

APPAREL AND ACCESSORIES

Protectionist policies top concern of US fashion execs

July 20, 2018



The fashion industry is concerned about trade. Image credit: USFIA

By SARAH JONES

The United States' escalating threats of trade wars are worrying fashion companies, with a new report finding that tightening trade is the number one challenge that apparel and accessories executives are facing.

Subscribe to **Luxury Daily**
Plus: just released
State of Luxury 2018 **Save \$246 ▶**

According to a study from the United States Fashion Industry Association, along with concerns about more tariffs, fashion executives are fretting more over increased production and sourcing costs than they did last year. A key target of President Trump's trade disputes is China, which is the top international source for textiles and apparel, leading fashion companies to think about changing their supply model.

"Companies' growing concerns about the direction of U.S. trade policy under the Trump administration are understandable," said Sheng Lu, associated professor at the University of Delaware and author of the report. "Since Jan. 1, 2018, President Trump has issued at least six presidential proclamations imposing punitive tariffs on steel and aluminum exports from several important U.S. allies.

"In response, the European Union, Canada and Mexico have retaliated against U.S. products, including some apparel and home textiles," he said. "Similarly, based on the results of the investigation of China's IP practices under Section 301 of the Trade Act of 1974, the Trump Administration has announced it will levy additional tariffs of 10 percent to 25 percent on hundreds of billions of U.S. imports from China.

"Additionally, in his tweets and public remarks, President Trump constantly threatens to rip up the 24-year-old North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, an important sourcing destination for the industry. As this report is released, the first tranche of retaliation against China went into effect, with an immediate reaction by China to increase their duties on U.S. exports, including cotton.

"While it is too early to know whether this will be a 'trade war' or a temporary skirmish, U.S. fashion brands and retailers are justifiably concerned."

The fifth annual **USFIA Fashion Industry Benchmarking Study** is based on a survey of executives from 28 fashion companies, ranging from retailers to brands and importers.

Trade wars

President Trump has made waves in the past few weeks as he increasingly calls for tariffs on imported goods from Canada, China, the U.K. and other nations.

These tariffs have caused much consternation from other countries, leading to retaliatory tariffs being levied in response. While high-end labels may be insulated from the effects slightly more than mass-market brands, sectors across the luxury business will certainly be affected by less-friendly trade rules ([see story](#)).

"Apparel products are not subject to the Section 301 tariff yet," Mr. Lu said. "Neither the \$34 billion product list nor the newly proposed \$200 billion product list covers wearing apparel.

"The current tariff rates will remain unchanged for now," he said. "Nevertheless, the Section 301 tariff action has created huge market uncertainties for U.S. fashion brands and apparel retailers. Uncertainty hurts business."

USFIA's study asked respondents to rank their top five challenges. Sixty-one percent of executives said that protectionist trade policies were among their top concerns, with 32 percent placing tighter trade within their top three.

Additionally, the rising cost of sourcing and production was named by more survey takers this year, moving from seventh in the rankings to third. More than nine in 10 executives expect sourcing costs to increase this year, compared to about six in 10 last year.

This could be tied to other issues, such as increasing wages and raw material prices, but changes to trade may be forcing companies to switch to more expensive supply destinations. Coming in seventh under fashion companies' concerns is finding a different source than China, with 67 percent planning to decrease their sourcing from the country.



Fashion is a global business. Image credit: USFIA

While China is an important sourcing destination, most U.S. companies have a diverse sourcing network across the globe. Respondents get raw materials and products from upwards of 50 countries, with China only making up about 11 to 30 percent of their total volume.

Along with issues tied to trade, fashion executives note they see challenges posed by ecommerce competition and updating technology.

Despite the fashion industry's anxieties, 84 percent say they are at least somewhat optimistic. While lower than the figures from 2015 and 2016, confidence is up from 71 percent in 2017.

Reflecting this positive outlook, all of those surveyed have plans to hire new talent in the next five years. Some of the top roles being added are market analysts, data scientists and sustainability managers.

Respondents are also optimistic about the potential for automation in fashion, as it will allow them to produce faster and reduce labor costs.

While automated creation could mean some reshoring of U.S. fashion production, most executives do not see it bringing back garment jobs in a major way.

"One important roadblock in expanding apparel manufacturing in the United States is the difficulty of rebuilding the apparel supply chain," Mr. Lu said. "On the other hand, some respondents argue that, even in the era of automation, U.S.-based fashion companies should focus on higher value-added non-manufacturing business functions, rather than apparel manufacturing."

Responsibility priorities

Sustainability is a priority for fashion brands, with 85 percent of survey takers noting they plan to put more resources towards it in the next two years.

Two of the top places where brands are planning to do more are in training suppliers and educating employees.

While luxury labels are among the fashion industry's frontrunners in sustainability, these companies are facing challenges to achieve additional progress and impact.

A new report from the Boston Consulting Group and the Global Fashion Agenda finds that luxury brands improved their sustainability performance in the past year. Despite improvements in the overall fashion industry's sustainability, the report notes that there is still room for improvement ([see story](#)).

"First, sustainability and social compliance are among the most critical factors affecting companies' sourcing decisions," Mr. Lu said.

"Second, U.S. fashion companies overall are making more commitments to sustainability and social responsibility," he said. "Notably, the vast majority of respondents plan to allocate more resources to sustainability and social compliance in the next two years, and another 11 percent expect no change.

"Sourcing is increasingly about striking a balance between sourcing cost, speed, reliability, flexibility, sustainability and risk control."