



What might a US-UK trade deal mean for apparel?

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The United States and the United Kingdom are moving forward on talks on a bilateral trade agreement that would come into force after the UK officially leaves the European Union. But what might a US-UK FTA mean for the apparel industry? ask Victoria Langro and Sheng Lu from the University of Delaware.

The US and UK kicked off negotiations on a comprehensive bilateral free trade agreement (FTA) in May 2020, shortly after the UK officially left the European Union on 31 January 2020 – also known as Brexit. According to the released objectives, both parties have committed to strengthen bilateral trade ties, eliminate tariff and non-tariff barriers, and create new market access opportunities for US and UK companies through the new trade deal. It will also help the two countries balance their respective economic relations with the EU in the post-Brexit era.

As the US and UK are already major clothing trade partners, this article explores the potential impact of the US-UK FTA on the apparel sector to help fashion apparel companies on both sides of the Atlantic better navigate the sourcing and market access opportunities in the new business environment.



While talks are underway on a US-UK FTA, its prospects are likely to be hampered by several political and policy issues

State of US-UK bilateral apparel trade

A review of the latest statistics suggests several important patterns of US-UK apparel trade.

Table 1: US-UK bilateral apparel trade (US\$ million)

	2005	2010	2015	2017	2018	2019	CAGR (2010-2019)
US export to UK	\$100.4	\$205.3	\$325.0	\$313.6	\$331.1	\$325.1	5.2%
US import from UK	\$169.7	\$72.1	\$136.0	\$98.0	\$108.0	\$117.8	5.6%

Source: Compiled based on OTEXA (2020).

#1: Over the past decade, bilateral US and UK apparel trade has enjoyed steady growth, reflecting ever closer business ties between fashion companies in the two countries. As shown in Table 1, the value of US apparel exports to the UK increased from \$205.3m in 2010 to \$325m in 2019 – or a 5.2% compound annual growth rate (CAGR). This was notably higher than the 3.2% CAGR of total US apparel exports to the world over the same period. Likewise, the value of US apparel imports from the UK also grew from \$72.1m in 2010 to \$117.8m in 2019 or a 5.6% CAGR. In comparison, the CAGR of total US apparel imports over that period was only 1.8%.

On the other hand, overall US-UK bilateral trade in apparel has remained balanced – although since 2015, the US side has enjoyed a modest trade surplus (around \$200m annually) thanks to increased import demand from the UK side.

#2: The US and UK are important apparel export markets for one another. As shown in Table 2, while US apparel exports still predominantly go to geographically nearby countries such as Mexico and Canada, the **UK is the single largest export market for 'Made in the USA' apparel outside the Western Hemisphere**. Measured in value, around 5.4% of US apparel exports went to the UK in 2019, which was a new record high. Notably, 'Made in the USA' clothing has a higher appeal for British consumers than their counterparts in other parts of Europe, such as France, Germany and Italy.

Table 2: Top US apparel export markets

	2005		2010		2015		2019	
Rank	Market	Share	Market	Share	Market	Share	Market	Share

#1	Mexico	22.8%	Canada	32.4%	Canada	32.8%	Canada	33.3%
#2	Canada	20.5%	Mexico	17.2%	Mexico	19.4%	Mexico	15.8%
#3	Dominican Republic	9.9%	Japan	5.4%	UK	5.3%	UK	5.4%
#4	Honduras	8.9%	UK	4.5%	Japan	3.6%	Nicaragua	3.8%
#5	Japan	6.6%	Honduras	3.9%	El Salvador	2.3%	Japan	3.7%

Source: Compiled based on OTEXA (2020).

Note: in 2005, the UK was the 9th largest export market for the US, accounting for 2.1% of the total.

Table 3: Top UK apparel export markets

	2005		2010		2015		2019	
Rank	Market	Share	Market	Share	Market	Share	Market	Share
#1	Ireland	24.3%	Ireland	20.7%	Germany	17.2%	Germany	22.6%
#2	Germany	12.5%	Germany	15.1%	Ireland	15.0%	Ireland	14.9%
#3	France	10.5%	France	9.7%	France	9.9%	France	9.4%
#4	Italy	5.6%	Italy	5.8%	US	6.4%	Italy	6.5%
#5	Spain	5.2%	Spain	3.8%	Italy	5.3%	US	5.7%

Source: Compiled based on UN Comtrade (2020).

Note: In both 2005 and 2010, the US was the 6th largest apparel export market worldwide, and the UK's largest export market outside the EU region.

#3: The apparel products that the US and UK export to each other target different segments of the market. Industry sources indicate the **clothing exported from the US to the UK primarily focuses on the premium market.** For example, garments 'Made in the USA' are mostly carried by premium brands and retailers in the UK such as Free People, J.Crew, and Moda Operandi. That said, 'Made in the USA' clothing is also struggling with a tricky market position in the UK. Because of the higher production cost, US apparel products, on average, are 3-5 times more expensive than similar items imported from Asia (such as China, Vietnam and Bangladesh). However, due to a lack of brand power, clothing 'Made in the USA' is typically priced 30%-50% lower than similar products locally made in the UK or elsewhere in Western EU, such as France and Italy. Such an "in the middle" price point somehow makes it challenging for 'Made in the USA' apparel to find its market place and stand out from the competition.

In comparison, approximately 70% of apparel exported from the UK to the US are luxury goods. With a relatively clear-cut market position, luxury and high-end designer UK brands, such as Burberry, Roland Mouret and Victoria Beckham can effectively reach out to their target markets. A focus on the luxury market also means 'Made in the UK' apparel does not need to worry about competition in other segments of the US retail market, particularly the mass market that has been dominated by imports from Asia.

How might the US-UK FTA affect the bilateral apparel trade?

When evaluating the potential impact of a US-UK FTA on the apparel sector, several aspects can be considered.

The proposed FTA will bring about changes in import tariff rates and rules of origin. Currently, both the UK and the US set a relatively high tariff rate for apparel items traded between them. According to the latest statistics from the World Trade Organization (WTO), apparel exports from the UK to the US are subject to an 11.6% average applied tariff rate, compared with a much lower 2.2% tariff rate applied to all manufactured goods. Likewise, US apparel exports to the UK also need to pay an average applied tariff rate as high as 11.5%, although the average UK tariff rate for manufactured goods has been lowered to only 2.6%.

According to the released negotiating objectives, **both the US and the UK seem willing to consider a substantial cut or even a full elimination of the apparel tariff rate** as part of the trade deal. Should this happen, fashion companies across the Atlantic could benefit from a proportional reduction in their sourcing costs, resulting in a considerable expansion of US-UK bilateral apparel trade flows.

On the other hand, to enjoy the preferential duty benefit under a free trade agreement, rules of origin will always be a requirement. Most US trade agreements currently adopt the so-called "yarn-forward" rules of origin (known as the "triple transformation" rules). This means qualified apparel must use yarns and fabrics made in the FTA region together with the cut and sew process. In contrast, most EU-based trade deals adopt a more liberal "fabric-forward" rules (known as "double transformation"), which will allow yarns to be sourced from anywhere in the world. As the UK was an EU member before Brexit, UK fashion companies have set up their supply chains and sourcing models based on the "fabric-forward" rules of origin.

While it is hard to predict which specific rules of origin the proposed US-UK trade agreement will adopt, it seems the result will have a more significant impact on US apparel exports to the UK than the other way around. Notably, restrained by the limited domestic supply and high cost, a substantial proportion of US apparel exports contain imported textile raw materials. For example, in 2019, over 7 million square metre equivalent of US apparel exports to Canada claimed the tariff preference level (TPL) benefits, a mechanism under the NAFTA (North American Free Trade Agreement) that allows these apparel

items to use textile raw materials made by non-NAFTA members. This explains why the value of US yarn and fabric imports and US apparel exports are highly correlated.

Likewise, there is also a strong incentive for US apparel producers to use cheaper inputs to make their final products more price-competitive in the UK market. Particularly, a 100% 'Made in the USA' clothing item may currently pay the same import duty when exported to the UK as a garment cut and sewn in the US but containing imported textile raw materials. However, should the proposed US-UK FTA adopt the restrictive "yarn-forward" rules of origin, **US apparel producers may have to either switch to using more expensive domestic textile inputs or forgo the FTA duty-saving benefits.**

However, UK apparel exports to the US will be less sensitive to the rules of origin in the proposed FTA, as most of these luxury items are already 100% 'Made in the UK' to meet customers' expectations. In other words, when the bilateral FTA enters into force, UK apparel producers may imminently expand their exports to the US without having to change their current supply chain model even under the "yarn-forward" rules.

On the other hand, **the fashion industry on both sides of the Atlantic has expressed strong support for the proposed US-UK FTA.** For example, the American Apparel and Footwear Association (AAFA), a national trade association representing more than 1,000 US fashion brands, commented in February 2019: *"Trade agreements are opportunities to reduce these costs and expand the US jobs our global value chains support. Growing both sides of the trade equation with the UK will translate directly into growth at home, and our ability to sustain the millions of US jobs created and supported by trade."*

Similarly, in its comment submitted to the US government in January 2019, the United States Fashion Industry Association (USFIA) strongly supports a US-UK FTA with an emphasis on the immediate elimination of tariffs on apparel. According to USFIA, the tariff cut *"would reduce the cost of doing business between the United States and the United Kingdom and allow global brands on both sides of the Atlantic to sell more products, expand their operations, and create more high-quality, high-paying jobs at home in areas like design, compliance, retail and marketing."* Further, the UK Fashion and Textile Association (UKFTA) commented in May 2020 that a *"UK-USA FTA could bring significant benefits to UK exporters."*

The US-UK FTA would also mean new market access opportunities for individual fashion companies. For example, holding a top-ten ranking on the UK designer apparel list, the iconic American fashion house Ralph Lauren has been accelerating its new store openings in the UK market since 2018 to access British consumers directly. On the other side of the Atlantic, Burberry has emerged as one of the most popular luxury fashion brands among US consumers and tourists visiting the US. Since the early 2010s, the US has always been the largest sales market for Burberry, followed by China, Japan and the UK. In addition to tariff cuts, both Ralph Lauren and Burberry could substantially benefit from lowered market access barriers, improved regulatory coherence, and new trade facilitation tools provided by the US-UK trade agreement.

Uncertainties associated with the US-UK FTA

Despite the enthusiasm for the trade deal from the industry side, the prospect of the US-UK FTA remains highly uncertain due to several macro-level political and policy factors.

#1: The US-UK trade negotiations have to deal with an evolving Brexit. Brexit requires the UK government to develop an independent and comprehensive trade policy, including a detailed tariff regime that covers all its trading partners. Notably, in May 2020 the UK government announced its latest 1-year temporary tariff regime to replace the EU's Common External Tariff (CET) when the Brexit transition period comes to an end on 1 January 2021. This new plan, which will apply for up to 12 months, will significantly cut the UK's current import tariff rates, including many apparel items that come from countries with which the UK does not have a preferential trade agreement. However, such a universal tariff cut could undermine the potential benefits companies could get from the US-UK FTA, leaving the motivation for reaching the trade deal substantially subdued. Moreover, the uncertainty regarding the UK tariff regime after 2021 also will complicate US-UK trade negotiations, especially for tariff-related provisions and detailed tariff phaseout schedules.

#2: The UK-EU trade relationship casts another shadow on the prospects for a US-UK FTA. The EU currently remains the UK's single largest export market and source of imports, including apparel items. Statistics show that in 2019, EU members accounted for as much as 70% of the UK's clothing exports and 35% of the UK's clothing imports. Given the EU's economic cloud, some argue that the UK may have to reach a comprehensive trade agreement with the EU before it can consider a trade deal with the US. However, due to various complicated economic and non-economic factors, the UK-EU trade talks are anything but easy. This also implies that striking a US-UK trade deal may not happen anytime soon.

#3: US domestic politics and policy factors may further slow down progress of the US-UK trade negotiations. For example, the result of the US presidential election in November 2020 may directly affect the fate of the agreement – especially as there is no guarantee that a new administration will be interested in the trade deal or see it as a priority. On the other hand, the Trade Promotion Authority (TPA) is set to expire on 1 July 2021. Unless TPA is extended, the US-UK trade agreement may have to be reached by 1 April 2021 to be qualified for the "fast-track" legislation process.

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