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Sourcing Executives Cautious About TPP Ratification

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WASHINGTON — The percentage of fashion companies expecting to strongly increase sourcing from Vietnam fell significantly, as uncertainty related to the ratification of the Trans-Pacific Partnership trade pact loomed large, a new U.S. Fashion Industry Association survey revealed Wednesday.

A labor dispute stalled cargo at the Port of Los Angeles last year.
Tim Rue/Bloomberg via Getty Images

The survey included 30 of the largest U.S. retailers, apparel brands, importers and wholesalers, encompassing fashion firms, department stores and lifestyle brands selling a range of products from apparel and accessories to footwear and home goods.

Trade ministers signed TPP in early February and it now must be ratified by the 12 countries. TPP includes the U.S., Australia, Japan, Mexico, Canada, Vietnam, Malaysia, Peru, Singapore, Chile, Brunei and New Zealand, and aims to remove barriers to trade to encompass nearly 40 percent of the world's gross domestic product if enacted.

The deal faces opposition from key Democrats in Congress, concerns from GOP leaders, the two presumptive presidential nominees, and labor and environmental groups. On the positive side, the deal has support from major fashion business trade groups, including USFIA, the American Apparel & Footwear Association, National Retail Federation and Retail Industry Leaders Association.

The yarn-forward rule of origin in the TPP requires companies to use yarns and fabrics made in the TPP region. Vietnam is in the process of developing its textile industry, but it still imports a majority of its textiles from China, which would not qualify for duty benefits under the pact.

"Respondents appear to be more conservative about Vietnam's growth potential in the next two years," according to the survey, prepared by Sheng Lu, assistant professor for the Department of Fashion & Apparel Studies at the University of Delaware, in collaboration with USFIA.

The survey found that while 61 percent of respondents said they plan to increase sourcing from Vietnam somewhat, only 4 percent said they expect a strong increase, down from 21.4 percent in last year's study. Twenty-two percent of the companies said they will not use TPP within the initial two years of enactment due to the yarn-forward rule.

"The fact that both presidential presumptive candidates have said they don't' support approval of TPP in its current form or approval of TPP this year has had an impact on expectations," said Julia Hughes, president of USFIA.

But many companies still see TPP as a way to expand their sourcing in the Asia-Pacific. Ninety-two percent of the respondents said TPP will impact their company's business practices in the next five years, up from 80 percent in the 2015 study. In addition, 77 percent said their company has already started analyzing TPP and 62 percent said they will immediately use TPP once it is enacted.

Some 61.5 percent of respondents said they expect to reduce sourcing from China in the next two years, compared with 53.3 percent in last year's survey and 50 percent in the 2014 study. Four percent expect a strong decline. But 23 percent said they plan to increase sourcing from China.

Seventy-seven percent of the companies said "Made in China" accounts form less than 50 percent of their company's total sourcing value or volume and many have adopted a "China Plus Many" strategy.

"Although U.S. fashion companies are more actively seeking alternatives to Made in China, China's position as the number-one sourcing destination seems unlikely to change anytime soon," the study said.

The big alternative to China is Vietnam, despite the concerns associated with TPP.

Bangladesh, which has taken strides to implement safety and structural reforms in its garment industry in the wake of two factory tragedies there that claimed more than 1,240 people two years ago, is expected to continue to grow as a sourcing destination but at a slower pace.

"Respondents seem to be more cautious about further increasing sourcing from Bangladesh over the next two years, with only 22.7 percent expecting an increase, down sharply from 42.3 percent who expected an increase in 2015," the study said.

Nine percent said they plan to decrease sourcing somewhat from Bangladesh in the next two years, suggesting that sourcing from Bangladesh will "stay stable through 2018."

U.S. sourcing has been on the rise the past few years and the study suggested it is continuing to gain momentum, with 22 percent of respondents saying they plan to increase their sourcing somewhat from the U.S., while 8 percent said they planned to decrease somewhat.

Fifty-two percent of respondents source from the U.S., which was about as last year's survey.

"Made in USA typically accounts for less than 10 percent of a company's sourcing portfolio," the study said.

As for new sourcing frontiers, 25 percent of the companies said they have started to explore opportunities in Myanmar and Ethiopia, while 4 percent said they have started to look at Cuba.

The survey, taken in March and April, was confidential and included USFIA members and nonmembers. About 80 percent of the respondents are retailers, 67 percent are brands and 69 percent are engaged in the import and wholesale business, while 27 percent represent manufacturers and suppliers. About 92 percent of the respondents employ more than 100 employees, including 84 percent with more than 1,000 employees.