorities in the years ahead and illustrates **the changing nature of the U.S. fashion industry, which is becoming increasingly globalized, supply-chain based, technology-intensive, and data-driven.** As companies continue to invest in new digital technologies and innovate their business models by leveraging tools such as big data, more structural change in the fashion job market will be highly expected.

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

Sourcing base and sourcing portfolio

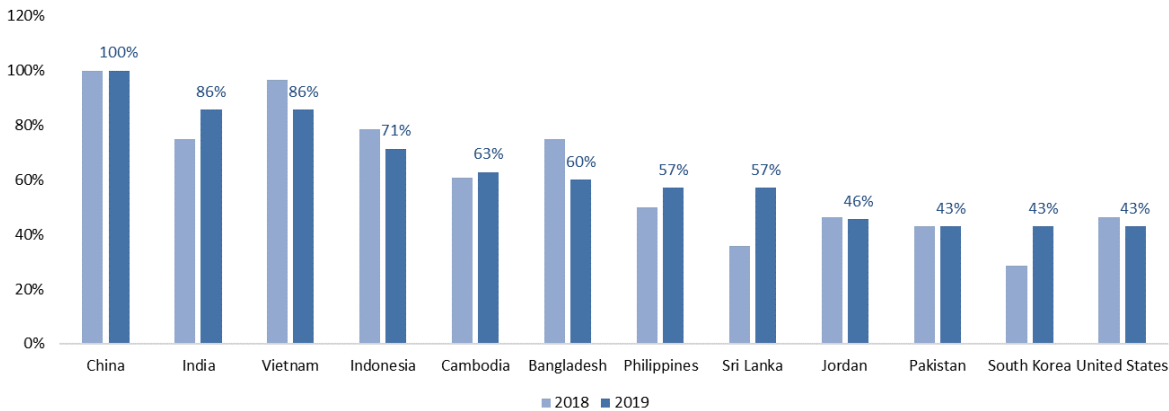
Figure 6: Respondents' Sourcing Base in 2019



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

Reflecting the U.S. fashion industry's global reach, respondents source from as many as 48 countries or regions in 2019, close to 51 in 2018 (Figure 6). Matching with the official U.S. trade statistics, **China (100 percent of respondents), Vietnam (86 percent of respondents) and India (86 percent of respondents)** are the top three most-utilized sourcing destinations, followed by Indonesia (71 percent), Cambodia (63 percent), Bangladesh (63 percent) and Philippines (57 percent).

Figure 7: Respondents' Top 10 Sourcing Bases in 2019



Regarding the selection of sourcing destinations by respondents, three trends are worth our attention in 2019:

First, Asia as a whole continues to take the lead as the dominant sourcing base for U.S. fashion companies. As shown in Figure 7, almost all the top ten most-utilized sourcing destinations in 2019 are Asian countries, except Jordan (rank #9) and the United States (rank #10). Several of these top Asian sourcing destinations also see a higher utilization rate in 2019 than a year ago, including India (86 percent vs. 75 percent in 2018), Cambodia (63 percent vs. 61 percent in 2018), Sri Lanka (57 percent vs. 36 percent in 2018), and Philippines (57 percent vs. 50 percent in 2018). This result suggests that **in response to the escalating U.S.-China trade tensions, U.S. fashion companies are actively diversifying their sourcing base within the Asia region.**

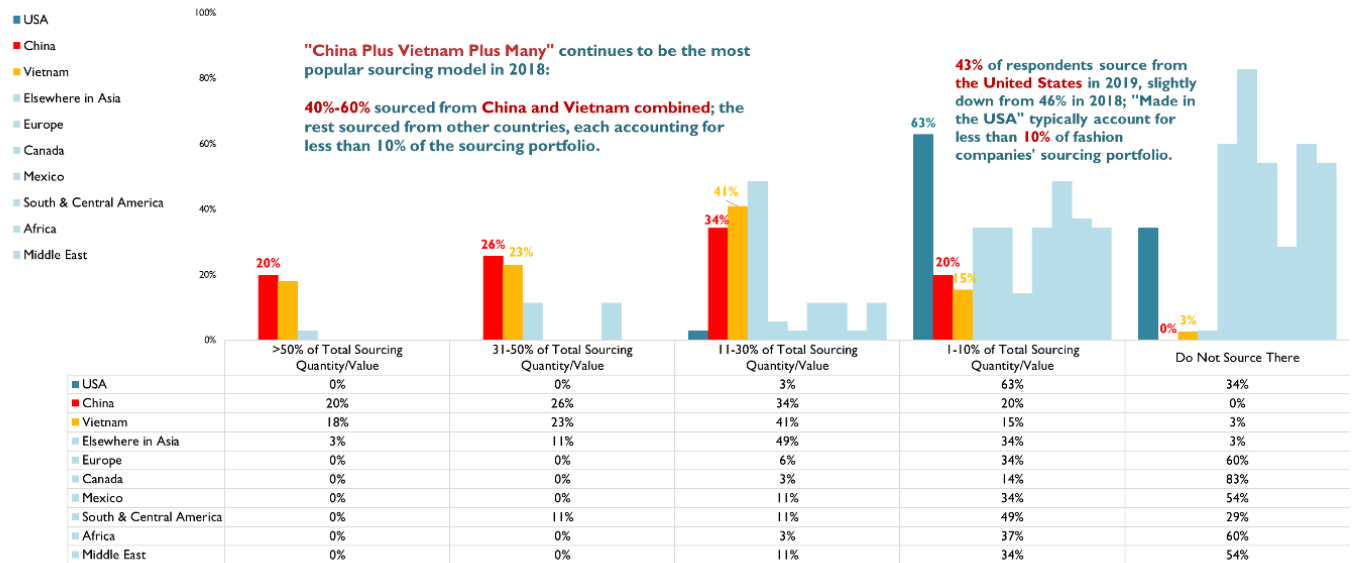
Table 2 % of U.S. Apparel Imports from the Western Hemisphere

<i>By quantity</i>						
Sourcing destinations	2017	2018	2018 vs.2017	2018 (Jan-May)	2019 (Jan-May)	2019 vs. 2018 (Jan-May)
Western Hemisphere	15.7%	15.6%	-0.1%	16.6%	16.1%	-0.5%
CAFTA-DR	10.9%	10.7%	-0.2%	11.3%	10.8%	-0.5%
NAFTA	3.2%	3.2%	0.0%	3.6%	3.3%	-0.3%
<i>By value</i>						
Sourcing destinations	2017	2018	2018 vs.2017	2018 (Jan-May)	2019 (Jan-May)	2019 vs. 2018
Western Hemisphere	17.2%	17.1%	-0.1%	17.6%	17.4%	-0.3%
CAFTA-DR	9.9%	10.1%	0.2%	10.2%	10.2%	0.0%
NAFTA	5.2%	4.8%	-0.4%	5.2%	4.7%	-0.5%

Data source: Office of Textiles and Apparel (OTEXA), U.S. Department of Commerce

Second, in contrast to some popular presumptions, U.S. fashion companies are NOT sourcing more from the Western Hemisphere under the shadow of the U.S.-China tariff war. Instead, several Western-Hemisphere countries, especially members of the North American Free Trade Agreement (NAFTA) and the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), see no significant improvement or even a lower utilization rate for sourcing in 2019 compared with a year ago. This includes Mexico (40 percent vs. 50 percent in 2018), Guatemala (26 percent vs. 39 percent in 2018), Honduras (23 percent vs. 36 percent in 2018), Nicaragua (34 percent vs. 32 percent in 2018), El Salvador (31 percent vs. 29 percent in 2018) and Dominican Republic (14 percent vs. 14 percent in 2018). Echoing our survey findings, data from the Office of Textiles and Apparel (OTEXA) in the U.S. Commerce Department also shows that Western Hemisphere, including NAFTA and CAFTA-DR regions, accounted for a slightly lower market shares in the U.S. apparel import market from 2018 to 2019, both measured in quantity and value (Table 2). The uncertainty associated with the ratification of the U.S.-Mexico-Canada Free Trade Agreement (USMCA or NAFTA2.0), U.S. fashion companies' budget restraints this year and their priority in finding new sourcing bases in Asia could all contribute to the drop.

Figure 8: What does your company's sourcing portfolio look like in 2019?



Third, regarding companies' sourcing portfolio, the results indicate that **"China plus Vietnam plus Many" continues to be the most popular sourcing model among respondents.** However, the details of this model continue to evolve, as shown in Figure 8:

- China and Vietnam combined now typically account for 40-60 percent of U.S. fashion companies' total sourcing value or volume.** Notably, while China remains the most utilized sourcing base, the country is no longer always the top supplier for U.S. fashion companies. **In fact, around 25 percent of respondents indicate that they source MORE from Vietnam than from China in 2019, an emerging trend important to watch.** As another example illustrating companies' shifting balance between sourcing from China and Vietnam, compared with three years ago, fewer respondents report sourcing more than 30 percent of their value/volume from China (46 percent vs. 61.5 percent in 2016) and even fewer source over 50 percent of value/volume from the country (20 percent vs. 23.1 percent in 2016). In comparison, as many as 41 percent of respondents this year report sourcing more than 30 percent of value/volume from Vietnam, which is a new record high since we surveyed in 2014.
- Other than China and Vietnam, U.S. fashion companies also source from a few other countries and each additional country, including the United States, typically accounts for less than 10 percent of companies' total sourcing value or volume.** This practice has stayed stable since 2016.

Sourcing diversification

Figure 9a: How Diversified is Your Sourcing Base? (Companies with 1,000+ employees)

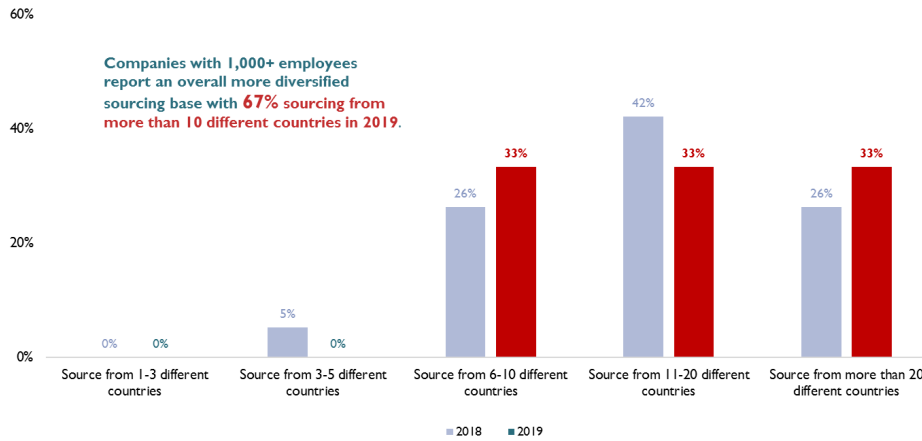


Figure 9b: How Diversified is Your Sourcing Base? (Companies with <1,000 employees)

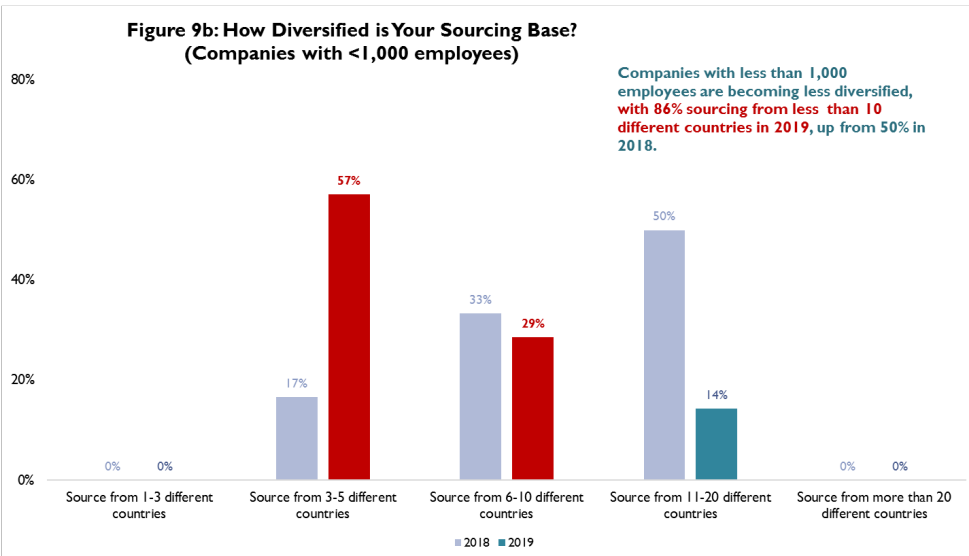
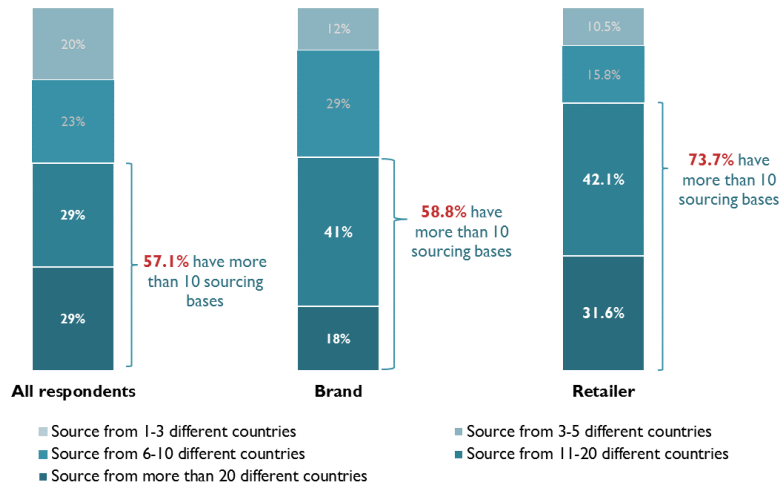


Figure 9c: Diversification of Sourcing Base in 2019 by Respondents' Business Type



Rather than “putting all eggs in one basket”, U.S. fashion companies typically source from multiple countries to balance the needs for sourcing cost, speed, reliability, flexibility, and risk control. This year, we find respondents’ sourcing diversification strategies include both continuities and changes:

First, most respondents continue to maintain a relatively diverse sourcing base, with 57.1 percent currently sourcing from 10+ different countries or regions, close to 60.7 percent in 2018 and 57.6 percent in 2017 (Figure 9c).

Second, larger companies, in general, continue to be more diversified in sourcing than smaller companies. As shown in Figure 9a and 9b, around 70 percent of respondents with 1,000+ employees source from 10+ different countries or regions in 2019, including 33 percent importing from 20+ different countries or regions. **Meanwhile, respondents with less than 1,000 employees are less diversified, with 86 percent sourcing from less than 10 different countries in 2019, up from 50 percent last year.**

Third, consistent with our findings in previous years, retailers overall adopt a more diversified sourcing base than wholesalers and manufacturers. As shown in Figure 9c, 74 percent of self-identified retailers source from 10+ different countries in 2019, higher than 57 percent of all respondents. A higher percentage of self-identified retailers also report sourcing from 20+ different countries or regions than the average of all respondents this year.

Rating sourcing destinations

Table 3 Strength and Weakness as a Sourcing Base

Region	Sourcing destination	Speed to market	Sourcing cost	Flexibility and agility	Risk of compliance
Western Hemisphere	USA	● 4.0	◆ 2.0	▲ 3.0	● 4.0
	Mexico	▲ 3.5	▲ 3.0	▲ 3.0	▲ 3.0
	CAFTA-DR	▲ 3.5	▲ 3.5	▲ 3.0	▲ 3.0
	Colombia	▲ 3.0	▲ 3.0	▲ 3.0	◆ 2.5
Asia	China	▲ 3.5	▲ 3.5	● 4.0	▲ 3.0
	Vietnam	▲ 3.0	● 4.0	▲ 3.5	▲ 3.0
	Bangladesh	◆ 2.0	● 4.5	◆ 2.5	◆ 2.0
	Indonesia	◆ 2.5	● 4.0	▲ 3.0	◆ 2.5
	India	◆ 2.5	● 4.0	▲ 3.0	◆ 2.5
	Sri Lanka	◆ 2.5	▲ 3.5	▲ 3.0	▲ 3.0
	Cambodia	◆ 2.5	▲ 3.5	▲ 3.0	◆ 2.0
Rest of the world	Europe	▲ 3.0	◆ 2.5	▲ 3.0	● 4.0
	AGOA	◆ 2.0	▲ 3.5	◆ 2.5	◆ 2.5
	Egypt	◆ 2.5	▲ 3.5	▲ 3.0	◆ 2.5

Note: The results are based on respondents’ average rating for each country in a scale of 1 (much lower performance than the average) to 5 (much higher performance than the average). In the table, ● means strength as a sourcing base (rating score between 5.0-4.0); ▲ means average performance (rating score between 3.0-3.9); ◆ means weakness as a sourcing base (rating score between 1.0-2.9). However, the results do NOT reflect the author’s evaluation of each country.

To understand the strengths and weaknesses of each primary sourcing destination, we asked respondents to rate them against four criteria with the most significant impact on sourcing decisions.

- **Speed to Market:** 1) The United States, Mexico, and CAFTA-DR members continue to demonstrate substantial competitiveness in lead time due to their geographic location. 2) Similar to the results in 2018, China and Vietnam scored higher in speed to market than their Asian and African competitors this year, thanks to these two countries' overall higher efficiency in supply chain management based on their more advanced local textile and apparel industries. 3) Respondents say sourcing from the EU, in general, can offer a shorter lead time than many Asian suppliers. This result is understandable, given textile and apparel mills in many developed EU countries have adopted sophisticated digital and automation technologies to improve their speed to market.⁴ Shipping from the EU to the U.S. is also shorter in the distance than from Asia.
- **Sourcing Cost:** 1) Consistent with the survey results in 2018 and 2017, respondents this year again say Bangladesh offers the most competitive price, followed by Vietnam, Indonesia, and India. 2) Respondents say sourcing from Asia will incur a lower cost than from the Western Hemisphere and other parts of the world overall. Other than the factor of lower labor cost, the access to cheaper textile raw material (such as yarns and fabrics) produced locally is another critical competitive advantage of Asian apparel manufacturers.⁵ 3) As apparel manufacturing remains mostly labor-intensive, not too surprisingly, respondents say sourcing from the United States and the EU, where wage level is among the highest in the world, will be most expensive.
- **Flexibility and agility:** 1) Regarding the capability of quickly adjusting the delivery, volume, and product of the sourcing order upon requests of customers, China scored the highest based on its unparalleled production capacity and integrated production networks. A recent study further shows that few countries can compete with China in terms of the great variety of apparel products it produces for the U.S. retail market.⁶ 2) Meanwhile, respondents see other primary sourcing bases have similar performance in flexibility and agility, except Bangladesh, which received the lowest rating score.
- **Risk of Compliance:** 1) According to respondents, the United States and the EU demonstrate a notable competitive edge against other sourcing destinations in terms of factory, social, and environmental compliance. 2) While respondents still regard sourcing from Bangladesh involves higher compliance risks in general, the rating score for the country this year raised to 2.0 from only 1.5 in 2018. 3) Respondents expressed worries for the increasing compliance risk involved in sourcing from Cambodia this year, with rating score for the country dropped to 2.0 from 2.5 in 2018. EU companies and governments share the same concerns. In early 2019, due to Cambodia's deteriorating record against core human rights and labor rights conventions, the EU Commission triggered the formal procedure that could lead to the withdrawal of Cambodia's trade preferences under the EU's Everything But Arms (EBA) program.⁷ 4) Respondents say the compliance risk in apparel sourcing is closely associated with a country's economic advancement level. In general, the compliance risk is higher when sourcing from developing countries than from developed ones.

⁴ Hodges, N. J., & Link, A. N. (2018). Trends in the European textile and apparel industries. In *Knowledge-Intensive Entrepreneurship* (pp. 29-43). Springer.

⁵ Lu, S. (2019). Regional Comprehensive Economic Partnership (RCEP): Impact on the Integration of Textile and Apparel Supply Chain in the Asia-Pacific Region. In *Fashion Supply Chain Management in Asia: Concepts, Models, and Cases* (pp. 21-41). Springer.

⁶ Lu, S. (2019). How the tariff war is shifting 'Made in China' sourcing strategy for U.S. apparel retailers. *Apparel Magazine*. Retrieved from <https://apparelmag.com/how-tariff-war-shifting-made-china-sourcing-strategy-us-apparel-retailers>

⁷ European Commission (2019). EU sends monitoring mission to Cambodia to assess the human rights and labour rights situation. Retrieved from <http://trade.ec.europa.eu/doclib/press/index.cfm?id=2028>

Further, this year, respondents provided some additional explanations for their compliance risk ratings. First, respondents say their evaluation is primarily based on field experiences working with vendors in respective countries. **For example, concerns about compliance risk often stem from incidents such as non-payment of wages, civil unrest, and factories being unwilling to collaborate.** Second, some respondents admit that external factors such as international news reporting also have an impact on the perception of compliance risk, given the sensitivity of the issue. Third, respondents think many countries are “a mixed bag, with some world-class suppliers and some very high-risk suppliers.” Additionally, given the complexity of the issue, **most respondents don’t think the compliance risk in apparel sourcing will go away anytime soon.** As one respondent puts it, *“I think there is always a risk of compliance, and you need to be diligent. I wouldn't rate any country LOW RISK for compliance.”*

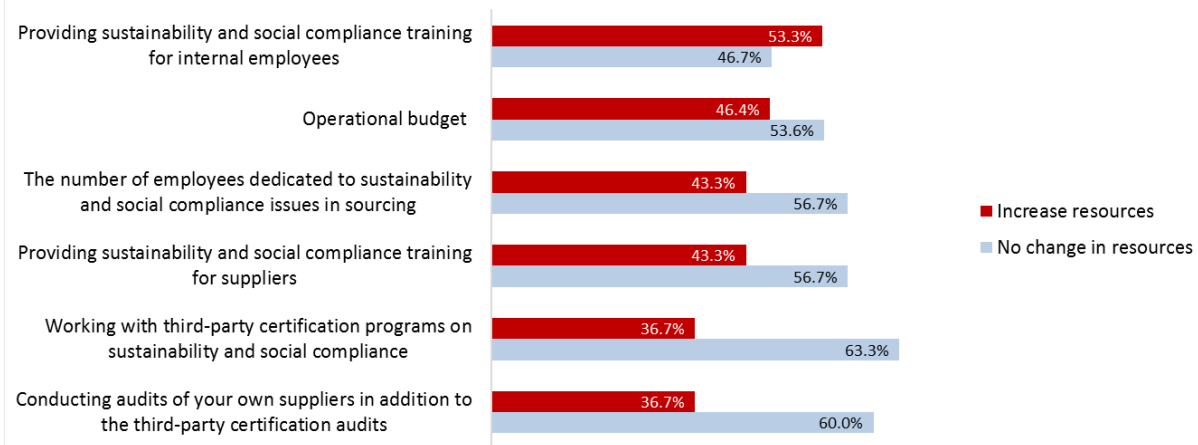
To sum up, the results suggest that **no sourcing destination is perfect**, which explains why U.S. fashion companies use a mix of sourcing bases to balance cost, speed, flexibility, and risk management. On the other hand, **China, Vietnam, Mexico, and CAFTA-DR members overall are still regarded as the most balanced sourcing destinations against all the four criteria**, which offers these countries and regions unique competitive advantages as preferred sourcing destinations.

Sourcing in Socially Compliant & Sustainable Ways

63%

of respondents say they will **allocate more resources for sustainability and social compliance** over the next two years, down from 85% in 2018. Another 36% expect no change.

Figure10: How will your company’s allocation of resources for sustainability and social compliance change over the next two years?



This year, we again asked respondents to provide details about their practices related to sourcing in socially compliant and sustainable ways, given the increasing attention to the issue from both within the fashion industry and outside stakeholders.

First, U.S. fashion companies overall maintain a high commitment to sustainability and social responsibility in sourcing. Despite more financial restraints in the face of market uncertainties, the majority of respondents (63 percent) still plan to allocate more resources to sustainability and social

compliance in the next two years, and another 36 percent expect no change. As shown in Figure 10, **“providing sustainability and social compliance training for internal employees”**, **“increasing operational budget”** and increasing **“the number of employees dedicated to sustainability and social compliance issues in sourcing”** are the top three areas respondents plan to allocate more resources in the next two years. Moreover, more than 40 percent of respondents plan to allocate more resources to **“provide sustainability and social compliance training for suppliers.”** In comparison, fewer respondents (around 30 percent) plan to increase resources in the next two years further to **“work with third-party certification programs on sustainability and social compliance”** and **“audit suppliers in addition to third-party certification programs.”** It should be noted, however, that the result does not mean that respondents are “paying less attention” to audit, but rather some other compliance issues could be in more urgent need of additional resources.

Figure 11: How does your company map your supply chain--i.e. keeping records of name, location and function of your suppliers?

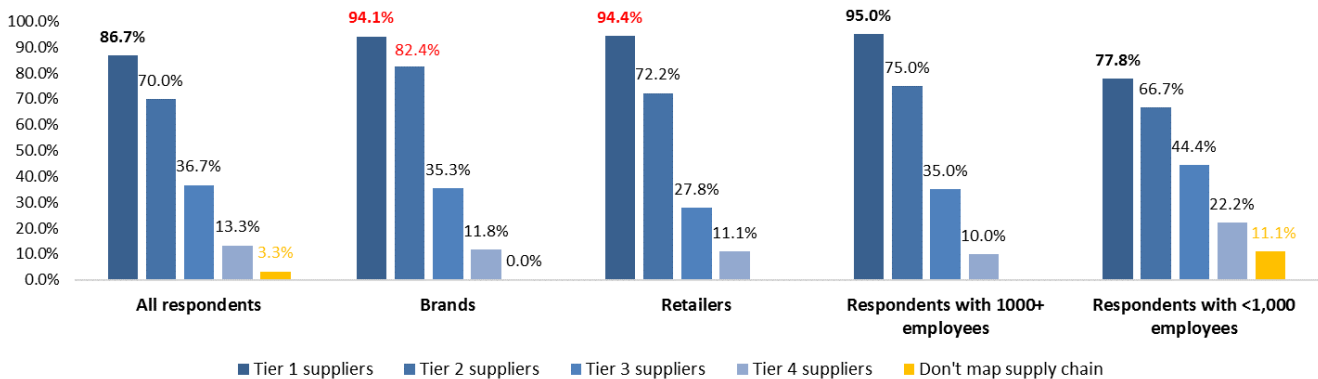
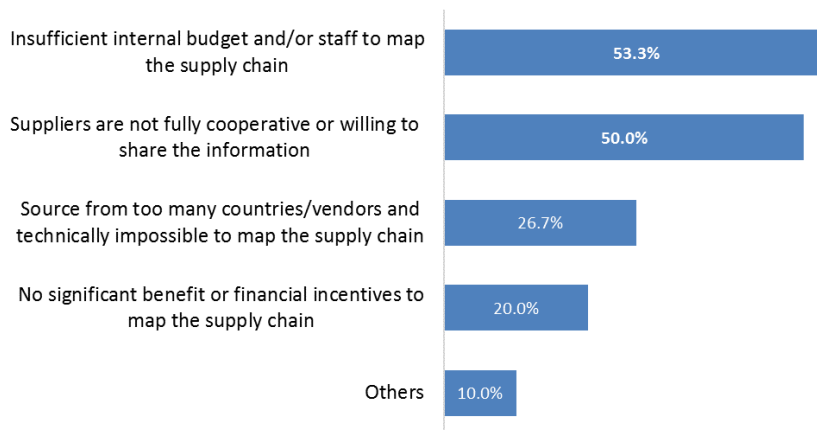


Figure 12: What are the main challenges for your company to map supply chains?



Second, reflecting companies’ commitments to sourcing in sustainable and socially compliant ways, nearly 100 percent of respondents map their supply chains (i.e., keep records of name, location, and function of suppliers), up from 90 percent in 2017. Notably, as indicated in Figure 11, around 80 percent of respondents track not only **Tier 1 suppliers** (i.e., factory where the final product is assembled), but also **Tier 2 suppliers** (i.e., subcontractors or major component suppliers, such as fabrics). However, similar to what we found in the previous surveys, it is still less common for companies to map **Tier 3** (i.e., yarn spinners, finding and trimming suppliers) and **Tier 4 suppliers** (i.e., raw materials suppliers, such as cattle/pig hides, rubber, cotton, wool, goose down,

minerals/metals and chemicals), likely because today’s fashion apparel supply chain is highly fragmented, long, and globalized⁸. Figure 11 also shows that self-identified **brands** and **retailers** are making a more significant effort to monitor Tier 1 suppliers than average (94.1 percent and 94.4 percent vs. 86.7 percent), suggesting **business type affects the scope of supply chain mapping**.

Of note, more than half of respondents say “Insufficient internal budget and/or staff” is the top challenge for them to map supply chains (Figure 12). The result supports the concern: as shown in Figure 11, respondents with 1,000 + employees are devoted to supply chain mapping (95 percent for Tier 1 and 75 percent for Tier 2 suppliers) more than those with <1,000 employees (78 percent for Tier 1 and 67 percent for Tier 2 suppliers). Respectively around 50 percent and 30 percent of respondents also say **“suppliers not being fully cooperative or willing to share the information”** and **“sourcing from too many countries/vendors”** make it challenging to map supply chains fully.

100% of respondents say they **audit suppliers** and **96.2%** use third-party certification to audit suppliers.

Figure 13a: How does your company audit your suppliers?--Conduct own audit or use third-party certification program

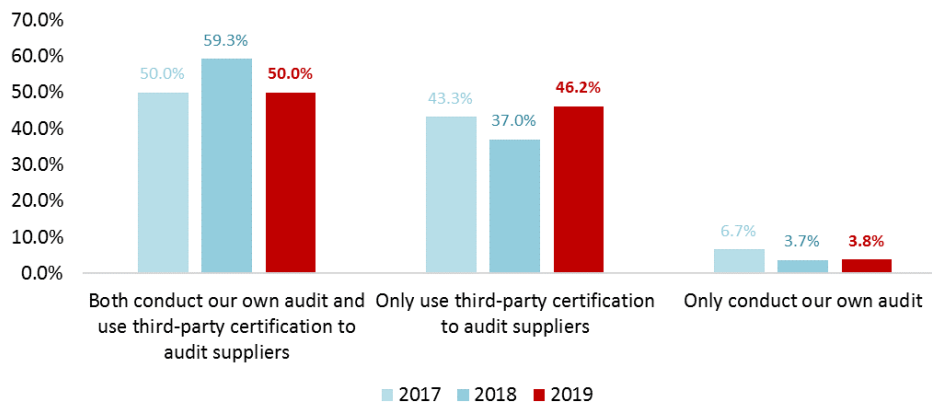
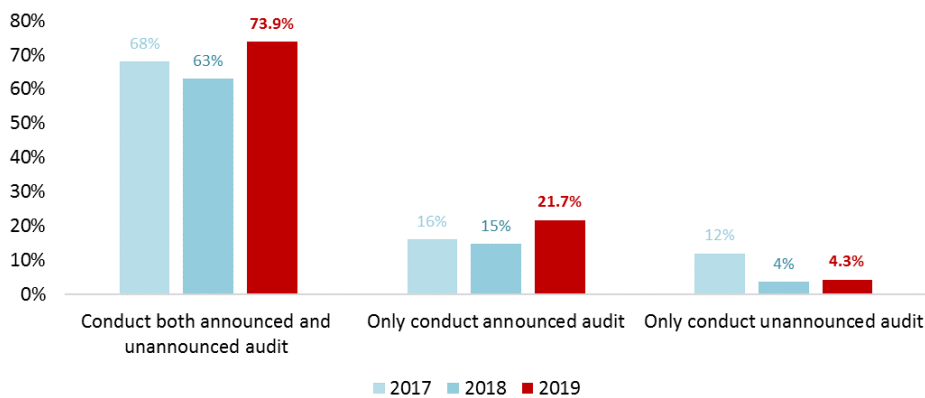
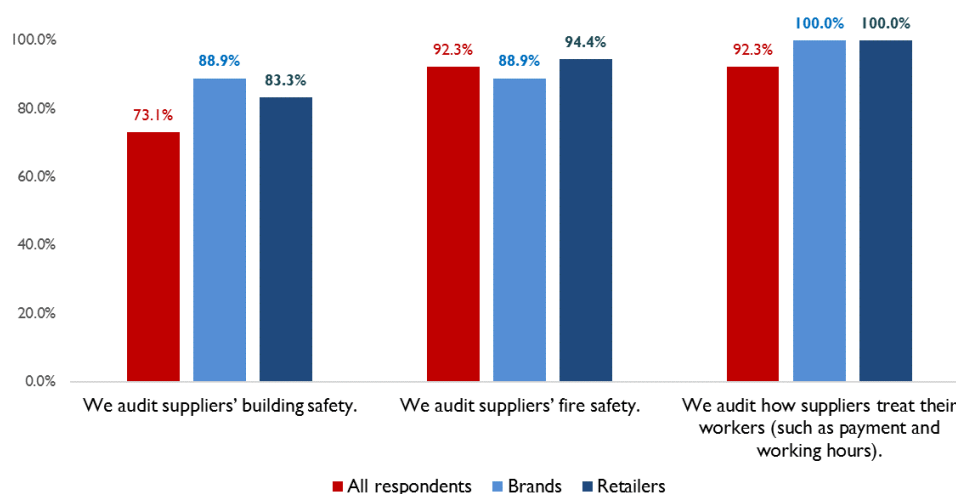


Figure 13b: How does your company audit your suppliers?--Conduct announced or unannounced audit



⁸ Dicken, P. (2015). *Global shift, seventh edition: Mapping the changing contours of the world economy*: Guilford Publications, Incorporated.

Figure 13c: What does your company audit?



Third, 100 percent of respondents currently audit their suppliers, suggesting this is a crucial tool for achieving sustainable and socially compliant sourcing. As shown in Figure 13a-13c:

- **The vast majority of respondents (96.2 percent) currently use third-party certification programs to audit.** Around 50 percent of respondents say they use both third-party certification programs and companies' own compliance teams this year, suggesting this is also a common practice adopted by U.S. fashion companies. In comparison, few companies (4 percent) rely on their own compliance team only.
- **Regarding the nature of the inspection, more respondents conduct both announced and unannounced audits this year (74 percent) than in 2018 (63 percent).** However, far fewer companies conduct solely announced (21.7 percent) or unannounced audits (4.3 percent).
- **Regarding the content of audit, respondents say they usually focus on three primary areas related to social responsibility:** treatment of workers (92.3 percent), fire safety (92.3 percent), and building safety (73.1 percent). As another example showing fashion companies' more considerable efforts in compliance, **this year, brands and retailers, in particular, conduct more comprehensive audits than in the past.**

Emerging Sourcing Trends

Looking into the next two years, several emerging sourcing trends are worth watching:

Table 4 What Best Describes Your Company's Sourcing Strategy in the Next Two Years?

Sourcing strategy	2018	2019	2019 vs. 2018
Source from the same number of countries , but work with fewer suppliers	39.3%	40.0%	0.7%
Source from more countries and work with more suppliers	32.1%	25.7%	-6.4%
Source from the same number of countries , but work with more suppliers	7.1%	17.1%	10.0%
Source from fewer countries and work with fewer suppliers	7.1%	11.4%	4.3%
No change	0.0%	5.7%	5.7%
Source from fewer countries , but work with more suppliers in these countries	14.3%	0.0%	-14.3%

First, U.S. fashion companies will continue to adjust their sourcing in response to the changing business and trade policy environment. As shown in Table 4:

- **Keeping a relatively diverse sourcing base will remain a key element of companies' sourcing strategies.** Just a little over 10 percent of respondents plan to consolidate their sourcing base (i.e., sourcing from fewer countries and work with fewer suppliers) in the next two years, similar to the results in 2018.
- As part of the continuous quest for sourcing diversification, **82.9 percent of respondents say they plan to source from the same number or more countries in the next two years**, up from 78.6 percent in 2018.
- While companies are not leaving any particular sourcing destination en masse, **respondents are divided on whether to increase (42.9 percent) or decrease (51.4 percent) the number of suppliers they will work with over the next two years.**
- According to respondents, their motivations for further sourcing diversification (i.e., either to source from more countries or work with more vendors in existing countries) are in three areas:
 - 1) **To reduce the dependence on sourcing from China, particularly under the shadow of the current trade tensions.** One respondent put it: *"We need to diversify out of China. We are heavily sourced there at the moment."* Another said their company plans to *"Reduce exposure in China while minimizing duty impact."*
 - 2) **To cater to the increasing demand for speed to market:** One respondent said their company plans to explore *"nearshoring opportunities combined with condensed calendars"* to meet the expectation for a shorter lead time.
 - 3) **To fulfill the market expansion needs:** According to one respondent, their company is expanding the sourcing base to serve their growing overseas markets better.
- Correspondingly, respondents that intend to work with fewer vendors in the next two years also have two primary considerations:
 - 1) **To reduce cost, drive compliance and improve operational efficiency:** One respondent put it: *"We have been actively trimming down our production base so that we have significant integration with our suppliers."*
 - 2) **To leverage and strengthen the relationship with key vendors:** One respondent said their company is trying to *"leverage scale with fewer strategic suppliers in key markets with preferential trade advantaged abilities."* Likewise, another respondent said working with fewer vendors will *"Allow better buying leverage with fewer strategic partners."*

Second, Section 301 is having a broad impact on U.S. fashion companies' sourcing strategy. As of July 1, 2019, around \$250 billion Chinese products are subject to Section 301 punitive tariffs imposed by the Trump administration at the rate of 25 percent. Although apparel products (HS chapters 61 and 62) are not targeted directly, several textile and apparel accessories, such as backpacks, handbags, purses, wallets, baseball gloves, hats and leather, and fur apparel are covered by the Tranche 3 product list (Table 5a). Furthermore, on May 13, 2019, the Trump administration proposed to consider up to 25 percent Section 301 tariff on additional \$300 billion of imports from China⁹. The proposal (Tranche 4) includes almost all apparel items in HS Chapters 61 and 62 (Table 5a). Meanwhile, in response to the U.S. Section 301 actions, China also has imposed its punitive tariffs on a total of \$100 billion U.S. exports, including around \$1,340 million textile and apparel products. While the two countries agree to resume the trade negotiations after the meeting between President Trump and President Xi at G20 in late June 2019, the prospect of reaching a deal at least in the near term remains highly uncertain.¹⁰

⁹ Congressional Research Service, CRS (2019). *Enforcing U.S. trade laws: Section 301 and China*. Retrieved from <https://fas.org/sgp/crs/row/IF10708.pdf>

¹⁰ Palmer, D. (2019, July 7). Kudlow: U.S. may never reach trade deal with China. *Politico*. Retrieved from <https://www.politico.com/story/2019/07/09/kudlow-us-may-never-reach-trade-deal-with-china-1574471>

Table 5a U.S. Section 301 Actions against Chinese Products

Stage	Punitive tariff rate & current status	Products covered (8-digit HS code)	Impact on textile and apparel*
Tranche 1	25% tariff rate, effective July 6, 2018; active	818 tariff lines (US\$34 billion imports)	No textile and apparel products covered
Tranche 2	25% tariff rate, effective August 23, 2018; active	279 tariff lines (US\$16 billion imports)	No textile and apparel products covered
Tranche 3	10% tariff rate, effective September 24, 2018; increased to 25% tariff rate, effective May 10, 2019; active	5,733 tariff lines (US\$200 billion imports)	Around US\$3.7 billion textile products covered
Tranche 4	Up to 25% tariff rate; proposed	3,812 tariff lines (US\$300 billion imports)	Around US\$36 billion textiles, apparel and home textile products covered

Note: HS Chapters 50 to 63; trade value in 2018; Compiled based on data and information collected from the Office of the U.S. Trade Representative and the U.S. International Trade Commission (2019). The numbers in the table did not consider products that were approved for Section 301 exclusion.

Table 5b China's Tariff Actions against U.S. Products

Stage	Punitive tariff rate & current status	Products covered (8-digit HS code)	Impact on textile and apparel*
List 1	25% tariff rate, effective July 16, 2018; active	545 tariff lines (US\$34 billion imports)	No textile and apparel products covered
List 2	25% tariff rate, effective August 23, 2018; active	333 tariff lines (US\$16 billion imports)	No textile and apparel products covered
List 3 (2018)	5%, 10%, 20% and 25% tariff rates, effective September 24, 2018; the tariff rates and product list were updated in June 2019	5,207 tariff lines (US\$60 billion imports)	Around US\$486 million textile and apparel products covered
Updated List 3 (2019)	5%, 10%, 20% and 25% tariff rates, effective 1 June 2019; active	5,140 tariff lines (US\$60 billion imports)	Around US\$854 million textile and apparel products covered

Note: HS Chapters 50 to 63; trade value in 2017; Compiled based on data collected from the UNComtrade and the Ministry of Commerce, PRC (2019).

As shown in Figure 14-15, the lingering tariff war has affected and will continue to affect U.S. fashion companies' sourcing strategy significantly:

Impact 1: The trade diversion effect of Section 301 has accelerated companies' pace of reducing sourcing from China. Specifically, 77 percent of respondents say, "because of the tariff action, we intentionally moved some sourcing orders from China to other Asian suppliers." Another 77 percent of respondents say, "the sourcing shift from China will continue even if the 301 threat is dropped." Related, **about 83 percent of respondents expect to decrease sourcing from China over the next two years, a further increase from 67 percent in 2018.** "We were already moving away from China, but Section 301 tariff actions accelerated this move." One respondent noted. In contrast, only 13 percent expect to maintain their current sourcing value or volume from China, a new record low since 2017 (Figure 15a).

Figure 14: How has the U.S. Section 301 tariff action against China affected your company's sourcing strategy and businesses?

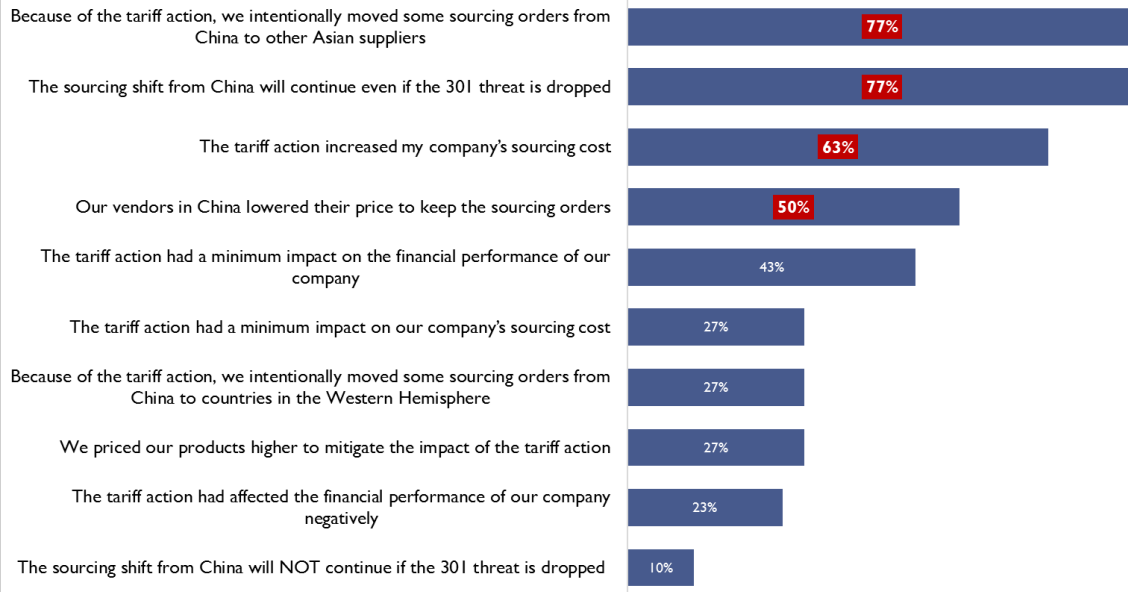
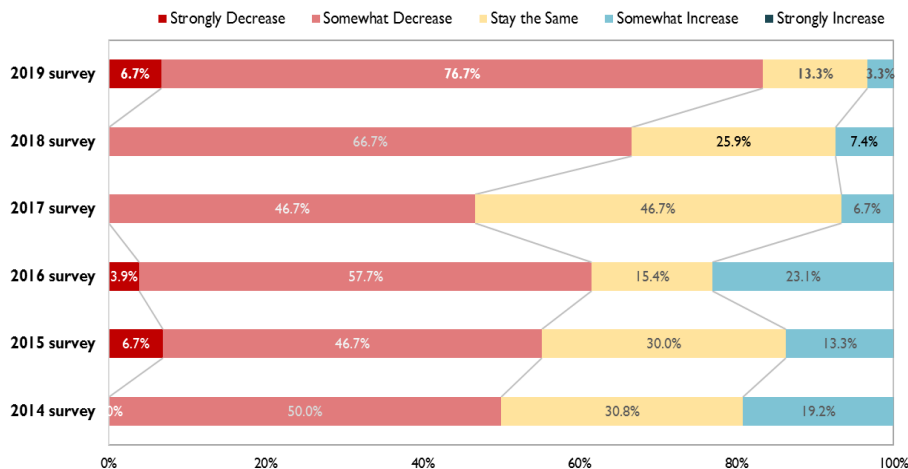


Figure 15a: How do you think your sourcing value or volume from China will change in the next two years?



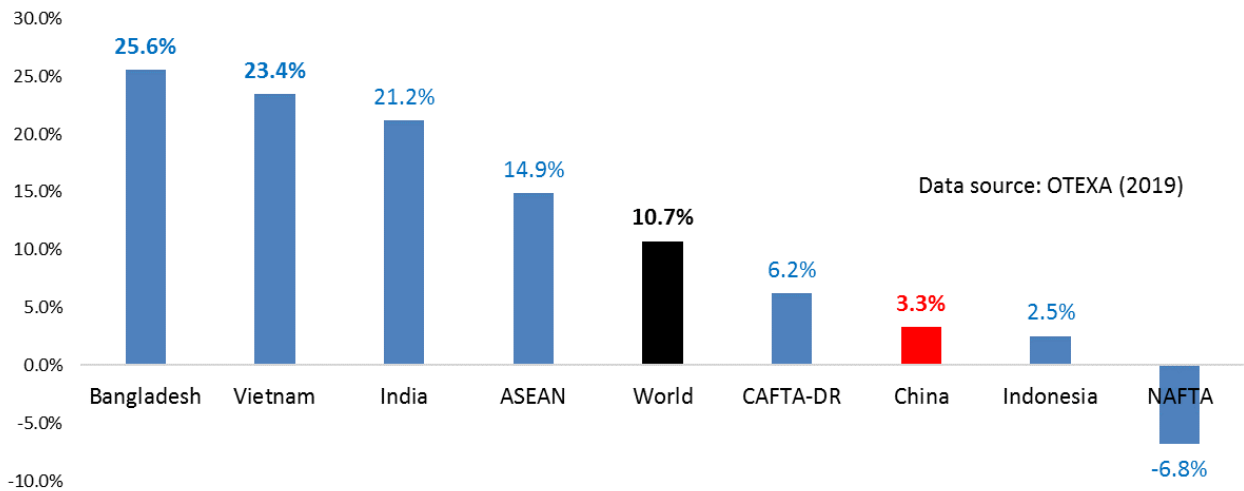
About 83 percent of respondents expect to decrease sourcing from China over the next two years, up from 67 percent in 2018. Meanwhile, only 13 percent expect to maintain their current sourcing value or volume from China, a new record low since 2017.

Impact 2: Section 301 action is pushing up the price of U.S. apparel imports across the board. As shown in Figure 15b, the unit price of U.S. apparel imports in the first five months of 2019 went up by over 10 percent year on year. **Notably, apparel exports from Bangladesh, Vietnam, and India have seen the most significant price increase—all by more than 20 percent.** This result is far from surprising, however. Restrained by the limited labor force, infrastructure, supply of raw material and production capacity, garment factories in these countries are under growing cost pressures in the face of surging sourcing orders from U.S. fashion companies, which are eager to find China's alternatives. One respondent commented, *"There is not enough capacity outside of China and capacity will start to come at a higher premium in other countries such as Bangladesh and Vietnam."*

Interesting enough, the price increase of "Made in China" in the U.S. import market has been modest so far (up 3.3 percent in the first five months of 2019 year on year, far below the world average). As a critical contributing factor, **around 50 percent of respondents say their Chinese vendors**

actually “lowered their price to keep sourcing orders” amid the tariff war. However, such a pricing practice may not be sustainable in the end as China is no longer regarded as a “cheap place” to make garment (see Table 3) and some major cost factors, such as wage level, have been rising quickly in the country.¹¹

**Figure 15b: Unit Price of U.S. Apparel Imports
% change from 2018 to 2019 (Jan-May)**



Impact 3: Section 301 will do little to shake China’s role as a dominant textile and apparel supplier for the U.S. market. Respondents say it is impossible to move out of China completely. As shown in Figure 15a, only 6.7 percent of respondents expect to decrease sourcing from China significantly in the next two years. There are two major reasons: On the one hand, no other country or region in the world can match China’s enormous production capacity for textiles and apparel in the foreseeable future. For example, trade statistics show that China still supplied 36 percent of total U.S. apparel imports by quantity and 33 percent by value in 2018, compared with only 13 percent market shares of Vietnam, the second largest supplier.¹² **Even more critical, China does not have a near competitor in terms of the variety of product it can make.** A recent study shows that for those apparel items newly launched to the U.S. retail market between January 2016 and April 2019, around 193,774 Stock Keeping Units (SKUs) were “Made in China”, compared with only 67,290 SKUs from Vietnam (or 34 percent of China’s size), 15,480 SKUs from Mexico (or 8 percent of China’s size) and 3,305 from Bangladesh (or 1.7 percent of China’s size).¹³

On the other hand, China is one of the few “balanced” sourcing bases that U.S. fashion companies can choose from (see Table 3). With speed to market, compliance risk and flexibility becoming ever more essential sourcing factors, tariff alone is not sufficient to make U.S. fashion companies give up sourcing from China completely.

¹¹ Fung Business Intelligence (2019). *China sourcing update (Labour Cost) Jun 2019*. Retrieved from <https://www.fbcigroup.com/?q=reports>

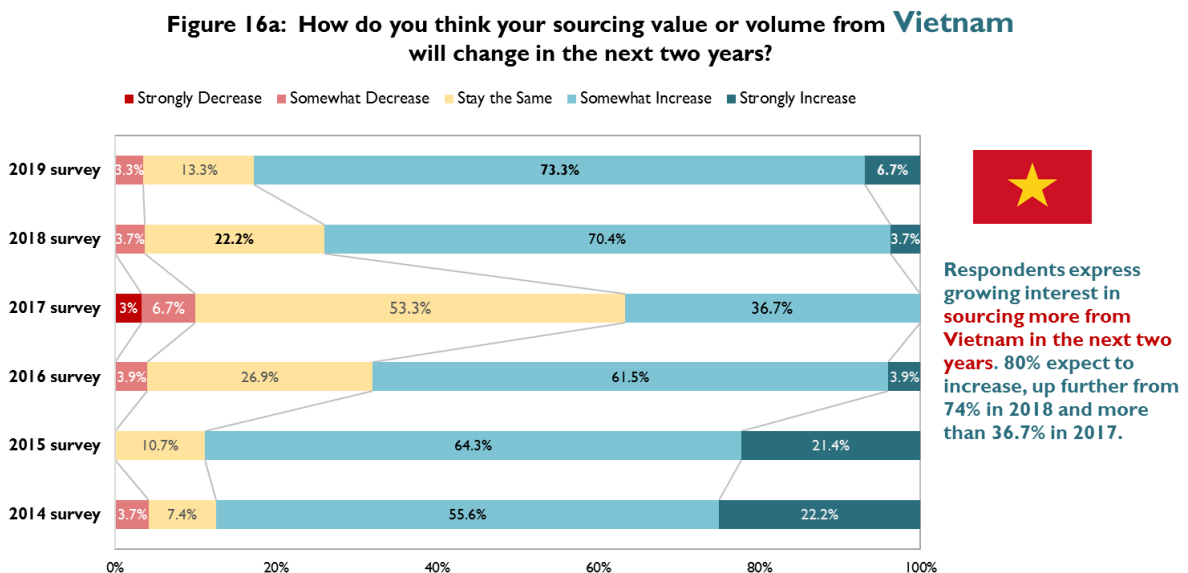
¹² Office of Textiles and Apparel, OTEXA (2019). *U.S. imports of textile and apparel*. Retrieved from <https://otexa.trade.gov/msrpoint.htm>

¹³ Lu, S. (2019). How the tariff war is shifting 'Made in China' sourcing strategy for U.S. apparel retailers. *Apparel Magazine*. Retrieved from <https://apparelmag.com/how-tariff-war-shifting-made-china-sourcing-strategy-us-apparel-retailers>

Impact 4: Section 301 has benefited near-sourcing from the Western Hemisphere and reshoring from the United States little. As shown in Figure 14, less than 30 percent of respondents say, “Because of the tariff action, we intentionally moved some sourcing orders from China to countries in the Western Hemisphere.” Trade statistics summarized in Table 2 reflect the same trend. **Further, no respondent believes Section 301 will bring textiles and apparel manufacturing back to the United States.** Instead, some respondents are of concerns that “*(section 301) increases costs for our Made in USA products and exports.*”

Impact 5: Section 301 hurts both U.S. fashion companies and U.S. consumers. U.S. fashion companies are also deeply concerned that Section 301 is hurting their business financially. For example, according to respondents, section 301 means “*higher consumer prices; impact to profit; cost-cutting measures; potential impact on employment.*” Another respondent commented that section 301 has resulted in “*continued increase financial costs to both our company and the consumers.*” Further, **U.S. fashion brands and retailers are reluctant but may have to increase their retail price, should the U.S.-China tariff war escalate further.** As one respondent noted, “*Americans will not spend more of their total income on full price apparel. If the price goes up less will be sold; more will have to be sold off the price with even lower margin.*”

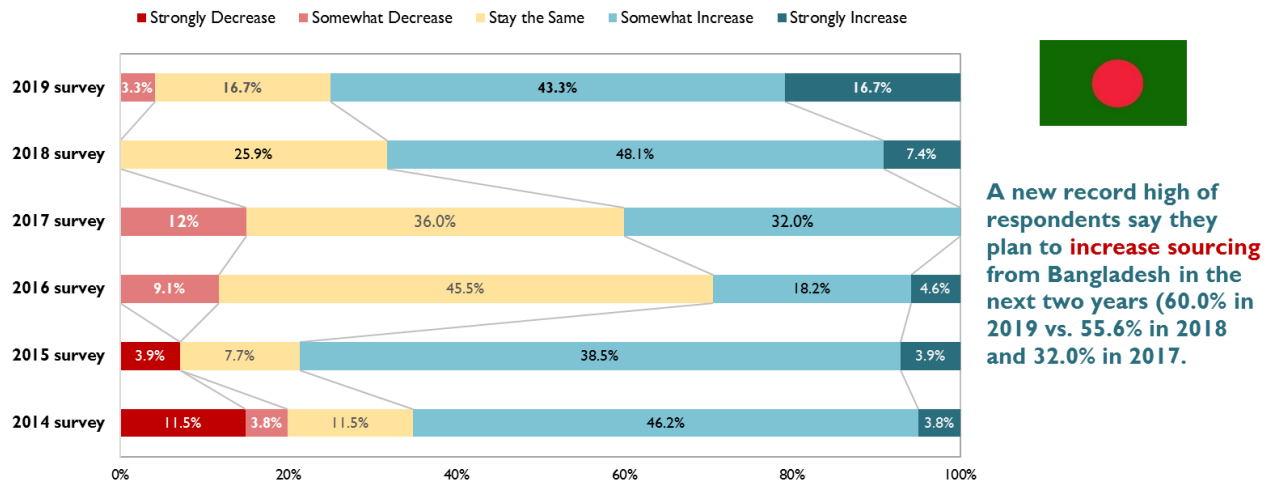
Third, benefiting from U.S. fashion companies’ expected decrease in sourcing from China, Vietnam, and Bangladesh are playing a bigger role as apparel suppliers for the U.S. market.



- **This year, Vietnam remains the #2 sourcing destination among respondents, with a 86 percent usage rate.** As shown in Figure 16a, respondents appear to be even more optimistic about the prospect of sourcing from Vietnam over the next two years; those expecting to increase sourcing reached 80 percent 2019, up further from 74 percent in 2018 and much higher than 37 percent back in 2017. Vietnam is also regarded as one of the most balanced sourcing destinations, which makes “Made in Vietnam” more attractive than many of its competitors (see Table 3).
- **Nevertheless, just around 7 percent of respondents plan to substantially increase apparel sourcing from Vietnam over the next two years, which reflects concerns about the limits of Vietnam’s production capacity and the increasing cost of sourcing from the country (see Figure 15b).** In particular, as big tech giants are moving production to Vietnam to avoid U.S. tariffs on China, the competition for resources (especially labor) between the apparel industry

and other export-oriented sectors in the country heats up.¹⁴ Recent studies also suggest that the implementation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and EU-Vietnam Free Trade Agreement (EVFTA), two free trade agreements which will offer Vietnam’s exports duty-free access to Japan and the European Union, could further worsen the problem of labor shortages and wage hikes in the country.¹⁵

Figure 16b: How do you think your sourcing value or volume from Bangladesh will change in the next two years?



- **This year, Bangladesh is the #6 top sourcing destination, with 60 percent usage among respondents, down from #5 (75 percent usage) in 2018.** As shown in Figure 16b, similar to the case of Vietnam, **a record high percentage of respondents (80 percent) express interest in expanding sourcing from Bangladesh in the next two years as companies are actively seeking China’s alternatives.** Also, for the first time since we surveyed in 2014, nearly 17 percent of respondents expect to increase sourcing from Bangladesh strongly.
- As shown in Table 3, “Made in Bangladesh” enjoys a prominent price advantage over many other Asian suppliers. However, respondents still see Bangladesh not as attractive as many of its competitors regarding speed to market, flexibility & agility, and risk of compliance. **Additionally, Bangladesh’s growth potential is also restrained by the narrow categories of products it can make.** Trade data further indicates that cotton trousers and cotton shirts (OTEXA product codes 347, 348, 340 and 338) have stably accounted for nearly 60 percent of total U.S. apparel imports from Bangladesh in the past ten years.¹⁶

¹⁴ Cheng, TF, & Li, L. (2019, July 2). Vietnam's apparel sector fears cost surge as tech giants move in. *Nikkei Asian Review*. Retrieved from <https://asia.nikkei.com/Economy/Trade-war/Vietnam-s-apparel-sector-fears-cost-surge-as-tech-giants-move-in>

¹⁵ Lu, S. (2018). Can Vietnam reach its apparel export potential? *Just-Style*. Retrieved from https://www.just-style.com/analysis/can-vietnam-reach-its-apparel-export-potential_id133548.aspx

¹⁶ Office of Textiles and Apparel, OTEXA (2019). *U.S. imports of textile and apparel*. Retrieved from <https://otexa.trade.gov/msrpoint.htm>

Figure 16c: How do you think your company's sourcing value (or volume) from the following countries or regions will change in the next two years?

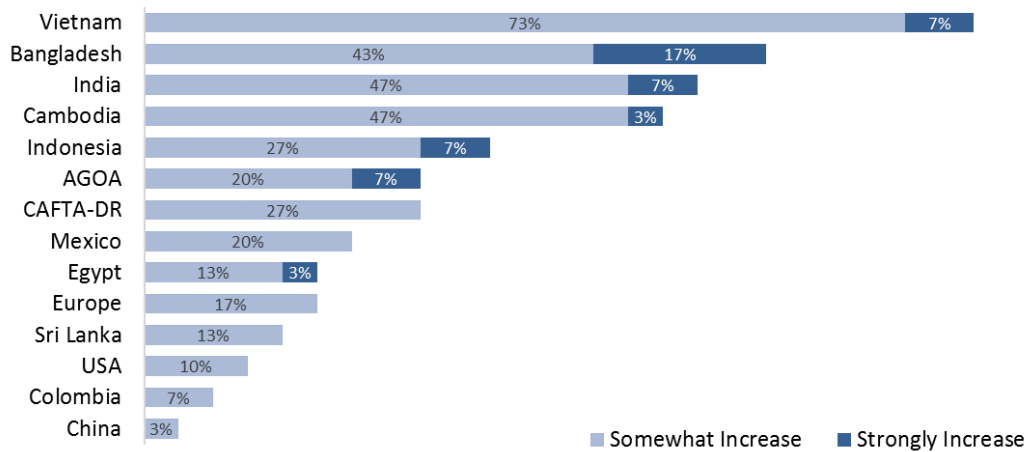
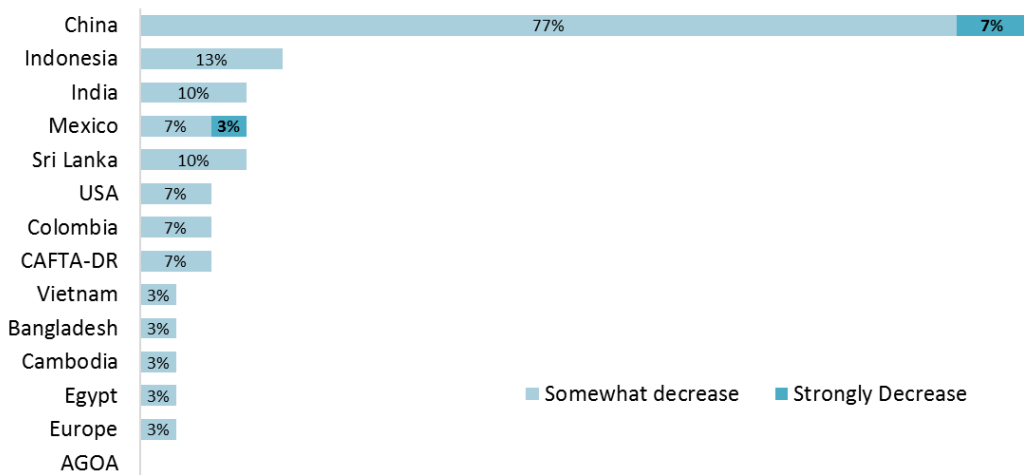


Figure 16d: How do you think your company's sourcing value (or volume) from the following countries or regions will change in the next two years?

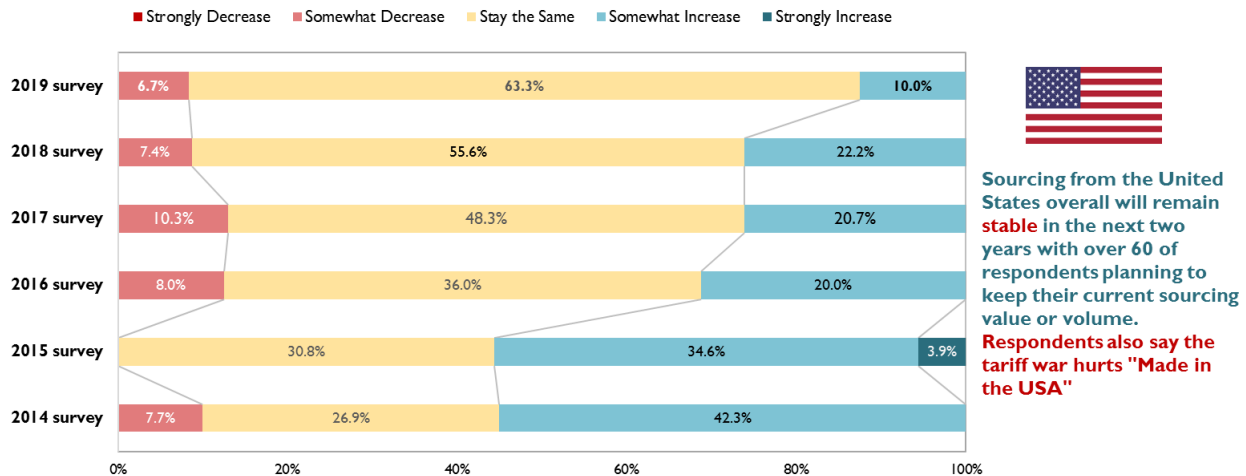


Last but not least, other than Vietnam and Bangladesh, to a lesser extent, respondents also plan to somewhat increase sourcing from India, Cambodia, and Indonesia over the next two years (Figure 16c). Meanwhile, a few respondents (less than 10 percent) say they will somewhat decrease sourcing from India, Mexico, Sri Lanka, and Egypt over the next two years (Figure 16d). This result confirms the trend shown in Table 4 and suggests that U.S. companies overall are not giving up any particular sourcing destination.

“Made in the USA” and Reshoring

U.S. fashion companies are interested in exploring new sourcing opportunities from the United States, yet challenges remain, and the growth could be incremental. This year, the United States ranked #10 top sourcing base with 43 percent usage, the same as in 2018. As shown in Figure 18, sourcing from the United States is likely to remain stable in the next two years with over 60 percent of respondents planning to keep their current sourcing value or volume unchanged.

Figure 18: How do you think your sourcing value or volume from the United States will change in the next two years?



Studies show that “Made in the USA” apparel overall are treated as a niche product in U.S. fashion brands and retailers’ sourcing portfolio.¹⁷ And it does not seem to be the case that apparel 'Made in the USA' and imported are necessarily competing with each other in the US retail market. For example, U.S. fashion brands and retailers are most likely to source “Made in the USA” apparel for relatively fashion-oriented items, especially women’s wear. Because of the relatively high production cost (See Table 3), close to 40 percent of “Made in the USA” offering between 2017 and 2018 in the U.S. retail market targeted the premium or luxury segments, compared with only 20 percent of imported products as data suggests. **Notably, the advantage of proximity to the market, which makes speedy replenishment for in-season items possible, is an important factor behind the more successful control of markdowns for “Made in the USA” products.** For example, around 46.3 percent of “Made in the USA” apparel were sold at a discount compared with more than 54.6 percent of imported ones. Meanwhile, U.S. fashion brands and retailers replenished approximately 12.7 percent of their “Made in the USA” offering between 2017 and 2018 but only 2.8 percent of imported clothing.¹⁸

Despite the advantages of reshoring, **respondents also list a few disadvantages and challenges that prevent them from sourcing more “Made in the USA” products in the next five years, including:**

- cannot afford the high price
- limitations in the fabric options
- shortage of skilled labor in the United States as labor pool has diminished
- the rule needs to be fixed to remove the requirement that "virtually all" materials have to originate in the United States
- the production capacity is too small and cannot fulfill sourcing orders for the mass market

¹⁷ Freund, K., Roop, M., & Colby-Oizumi, H. (2018). Textiles and apparel: Made in USA... again?. *U.S. International Trade Commission Working Paper (Publication No. ID-18-055)*. Retrieved from https://www.usitc.gov/publications/332/working_papers/id_18_055_working_paper_textiles_and_apparel_usa_fina1_091318.pdf

¹⁸ Lu, S. (2019). 'Made in the USA' apparel – Who’s selling what and for how much?. *Just-Style*. Retrieved from https://www.just-style.com/analysis/made-in-the-usa-apparel-whos-selling-what-and-for-how-much_id135229.aspx

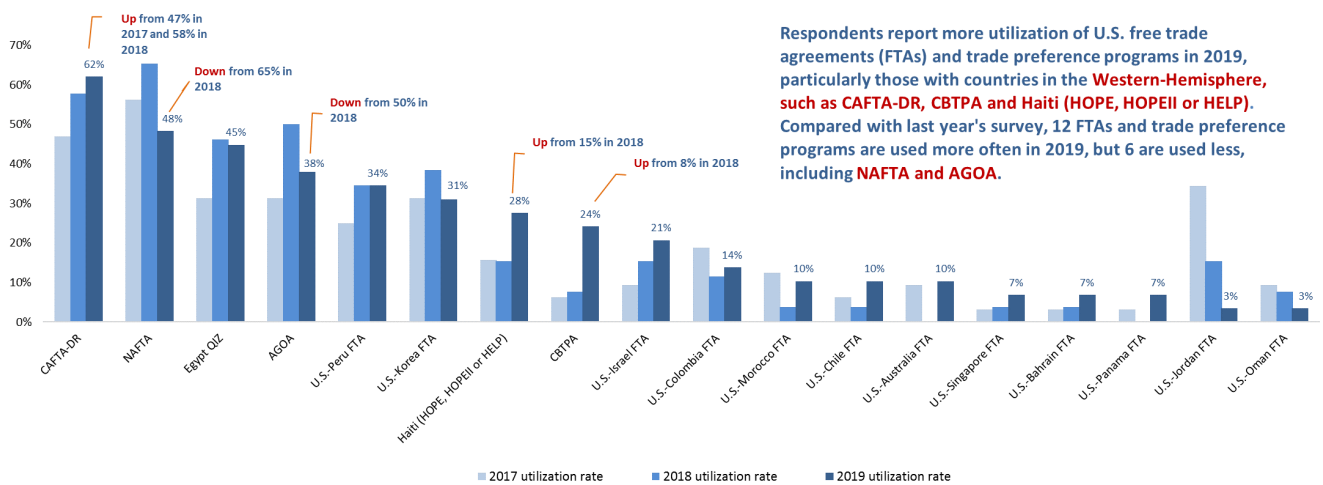
Additionally, respondents say **more information about U.S. based textile and apparel mills will be helpful to promote “Made in the USA” sourcing.** “*There is no one place a brand can go and find US suppliers*”, one respondent commented. “*(Our company) is very interested in information about U.S. opportunities for landed product*,” another respondent said.

In conclusion, apparel “Made in the USA” are still relevant today. With apparel sourcing increasingly requiring a balance across various factors ranging from cost, flexibility, compliance to speed-to-market, **'Made in the USA' apparel should continue to have a unique role to play in the merchandising and sourcing strategies of US fashion brands and retailers.**

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

Utilization of Enacted Free Trade Agreements and Preference Programs

Figure 19a: Utilization rate of free trade agreements/trade preference programs by survey respondents: 2017–2019



Note: Utilization rate equals the frequency of each free trade agreement/preference program's utilization divided by the total number of respondents.

As of July 1, 2019, there are fourteen free trade agreements (FTAs) and three major trade preference programs enacted in the United States.¹⁹ These trade programs offer U.S. companies the opportunity to save money on import tariffs and more easily obtain access to foreign markets. This is especially the case for the fashion industry: while the average applied U.S. import tariff rate for all goods has been lowered to only 3.4 percent as of 2018, the tariff rate remains as high as 8.0 percent for textiles and 11.6 percent for apparel.²⁰ As a result, textiles and apparel accounted for only 4.7 percent of the total value of U.S. merchandise imports but contributed nearly 30 percent of tariff revenues (or \$47.9 billion) in 2018.²¹

The increasing sourcing cost this year and the potential Section 301 punitive tariffs on apparel imports from China have created new incentives for U.S. fashion companies to take a fresh look at

¹⁹ Office of the U.S. Trade Representative, USTR (2019). *Trade agreements*. Retrieved from <https://ustr.gov/trade-agreements>

²⁰ World Trade Organization, WTO (2018). World tariff profile. Retrieved from https://www.wto.org/english/res_e/statis_e/daily_update_e/tariff_profiles/US_E.pdf

²¹ United States International Trade Commission, USITC (2019). Interactive trade and tariff dataweb. Retrieved from <https://dataweb.usitc.gov>

duty-saving opportunities that these FTAs and trade preference programs offer.²² As shown in Figure 19a, **respondents report overall more utilization of U.S. free trade agreements (FTAs) and trade preference programs in 2019**, particularly those with countries in the Western Hemisphere, such as Dominican Republic-Central America Free Trade Agreement (CAFTA-DR), CBTPA and Haiti (HOPE, HOPEII or HELP). **Compared with last year's survey, 12 FTAs and trade preference programs are used more often in 2019**, including CAFTA-DR (65 percent usage, up from up from 47 percent in 2018 and Haiti (28 percent usage, up from 15 percent in 2018) and CBTPA (24 percent usage, up from 8 percent in 2018). However, respondents' usage of the **North American Free Trade Agreement (NAFTA)** and the **African Growth and Opportunity Act (AGOA)** has dropped significantly in 2019 compared with a year ago.

Figure 19b: Percentage of U.S. Textile and Apparel Imports under FTAs

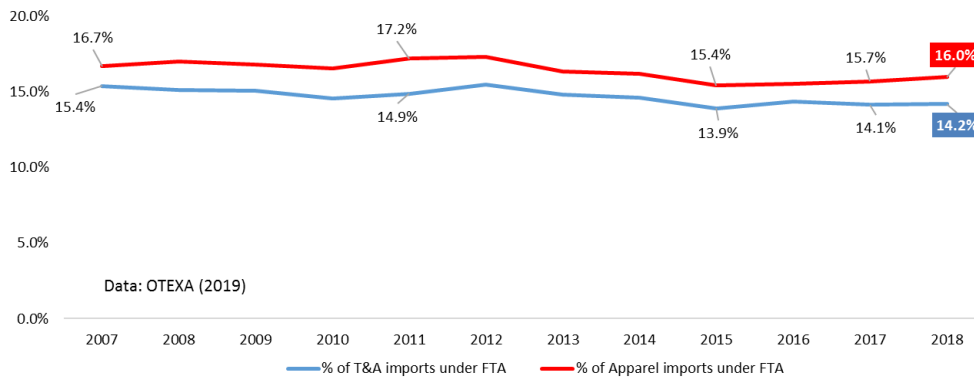
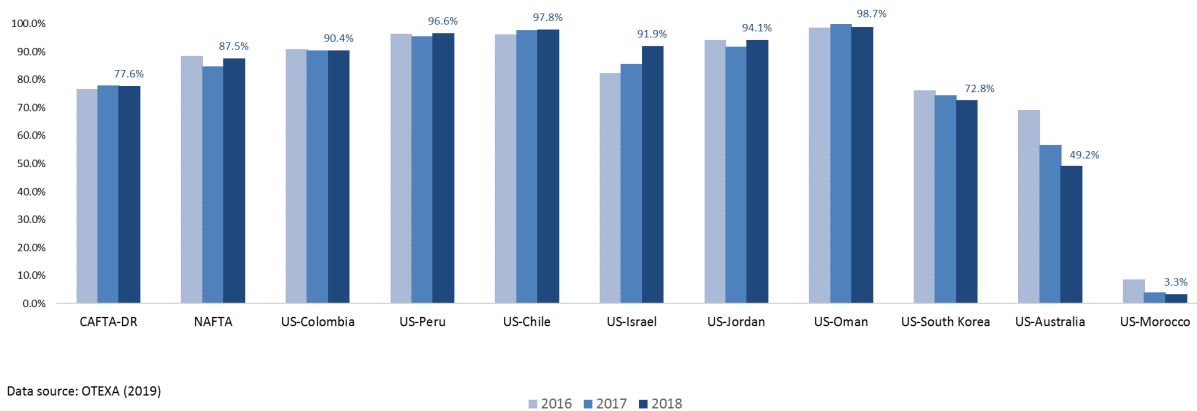


Figure 19c: Utilization Rate of Enacted U.S. Free Trade Agreements for Apparel Sourcing



Official trade statistics also suggest a slight improvement of U.S. FTA utilization for apparel sourcing purposes.²³ As shown in Figure 19b, the share of U.S. apparel imports entering under FTAs rose from 15.7 percent in 2017 to 16.0 percent in 2018, which has been the highest level since 2015, yet still lower than 17.2 percent back in 2011. Considering textile and apparel as a whole, only 14.2 percent of imports were entered under FTAs in 2018, marginally increased from 14.1 percent in 2017.

²² United States Fashion Industry Association, USFIA (2019). *Sourcing trends and outlook 2019 (March 26, 2019)*

²³ Office of Textiles and Apparel, OTEXA (2019). U.S. imports and exports of textiles and apparel. Retrieved from <http://otexa.trade.gov/msrpoint.htm>

On the other hand, **we still find that some U.S. fashion companies, for whatever reason, do not claim the duty-free benefits even when sourcing from member countries of a free trade agreement or trade preference program.** For example, this year, of respondents who source from the CAFTA-DR region, about 9.5 percent said they chose to forgo the duty-free benefits under the agreement. Nationwide, respectively about 22.4 percent and 12.5 percent of U.S. apparel imports under CAFTA-DR and NAFTA in 2018 did not claim the FTA duty-free benefits, either (Figure 19c).²⁴ As mentioned in our previous studies, **the strict rules of origin and heavy documentation requirements** are among the primary factors that deter U.S. fashion companies from taking advantage of duty-savings opportunities.

Additionally, as shown in Table 6, the United States has entered into few free trade agreements and trade preference programs with leading apparel-exporting countries in the world—another factor that makes it challenging for US fashion brands and retailers to enjoy the preferential duty benefits provided by these trade programs. In comparison, apparel companies located in the EU and Japan have many more opportunities to source from the world's top apparel production bases duty-free.

Table 6 Top Apparel Exporters and Membership in Free Trade Agreements/Trade Preference Programs (as of July 2019)

Exporters/Importers	US	EU	Japan	Canada
China			*	
EU	*	***	**	***
Bangladesh		***	***	***
Vietnam		**	***	**
India		*	***	*
Turkey		***	*	
Indonesia		***	***	
Cambodia		***	***	***

Note: *** trade agreement in effect; ** reached but pending trade agreement; *trade agreement under negotiation.

Data source: Compiled based on *Re:source* (2019) <https://resource.just-style.com>

Usage of Exceptions to the Yarn-Forward Rules of Origin

When U.S. fashion brands and apparel retailers import apparel from the FTA region, only products that meet the FTA rules of origin can enjoy the preferential tariff treatment.²⁵ The textile and apparel-specific rules of origin for apparel under most U.S. FTAs is known as “**yarn forward**,” meaning that fibers may be produced anywhere, but each component starting with the yarn used to make the apparel garments must be formed within the free trade area. The “yarn-forward” rule sometimes is also called “triple transformation,” as it requires that spinning of the yarn or thread, weaving or knitting of the fabric, and assembly of the final apparel garments all occur within the FTA region.²⁶

²⁴ The same as 22.

²⁵ Gelb, B. A. (2003). *Textiles and apparel rules of origin in international trade*. Washington, DC: Congressional Research Service. Retrieved from <http://research.policyarchive.org/1737.pdf>

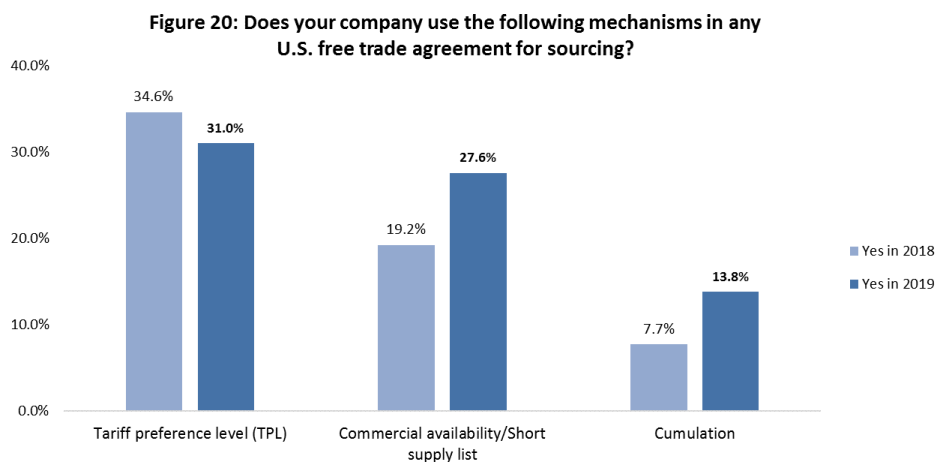
²⁶ Platzer, M. (2017). *Renegotiating NAFTA and U.S. textile manufacturing*. Washington, DC: Congressional Research Service. Retrieved from <https://fas.org/sgp/crs/row/R44998.pdf>

Since the fabrics and yarns needed to make apparel are not always actually available in the FTA region, most FTAs include exceptions to the “yarn-forward” rule to provide flexibilities to users. Three types of exceptions to the “yarn-forward” rule are most commonly adopted:²⁷

- **Tariff Preference Level (TPL):** TPL allows for a certain quantity of textile and apparel goods (usually yarns, fabrics and cut pieces) from a third country (i.e., a country which is not a party to the agreement) to qualify for the benefits. For example, with the NAFTA TPL, in 2018, Mexico and Canada can export up to 45 million and 88 million SME of apparel, respectively, that contain non-NAFTA originating yarns and fabrics to the United States duty-free. However, beyond these quota limits, any additional apparel exports from Mexico and Canada to the United States must meet the “yarn-forward” rules of origin to enjoy the preferential tariff treatment.
- **Commercial availability/short supply list:** Fibers, yarns, and fabrics determined not to be available in commercial quantities in a timely manner from within the FTA partner countries may be sourced from outside the countries for use in qualifying textile and apparel products. For example, fabric that is determined not to be commercially available under the U.S.-Australia FTA may come from a third-party, i.e., China, be cut-and-assembled into a garment in Australia, and then imported to the United States duty-free.
- **Cumulation:** Yarns and/or fabrics from one FTA partner country to be used in another FTA partner country and qualify for duty-free benefits. For example, CAFTA-DR allows its members to use a certain amount of woven fabrics made in Mexico (i.e., a member of NAFTA) and the finished apparel will still qualify for the CAFTA-DR preferential duty benefit.

This year, we again asked respondents about their usage of the exceptions to the “yarn-forward” rules of origin. Several findings are of note:

First, the exceptions to the “yarn-forward” rule are important to U.S. fashion companies, with 43 percent of respondents currently using these mechanisms for sourcing. As shown in Figure 20, similar to the results last year, currently TPL is used by most respondents (31 percent), followed by the mechanism of commercial availability/short supply list (27.6 percent) and cumulation (13.8 percent). However, the usage of commercial availability/short supply list and cumulation this year sees a notable increase from 2018. **Furthermore, respondents say they use the exceptions to the “yarn-forward” rule most often when importing under CAFTA-DR, NAFTA and Haiti (HOPE, HOPE II and HELP).**



²⁷ U.S. Customs and Border Protection, CBP (2004). Textile and apparel rules of origin. Washington, DC. Retrieved from https://www.cbp.gov/sites/default/files/assets/documents/2016-Apr/icp006r3_3.pdf

Table 7 Why Respondents Use or Do Not Use the Exceptions to the “Yarn-Forward” Rule*

Exceptions	Why we use the exception	Why we do not use the exception
Tariff preference level (TPL)	<p>We use the TPL because our products contain certain textile inputs (such as yarns and fabrics) that are not made in the FTA region and these textile puts are not on the short supply list either. (53.3 percent)</p> <p>We use the TPL because the yarn-forward rules of origin are too strict. (13.3 percent)</p> <p>Other reasons (0.0 percent)</p>	<p>We do not use the TPL because we are unfamiliar with the rule (40.0 percent)</p> <p>We do not use the TPL because we can fully meet the yarn-forward rules of origin requirements. (33.3 percent)</p> <p>We do not use the TPL because the documentation requirements are too complicated. (20.0 percent)</p> <p>We do not use the TPL because all tariff quotas are used up. (6.7 percent)</p>
Commercial availability/Short supply list	<p>We use the short supply list mechanism because our products contain certain textile inputs (such as yarns and fabrics) that are not made in the FTA region. (23.8 percent)</p> <p>We use the short supply list mechanism because the yarn-forward rules of origin are too strict and/or compliance is too challenging. (9.5 percent)</p> <p>Other reasons (0.0 percent)</p>	<p>We do not use the short supply list mechanism because the list is too limited (i.e., not enough products on the list). (61.9 percent)</p> <p>We do not use the short supply list mechanism because we are not familiar with the rule. (28.6 percent)</p> <p>We do not use the short supply list mechanism because we can fully meet the yarn-forward rules of origin requirements. (28.6 percent)</p> <p>We do not use the short supply list mechanism because the documentation requirements are too complicated. (28.6 percent)</p>
Cumulation	<p>We use cumulation because, otherwise, our products are unable to meet the rules of origin requirements. (15.8 percent)</p> <p>We use cumulation because the yarn-forward rules of origin are too strict. (5.3 percent)</p> <p>Other reasons (0.0 percent)</p>	<p>We do not use cumulation because we are not familiar with the rule. (36.8 percent)</p> <p>We do not use cumulation because we can fully meet the yarn-forward rules of origin requirements. (31.6 percent)</p> <p>We do not use cumulation because the documentation requirements are too complicated. (26.3 percent)</p> <p>We do not use cumulation because the current rule is too strict. (15.8 percent)</p>

**Note: The results in the table exclude those respondents who do not source from the FTA regions. The figures highlighted in red indicate the item is a critical factor.*

Second, the exceptions to the “yarn-forward” rule provide important flexibilities that make U.S. fashion companies more likely to use FTAs and source from the FTA regions than otherwise (Table 7). For example, over 60 percent of respondents who use the TPL say they do so because “*our products contain certain textile inputs (such as yarns and fabrics) that are not made in the FTA region and these textile puts are not on the short supply list either.*”

Likewise, respondents say the top reason they use a **commercial availability/short supply list** is that “*the yarn-forward rules of origin are too strict and/or compliance is too challenging.*”

Additionally, most respondents say they use the **cumulation mechanism** because “*otherwise, our products are unable to meet the rules of origin requirements.*”

Third, respondents also identify several barriers preventing them from using the “yarn-forward” exceptions more frequently:

- **Being unfamiliar with the rules is a particular challenge identified by respondents this year** (nearly 40 percent for TPL and cumulation and 30 percent for short supply list).
- Regarding **commercial availability/short supply lists**, the top challenge faced by respondents is “*the list is too limited (i.e., not enough products on the list).*” Around 30 percent of respondents also find the documentation requirements for the mechanism too complicated.
- Regarding **TPL**, around 20 percent of respondent feel “*the documentation requirements are too complicated.*”
- Regarding **cumulation**, around 26 percent of respondents say they find “*the documentation requirements are too complicated.*”

Additionally, this year we find a slightly higher percentage of respondents say that they choose to meet the “yarn-forward” requirements rather than using the exception mechanisms to enjoy the duty-saving benefits under FTAs or preference programs.

U.S.-Mexico-Canada Free Trade Agreement (USMCA or NAFTA2.0)

On 30 September 2018, The United States reached an agreement with Canada, alongside Mexico on the updated NAFTA, now called the United States-Mexico-Canada Agreement (USMCA). On 30 November 2018, USMCA was officially signed by Presidents of the three countries.²⁸ Before taking into effect, USMCA still needs to be ratified by all member countries.

In general, USMCA will continue to allow U.S. fashion companies to import qualifying textiles and apparel originating from the USMCA region duty-free. USMCA also includes new provisions that intend to incentivize greater North American textiles and apparel production and trade, as well as to strengthen customs enforcement.²⁹

On April 19, 2019, the U.S. International Trade Commission (USITC) released its independent assessment report on the likely economic impact of USMCA.³⁰ Regarding the textile and apparel sector, the USITC report found that:

²⁸ Congressional Research Service, CRS (2019). Proposed U.S.-Mexico-Canada (USMCA) Trade Agreement. Retrieved from <https://fas.org/sgp/crs/row/IF10997.pdf>

²⁹ Platzer, M.D. (2019). *Textile and apparel sectors disagree on certain provisions of the proposed U.S.-Mexico-Canada (USMCA) agreement*. Congressional Research Service. Retrieved from <https://fas.org/sgp/crs/row/IF11124.pdf>

³⁰ U.S. International Trade Commission, USITC (2019). *U.S.-Mexico-Canada Free Trade Agreement: Likely impact on the U.S. economy and on specific industry sectors* (Publication Number 4889). Retrieved from <https://www.usitc.gov/publications/332/pub4889.pdf>

- **USMCA overall is a balanced deal for the textile and apparel sector**, particularly with regard to the rules of origin (RoO) debate. As USITC noted, USMCA eases the requirements for duty-free treatment for certain textile and apparel products, but tighten the requirements for a few other items. For example, USMCA eliminates the NAFTA requirements that visible linings must be sourced from members of the agreement; however, USMCA adds more restrictive new requirements for narrow elastic fabrics, sewing thread, and pocket bag fabric.
- **The USMCA changes to the Tariff Preference Level (TPLs) will have limited impact on related trade flows.** As USITC noted in its report, where USMCA will cut the TPL level on particular U.S. imports from Canada or Mexico, the quantitative limit for these product categories was not fully utilized in the past. Meanwhile, the TPL level for product categories typically fully used will remain unchanged under USMCA. The only trade flow that might enjoy a notable increase is the U.S. cotton and man-made fiber (MMF) apparel exports to Canada—the TPL is increased to 20 million SME annually under USMCA from 9 million under NAFTA.
- **The USITC report further suggests that in aggregate, the changes under USMCA for the textile and apparel sector will more or less balance each other out** and USMCA will not affect the overall utilization of USMCA’s duty-free provisions significantly.

65.5% of respondents say they **support U.S. Congress to pass the U.S.-Mexico-Canada Free Trade Agreement (USMCA)**. Another 45 percent feel neutral. **No respondent opposes the agreement.**

Figure 21a : What do you think about the U.S.-Mexico-Canada Free Trade Agreement--
Use the agreement or not?

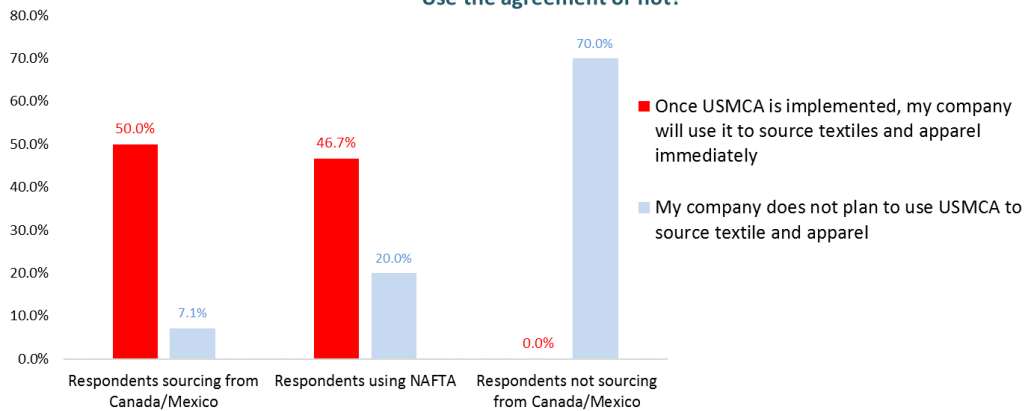
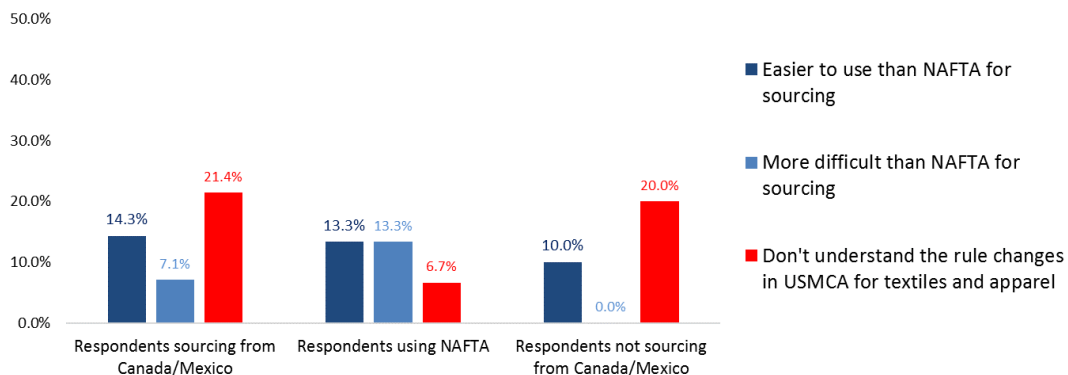


Figure 21b : What do you think about the U.S.-Mexico-Canada Free Trade Agreement--
Easier or more difficult to use than NAFTA?



Regarding USMCA and its potential impact on apparel sourcing, respondents made several comments (Figure 21):

- **First, the majority of respondents (65.5 percent) support U.S. Congress to pass USMCA and no respondent opposes the agreement.** Notably, in our last year’s survey, more than half of respondents explicitly say NAFTA is important to their business and they want a seamless transition from NAFTA to USMCA. As noted by one company, *“NAFTA is VERY IMPORTANT. We own a factory in Mexico that uses NAFTA eligibility to keep our cost low.”* Another respondent commented, *“(NAFTA) is important to support speed initiatives.”*
- **Second, companies currently sourcing from the NAFTA region are more likely to use USMCA and vice versa.** Specifically, about half of respondents currently sourcing from Mexico or Canada or using NAFTA says, *“Once USMCA is implemented, my company will use it to source textiles and apparel immediately.”* However, for those companies currently not sourcing from the NAFTA region, NONE of them plans to use USMCA once it is implemented and as much as 70 percent indicate they probably will not use the agreement in the foreseeable future, either.
- **Third, a good proportion of respondents (around 20 percent) admit they do not fully understand the rule changes in USMCA for textiles and apparel.** Somehow, companies wish there have been no changes to NAFTA at all. For example, one respondent commented, *“NAFTA works well for our company. We would use USMCA if it replaces NAFTA, but OK with maintaining NAFTA.”* *“We will continue to utilize it (USMCA) the same way that we utilize NAFTA”*, another respondent added. Related, as companies are still learning the new rules, the majority of respondents (90 percent) do not have a specific opinion on whether USMCA will be either easier or more difficult to use for sourcing than NAFTA, either. One respondent’s comment is representative, *“We are not currently sourcing much in Mexico and have not had the opportunity to deeply study the new USMCA agreement.”*

Overall, the results suggest that USMCA will be most relevant to U.S. fashion companies already sourcing from Mexico or Canada and using NAFTA. However, to what extent USMCA can encourage more North American textile and apparel production and sourcing is too early to tell. Nevertheless, helping companies understand the technical details of the agreement better and reducing the uncertainty about its ratification will be essential to the future success of USMCA.

African Growth and Opportunity Act (AGOA)

The African Growth and Opportunity Act (AGOA) is a non-reciprocal trade preference program enacted in 2000 that provides duty-free treatment to U.S. imports of certain products from eligible sub-Saharan African (SSA) countries. AGOA intends to promote market-led economic growth and development in SSA and deepen U.S. trade and investment ties with the region. As of 2018, among 49 potential beneficiaries, 39 currently are eligible for the preference benefits, and 27 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. AGOA received new authorization in 2015, which will last for 10 years until 2025 (including the third-country fabric provision).³¹

Respondents report sourcing from eight AGOA members in 2019, although far less often than the leading Asian suppliers. These eight countries are: Ethiopia (14 percent), Mauritius (11 percent), Kenya (9 percent), Lesotho (9 percent), Tunisia (9 percent), Madagascar (3 percent), Tanzania (3 percent) and South Africa (3 percent).

³¹ Office of the U.S. Trade Representative, USTR (2018). *2018 biennial report on the implementation of the African Growth and Opportunity Act*. Retrieved from [https://ustr.gov/sites/default/files/2018 AGOA Implementation.pdf](https://ustr.gov/sites/default/files/2018%20AGOA%20Implementation.pdf)

Table 8 Impact of AGOA on Apparel Sourcing from sub-Saharan African

Items	2019	2016	2019 vs.2016
My company has started to source more textiles and apparel from the AGOA region.	27.6%	33.3%	-5.7%
The third-country fabric provision is important for my company to use AGOA for sourcing.	24.1%	57.1%	-33.0%
My company has made or will make more investment in AGOA members, such as building factories or expanding sourcing capacities.	6.9%	14.3%	-7.4%
In the next five years, my company will strategically adjust or redesign the supply chain based on AGOA.	13.8%	14.3%	-0.5%
The temporary nature of AGOA discourages our company to invest and source more textiles and apparel from the region	44.8%	/	/

This year, we again asked respondents to provide their inputs regarding the impact of AGOA on apparel sourcing from sub-Saharan African. Several trends are of note:

- **First, it is concerning that respondents’ enthusiasm for using AGOA and sourcing from the SSA region is gradually diminishing.** Specifically, as shown in Table 8, this year, 27 percent of respondents say they are sourcing more textile and apparel from the AGOA region, lower than 33 percent back in 2016. Similarly, only 24.1 percent of respondents think the “third-country” provision is important for their company’s sourcing from AGOA members this year, whereas the majority of respondents (close to 60 percent) think so three years ago.
- **Second, U.S. fashion companies are becoming more hesitant to invest in the SSA region.** This year, less than 7 percent of respondents say they have invested or plan to invest in the AGOA region to expand the apparel production and sourcing capacity there, a significant drop from 14.3 percent in 2016. Likewise, just a slightly over 13 percent of respondents say they will “strategically adjust or redesign their supply chain based on AGOA,” also lower than the level in 2016. **Notably, around 45 percent of respondents say the temporary nature of AGOA is why they are holding investment back from the region.** In other words, U.S. companies’ investments to SSA countries could shrink further when the current AGOA is approaching its expiration date without a clear prospect for further renewal.
- **Third, despite a lack of interest in investing directly, respondents say the AGOA region needs more investment to improve its infrastructure and production capability before SSA countries can become attractive apparel-sourcing bases.** For example, one respondent commented, “*we do not use (AGOA for sourcing) because of lead times and lack of infrastructure.*” Similarly, another company added, “*We do not source from AGOA...more due to logistics cost and lead times...Lead times are prohibitive without vertical fabric.*”

To sum up, despite the huge growth potential, how to improve the competitiveness of SSA countries as apparel sourcing bases and make AGOA more effective in driving investments to the region will remain challenging in the years to come.

Other Trade Policy Priorities

This year, we again surveyed respondents on their views on specific trade policy initiatives.

First, similar to our results in the past three years, respondents predominantly support initiatives to eliminate trade barriers of all kinds, from high tariffs, overcomplicated documentation requirements, to restrictive rules of origin in NAFTA and future FTAs.

87%

of respondents support or strongly support **reducing U.S. import tariff rate for apparel & accessories**

82%

of respondents support or strongly **support reducing documentation requirements for importing and exporting textiles and apparel under FTAs**

80%

of respondents support or strongly support **abandoning strict “yarn-forward” rules of origin and adopting a more flexible one in the negotiation or renegotiation of future U.S. trade agreements**

76%

of respondents support or strongly support **reducing U.S. import tariffs rate for textiles (fiber, yarn and fabrics)**

Second, relatively fewer respondents support initiatives to include labor and environmental standards in future U.S. free trade agreements. Because U.S.-China trade tensions and other tariff measures taken by the Trump administration largely dominate this year’s trade policy agenda, respondents also see extending the Generalized System of Preferences (GSP) benefits to textiles, apparel, and footwear as a lesser priority.

59% of respondents **support** and **0%** **oppose**

including labor standards in any future free trade agreement established between the United States and its trading partners

52% of respondents **support** and **3%** **oppose**

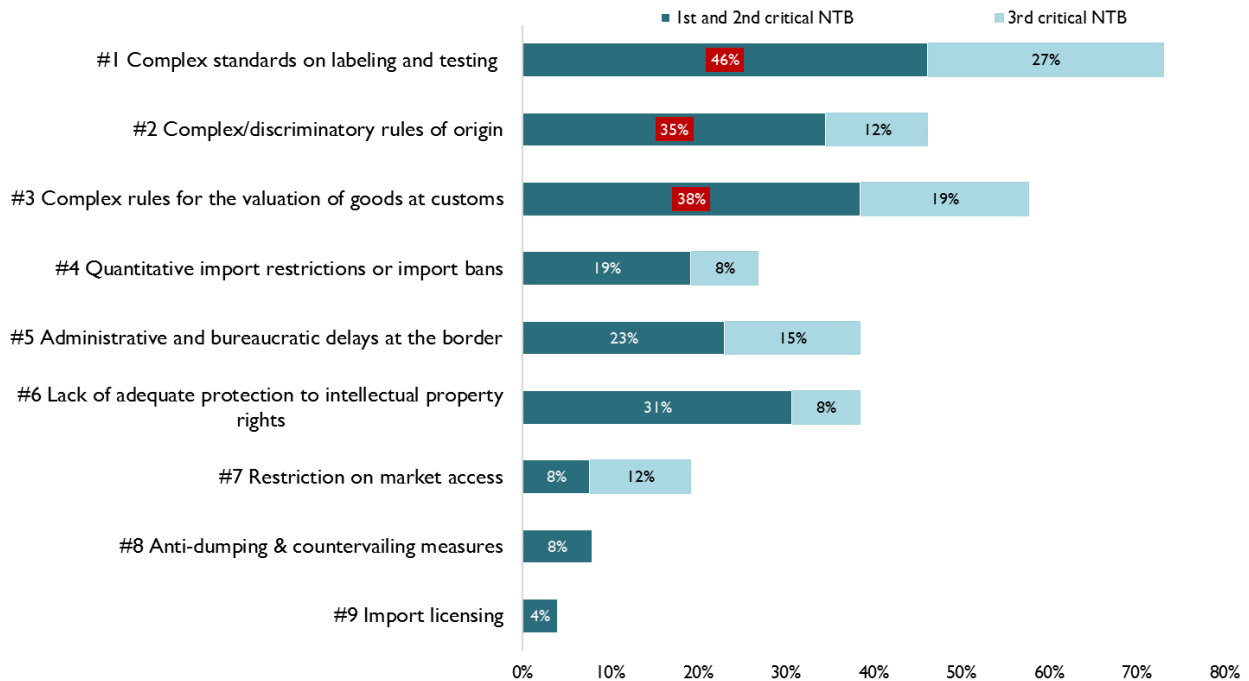
extending the Generalized System of Preferences (GSP) benefits to textiles, apparel, and footwear

52% of respondents **support** and **4%** **oppose**
including environmental standards in any future free trade agreement established between the United States and its trading partners

48% of respondents **support** and **0%** **oppose**
negotiation of cumulation for fashion, apparel, and textile products in all existing U.S. FTAs and preference programs

Non-tariff Barriers

Figure 22: What are the top three non-tariff barriers (NTB) your company faces in sourcing textiles, apparel and other fashion products?



This year, we again asked respondents to identify top non-tariff barriers. As shown in Figure 22, similar to what we found in 2018, **“complex standards on labeling and testing”** tops concerns, with as many as 62 percent of respondents rating the issue either the #1 or #2 most critical non-tariff barrier. **“Complex or discriminatory rules of origin”** and **“complex rules for the valuation of goods at customs”** are the next most vital. In comparison, respondents are least concerned about import licensing and anti-dumping & countervailing measures.

VI. Respondents' Profile

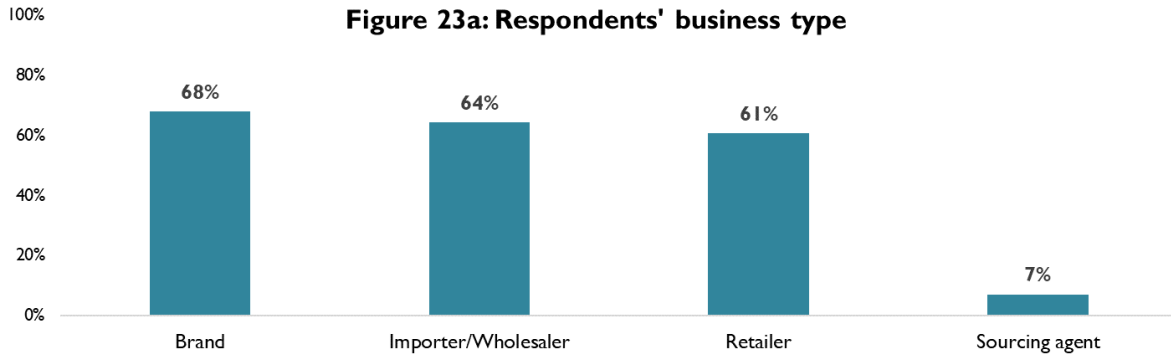


Figure 23b: Respondents' Business Size

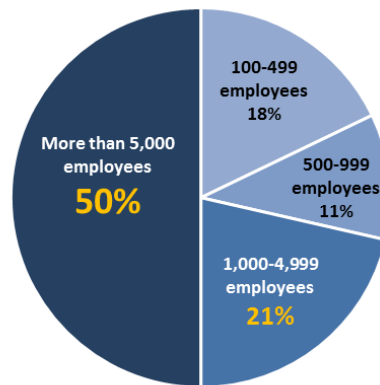


Figure 23c: Location of respondents' headquarters or management offices

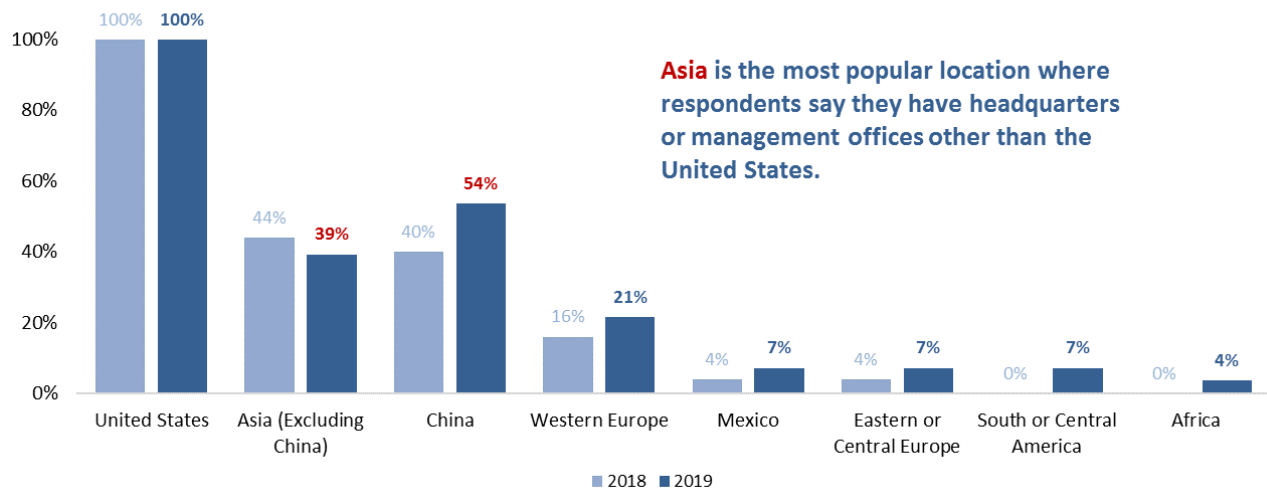


Figure 23d: Where does your company sell products, either in brick-and-mortar stores or online?



This benchmarking study was based on a survey of 39 executives at the leading U.S. fashion companies from April 2019 to May 2019. The study incorporates a balanced mix of respondents representing various types of businesses in the U.S. fashion industry. Approximately 68 percent of respondents are self-identified retailers, 61 percent self-identified brands, 64 percent self-identified importers/wholesalers, and 7 percent were sourcing agents (Figure 23a).

This year, respondents include very influential players in the U.S. fashion industry. Around 71 percent of respondents report having more than 1,000 employees, including 50 percent report having more than 5,000 employees. Another 29 percent of respondents represent medium-sized companies with 101-999 employees (Figure 23b).

Additionally, 100 percent of respondents represent companies with headquarters or major management offices in the United States. This year, around 50 percent of respondents also have headquarters or major management offices outside the United States, including China (54 percent), Asia other than China (39 percent), Western Europe (21 percent), Eastern and Central America (7 percent) and Mexico (7 percent) among others (Figure 23c). In addition to 100 percent selling products in the United States, over half of respondents also sell products in Canada, Western Europe, Mexico, and Asia (Figure 23d), too. These patterns reflect the global nature of fashion business today and the ever-closer connection of the U.S. fashion industry with markets and supply chain partners around the world.

About Dr. Sheng Lu

Dr. Sheng Lu is an Associate Professor in the Department of Fashion and Apparel Studies at the University of Delaware. With over 60 publications in academic and trade journals, Dr. Lu's research focuses on the economic and business aspects of the textile and apparel industry, including international trade, trade policy and the governance of global apparel value chain. Dr. Lu received the 2014 Rising Star Award and the 2019 Mid-career Excellence Award from the International Textile and Apparel Association (ITAA) in recognition of his research and teaching accomplishments. He is also the recipient of the Paper of Distinction Award at the 2014, 2015 and 2017 ITAA annual conference for his study on the textile and apparel specific-sectoral impact of mega free trade agreements, such as the Trans-Pacific Partnership (TPP), Trans-Atlantic Trade and Investment Partnership (T-TIP) and the Regional Comprehensive Economic Partnership (RCEP). Several of his studies were cited by government reports such as the Congressional Research Service (CRS) studies prepared for members of U.S. Congress, U.S. International Trade Commission (USITC) official assessment on the economic impacts of free trade agreements as well as the World Bank and the United Nations research publications. Dr. Lu's published works also have been translated into Chinese, Vietnamese, Spanish and Thai and regularly featured by leading textile and trade journals, including Just-Style, Women's Wear Daily, and Sourcing Journal.

More Information: www.fashion.udel.edu and www.shenglufashion.com/blog

About the United States Fashion Industry Association (USFIA)

The United States Fashion Industry Association (USFIA) is dedicated to fashion made possible by global trade.

USFIA represents brands, retailers, importers, and wholesalers based in the United States and doing business globally. Founded in 1989, USFIA works to eliminate tariff and non-tariff barriers that impede the fashion industry's ability to trade freely and create jobs in the United States.

Headquartered in Washington, D.C., USFIA is the voice of 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