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The Trade Dispute & U.S. Apparel Sourcing



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The Trade Dispute & U.S. Apparel Sourcing



U.S. & China & the Trade Dispute

Biggest importer/exporter
of cotton fiber

Biggest importer/exporter
of apparel

World's biggest two
economies



Webinar Outline

Tariff timeline

Tariff lists

Changes in apparel
sourcing under tariffs

Tariff Timeline

Product-specific disputes

Solar panels, washing machines, steel & aluminum, and autos

Tariff Timeline

Section 301 of the Trade Act of 1974

Grants the president the right to respond to unfair trade practices

August 2017

U.S. Trade Representative launches an investigation

March 2018

U.S. Trade Representative releases findings indicating that China is conducting unfair trade practices

July 2018

U.S. made threat to hit all imports from China with tariff increases, meaning retailers had more than a year to shift production before increases were implemented

Tariff Timeline

List 1	List 2	List 3	List 4a	List 4b
\$34 billion	\$16 billion	\$200 billion	\$112 billion	\$160 billion
25 ppt tariff increase	25 ppt tariff increase	10 ppt tariff increase	15 ppt tariff increase	15 ppt tariff increase
Implemented July 2018	Implemented August 2018	Implemented Sept. 2018	Implemented Sept. 2019	Scheduled for Dec. 2019, but not implemented
China hits U.S. cotton with 25 ppt tariff increase		Tariffs rose to 25 ppt in May 2019	Covers most apparel imports	

Tariff Timeline

Rapprochement

Both sides move away from escalation in early fall
Planned tariff increases on List 4b abandoned

Phase One Deal

Tariff increases on List 4a halved effective Feb. 14

List 4a

\$112 billion

15 ppt tariff
increase

Implemented
Sept. 2019

Covers most
apparel
Imports

Tariff increase
cut to 7.5%

List 4b

\$160 billion

15 ppt tariff
increase

Scheduled
for
Dec. 2019,
but not
implemented



Tariff Lists – HS Codes

Harmonized System (HS) arose from a need to standardize trade reporting

Additional digits mean additional precision

Participating countries report trade flows using the same HS codes to six digit precision

Two digit categories
are known as chapters

Woven Apparel

Knit Apparel **62** **Other Made-Ups**
61 **63**

Women's & Girls'
Suits, Jackets, Dresses & Bottoms
6204

Women's & Girls' Bottoms
6204.62

W&G Cotton Bottoms
6204.62.80

Women's Blue Denim Jeans
6204.62.80.11

Tariff Lists – HS Codes

Harmonized System (HS) arose from a need to standardize trade reporting

Additional digits mean additional precision

Participating countries report trade flows using the same HS codes to six digit precision

U.S. classification extends to ten digits

HTS Subheading	Product Description
6204.59.10	Women's or girls' skirts and divided skirts, not knitted or crocheted, of artificial fibers, certified hand-loomed and folklore products
6204.59.20	Women's or girls' skirts & divided skirts, nt knit or crocheted, of artificial fibers, cont. 36% or more of wool or fine animal hair, nesoi
6204.59.30	Women's or girls' skirts and divided skirts, not knitted or crocheted, of artificial fibers, nesoi
6204.59.40	Women's or girls' skirts and divided skirts, not knitted or crocheted, of textile materials nesoi
6204.61.05	Rec perf outerwear, women's/girls' trousers & breeches, not k/c, wool or f.a.h., cont elastomeric fib, water resist, w/o belt loops, wt > 6 kg/doz,
6204.61.15	Rec perf outerwear, women's/girls' trousers & breeches, not k/c, wool, w/o elastomeric fib, not water resist, w belt loops, weighing under 6 kg/doz,
6204.61.60	Women's or girls' trousers & breeches, not k/c, wool or f.a.h., cont elastomeric fib, water resist, w/o belt loops, wt > 6 kg/doz, not rec perf outwr
6204.61.80	Women's or girls' trousers & breeches, not k/c, wool, w/o elastomeric fib, not water resist, w/belt loops, wt under 6 kg/doz, o/than rec perf outerwear
6204.62.03	Rec perf outerwear, women's/girls' trousers, bib/brace overalls, breeches & shorts, not knit/crochet, cotton, cont. 15% or more by wt of down, etc
6204.62.05	Rec perf outerwear, women's/girls' bib and brace overalls, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc
6204.62.15	Rec perf outerwear, women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi
6204.62.50	Women's/girls' trousers, bib/brace overalls, breeches & shorts, not knit/crochet, cotton, cont. 15% or more by wt down, etc, o/than rec perf outerwear
6204.62.60	Women's/girls' bib/brace overalls, not knit/crochet, cotton, not containing 15% or more by weight of down, etc. o/than rec perf outerwear
6204.62.70	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi, certified hand-loomed and folklore products
6204.62.80	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi, o/than rec perf outerwear
6204.63.01	Rec perf outerwear, women's/girls' trousers, bib/brace overalls, breeches & shorts, not knit/crochet, syn. fibers, cont. 15% or more down, etc.
6204.63.02	Rec perf outerwear, women's/girls' bib/brace overalls, not knit/crochet, syn. fibers, water resistant, not cont. 15% or more by wt. of down, etc
6204.63.03	Rec perf outerwear, women's/girls' bib/ brace overalls of synthetic fibers, not knit/crochet, not cont. 15% or more by wt of down, etc, nesoi
6204.63.08	Rec perf outerwear, women's/girls' trousers, breeches & shorts, not knit/ crochet, syn. fibers, cont. 36% or more of wool or fine animal hair, nesoi

Tariff Lists – HS Codes

Harmonized System (HS) arose from a need to standardize trade reporting

Additional digits mean additional precision

Participating countries report trade flows using the same HS codes to six digit precision

U.S. classification extends to ten digits

U.S. tariff lists built from eight digit codes



Example of
Tariff Increase

6204.62.80

W&G Cotton Bottoms

**16.6% pre-increase
tariff**

+ 15 ppt increase

**= 31.6% tariff
on Chinese-made
W&G Jeans**

Tariff Lists – HS Codes

Harmonized System (HS) arose from a need to standardize trade reporting

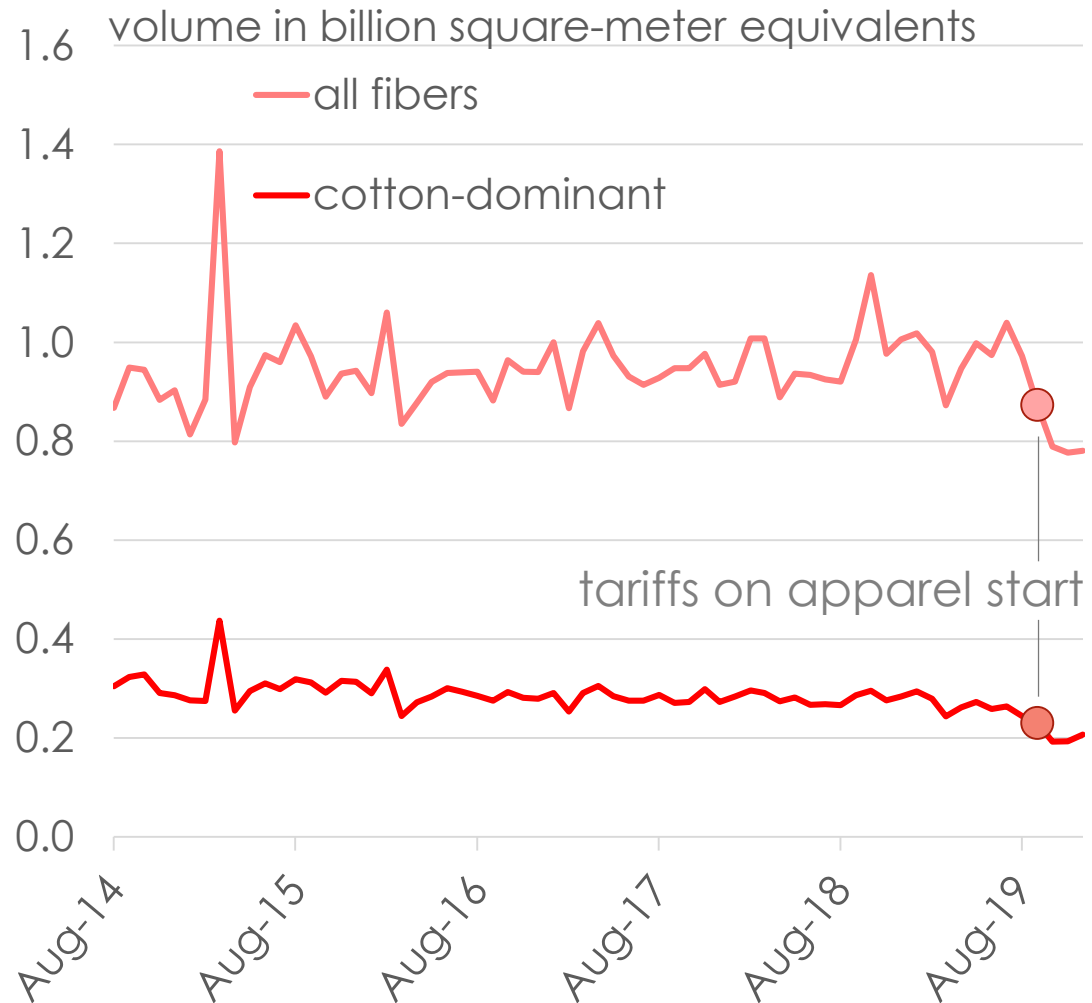
Additional digits mean additional precision

Participating countries report trade flows using the same HS codes to six digit precision

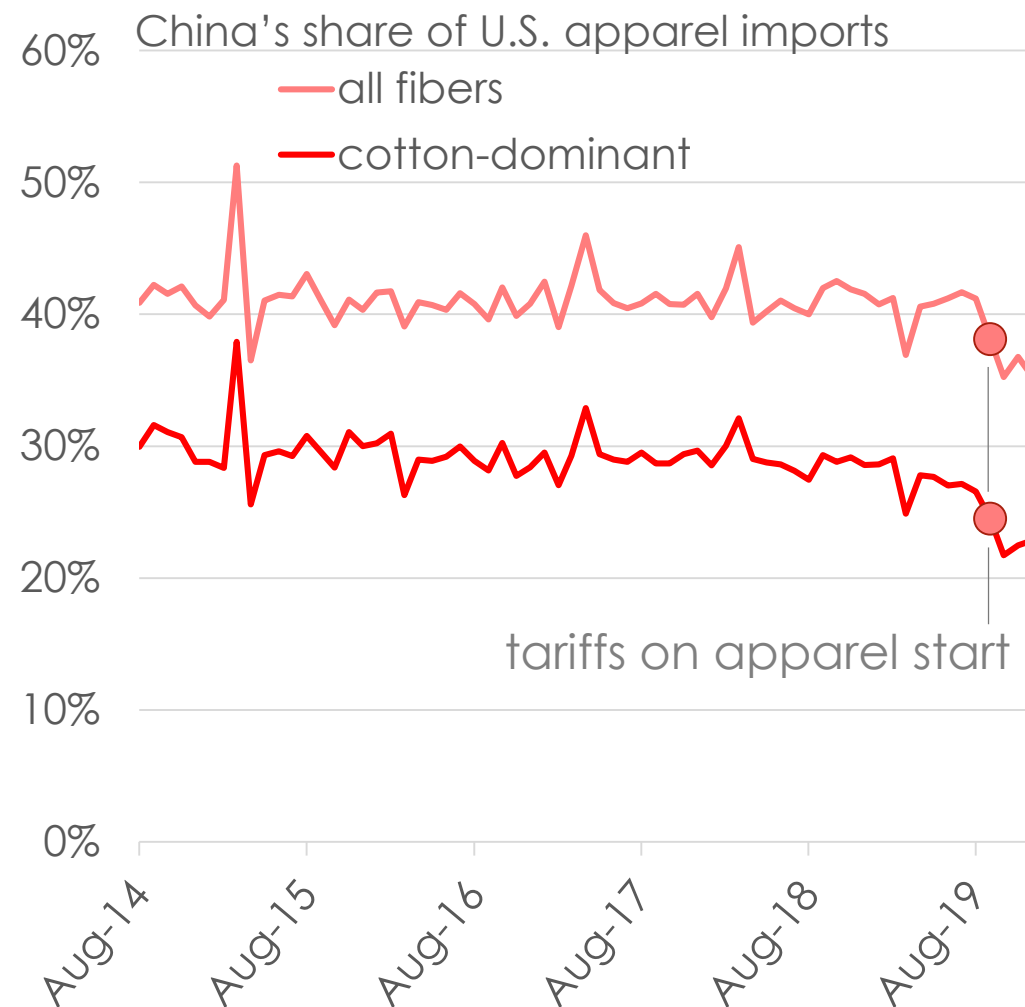
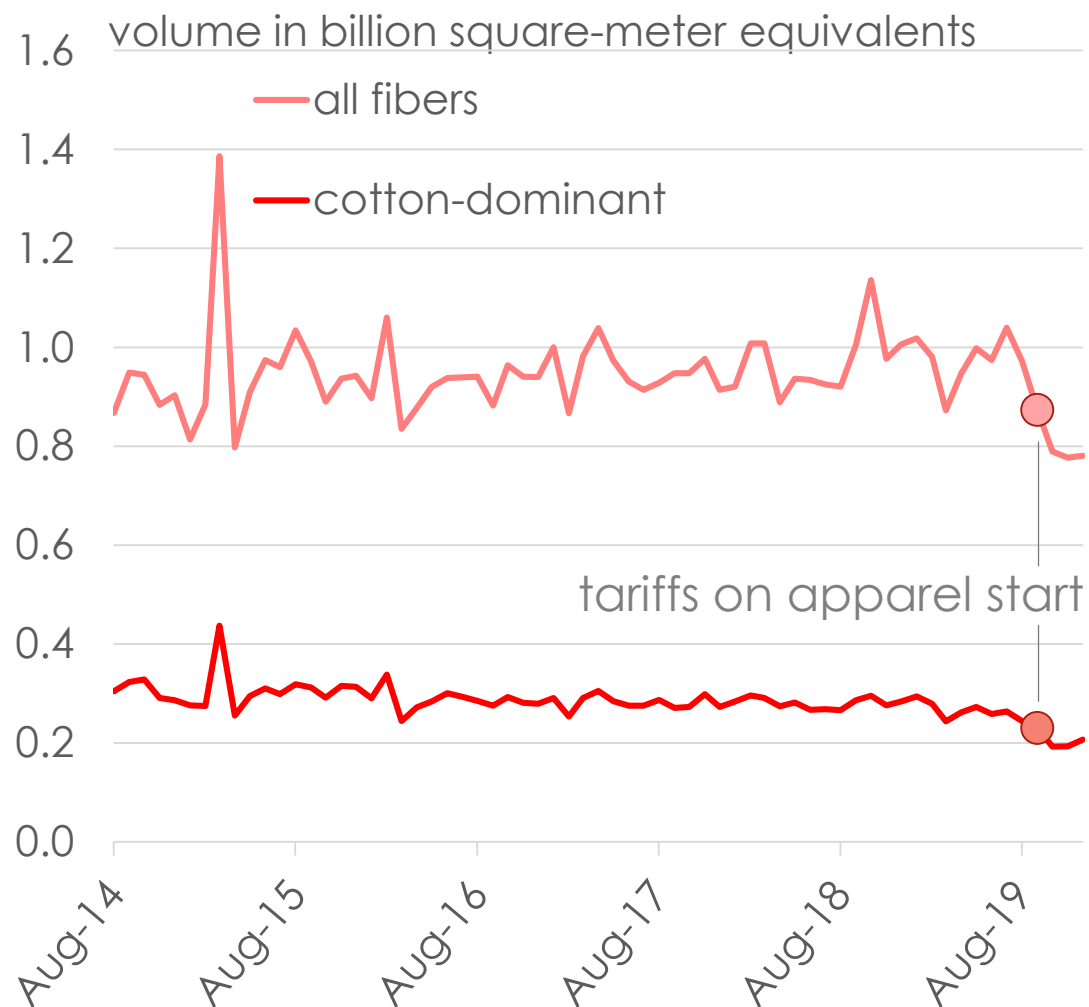
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U.S. Apparel Imports from China



U.S. Apparel Imports from China



U.S. Apparel Imports from China

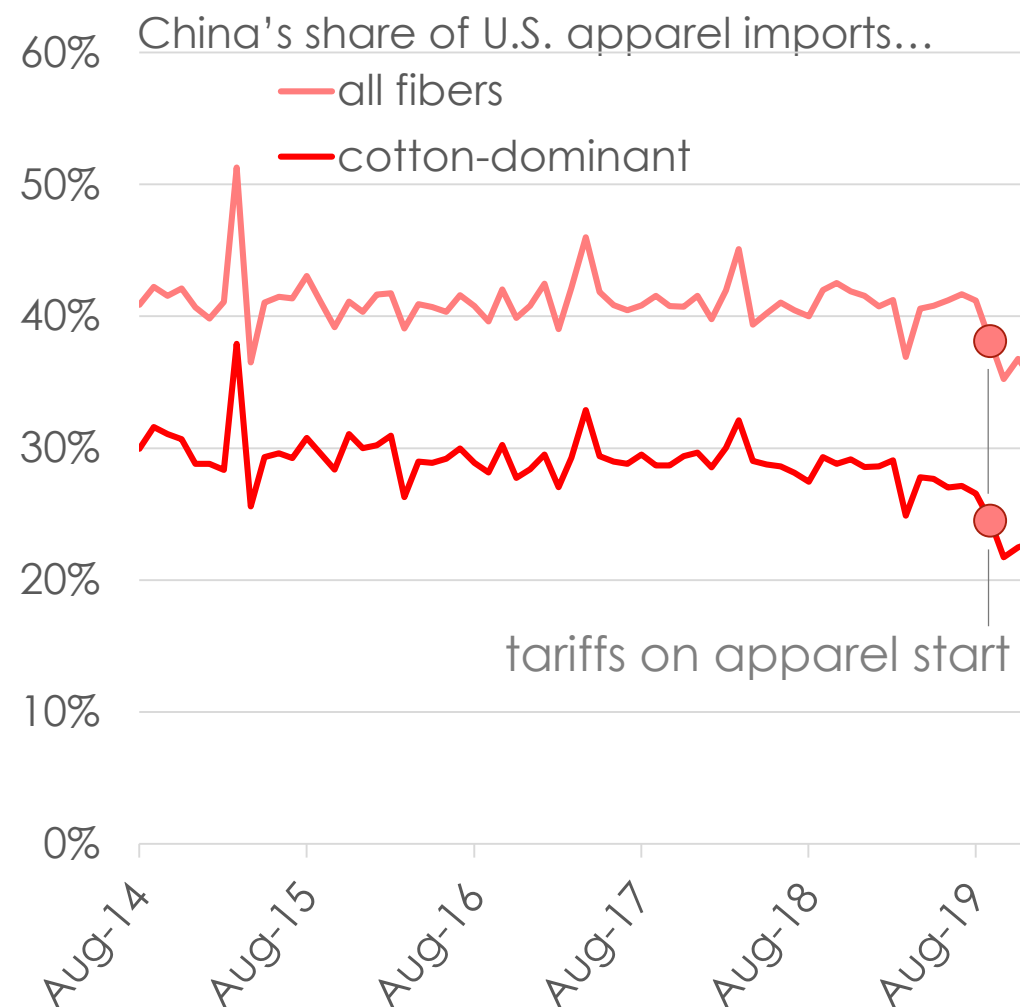
Change in Apparel Imports
from China (year-over-year Sept.-Dec.)

All Fibers

-22%

Cotton-Dominant

-28%



U.S. Apparel Imports from China

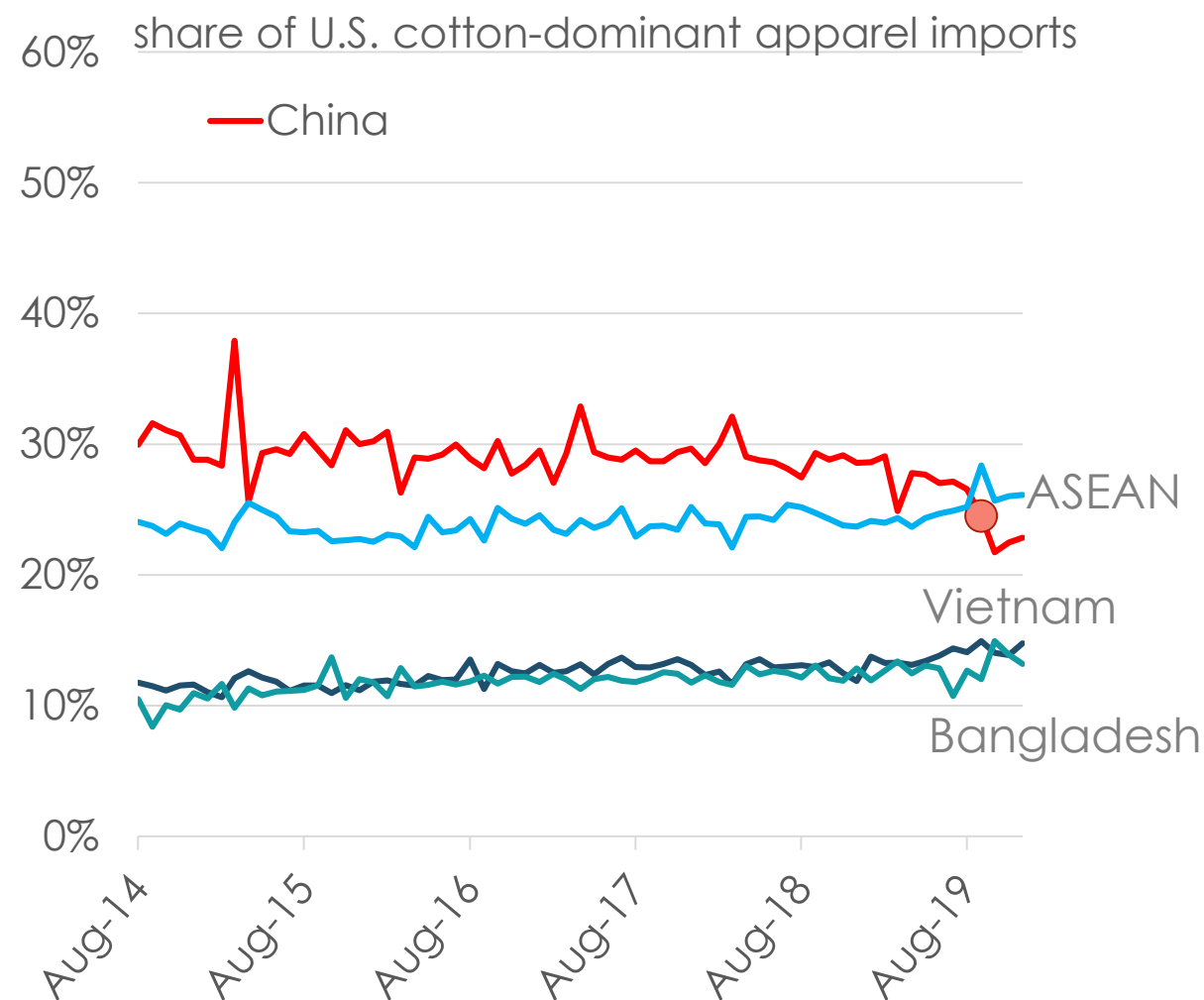
Change in Apparel Imports
from China (year-over-year Sept.-Dec.)

All Fibers

-22%

Cotton-Dominant

-28%



U.S. Apparel Imports from China

Change in Apparel Imports
from China (year-over-year Sept.-Dec.)

All Fibers

-22%

Cotton-Dominant

-28%

Change in Apparel Imports
from the world (year-over-year Sept.-Dec.)

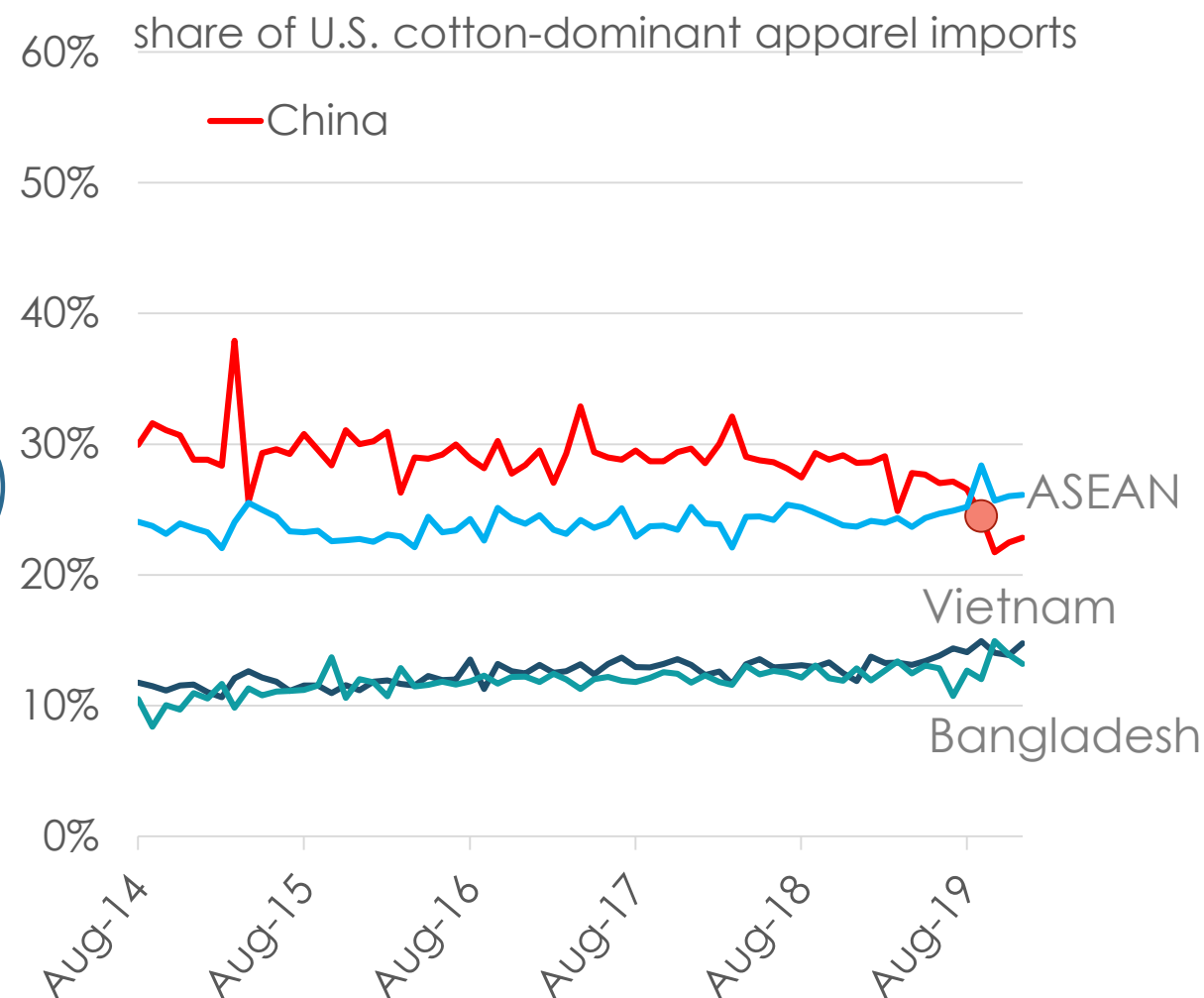
All Fibers

-10%

Cotton-Dominant

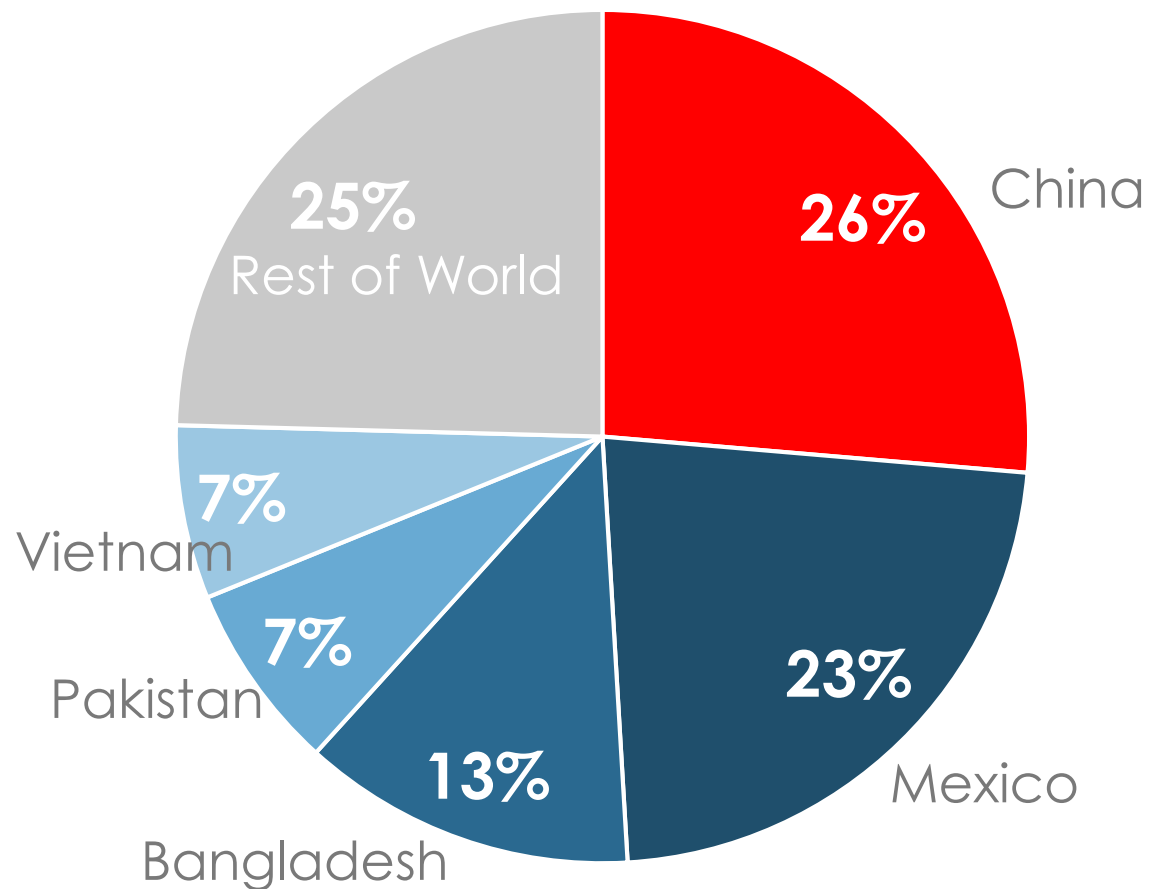
-9%

Not much change with tariff threats,
sharp change with implementation



U.S. Jean Imports

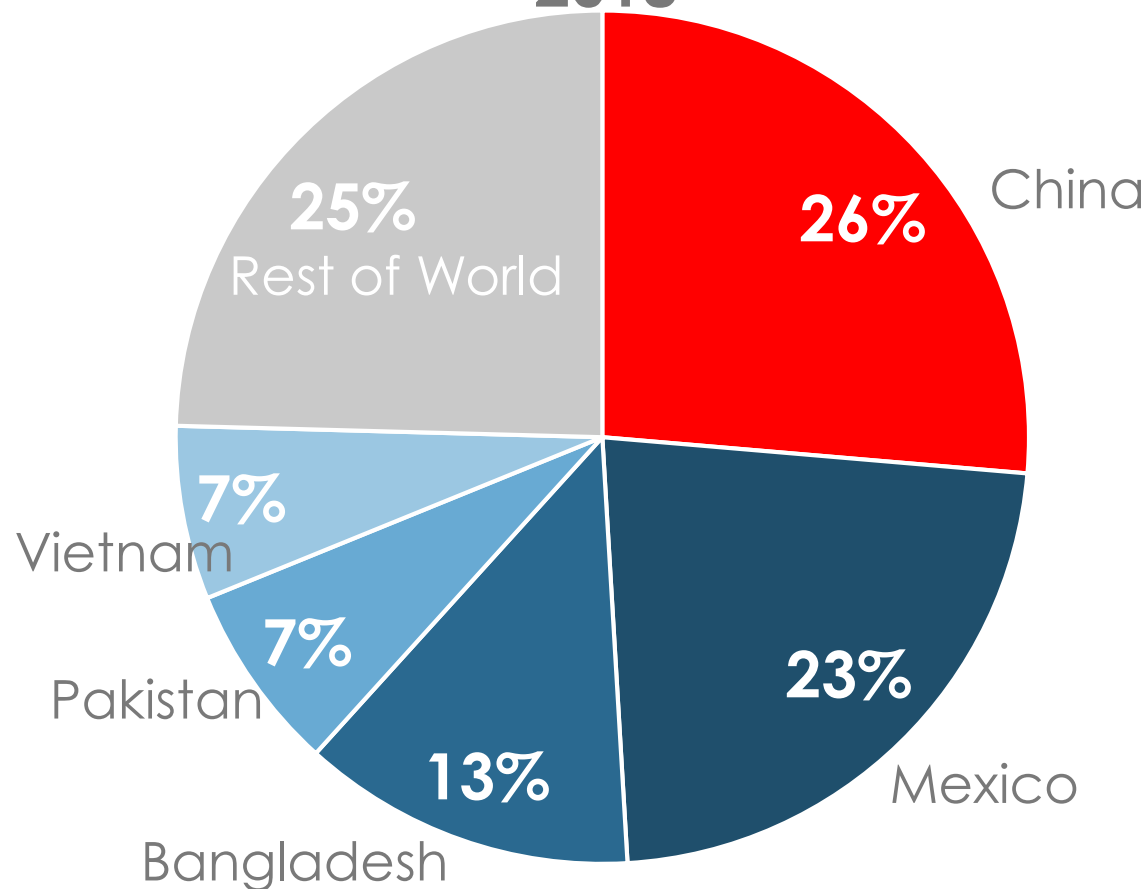
Women's & Men's Jean Imports 2018



U.S. Jean Imports

Women's & Men's Jean Imports

2018



Change in Adult Jean Imports year-over-year Sept.-Dec.

China

-42%

Mexico

Bang.

Pakistan

Vietnam

ROW

-26%

+7%

-2%

+27%

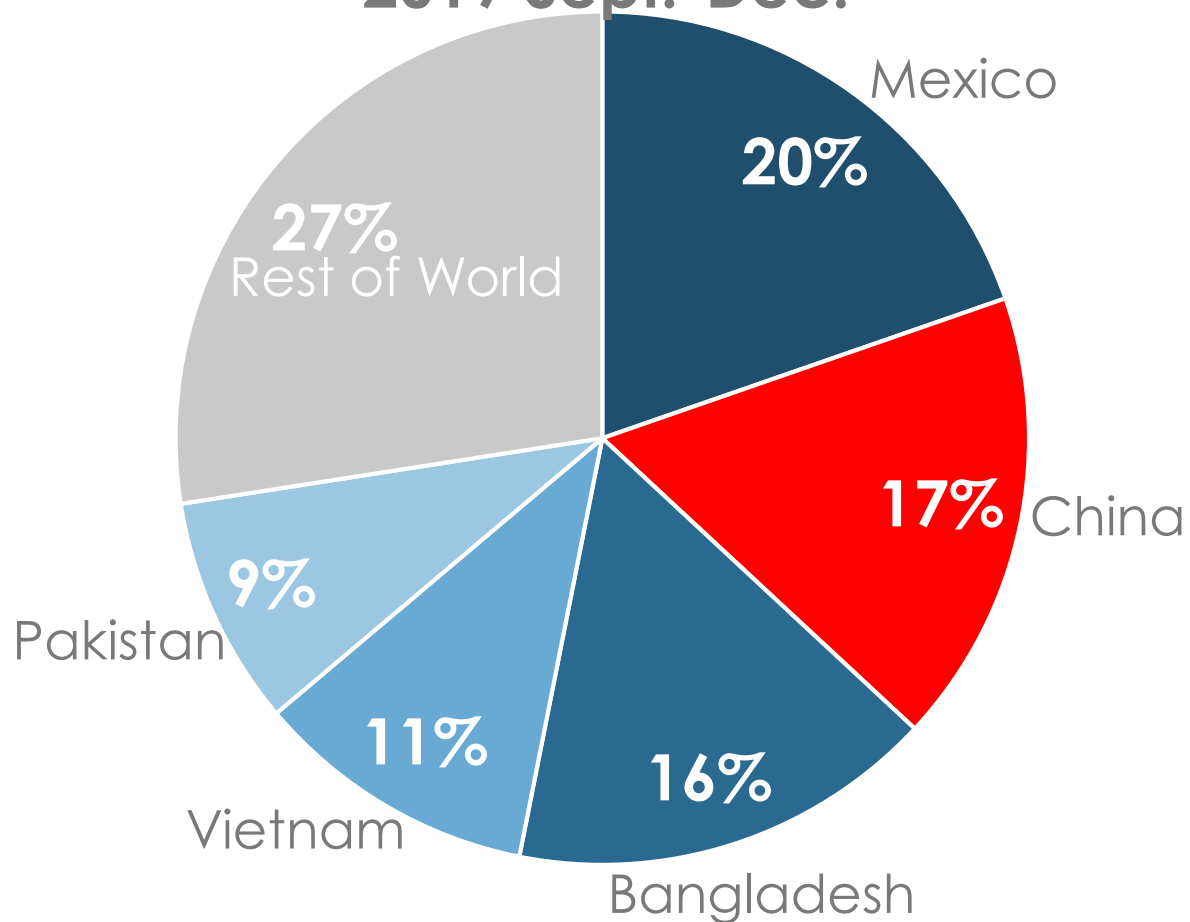
+2%

World

-13%

U.S. Jean Imports

Women's & Men's Jean Imports
2019 Sept.-Dec.



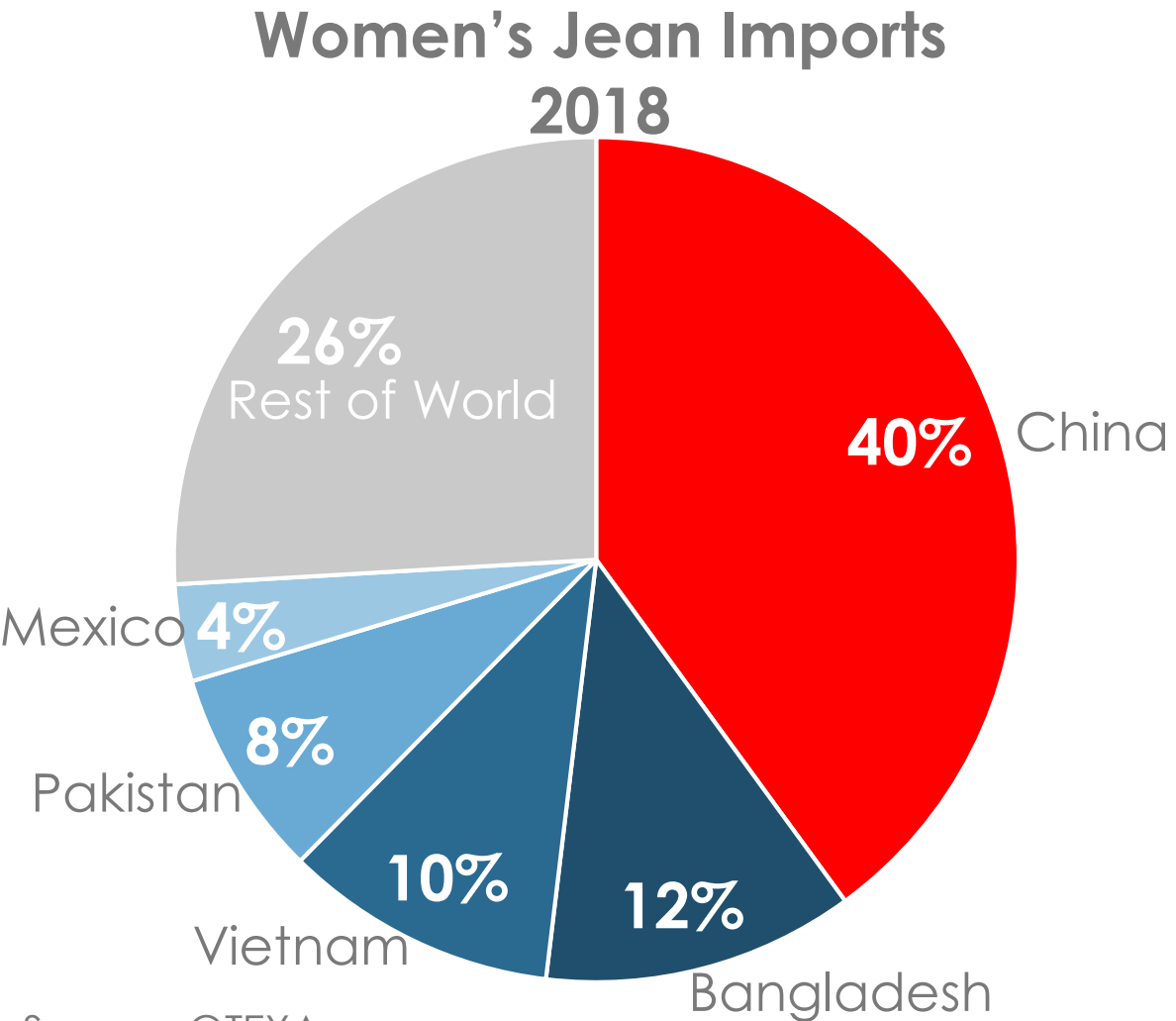
Change in Adult Jean Imports
year-over-year Sept.-Dec.

China
-42%

Mexico	Bang.	Pakistan	Vietnam	ROW
-26%	+7%	-2%	+27%	+2%

World
-13%

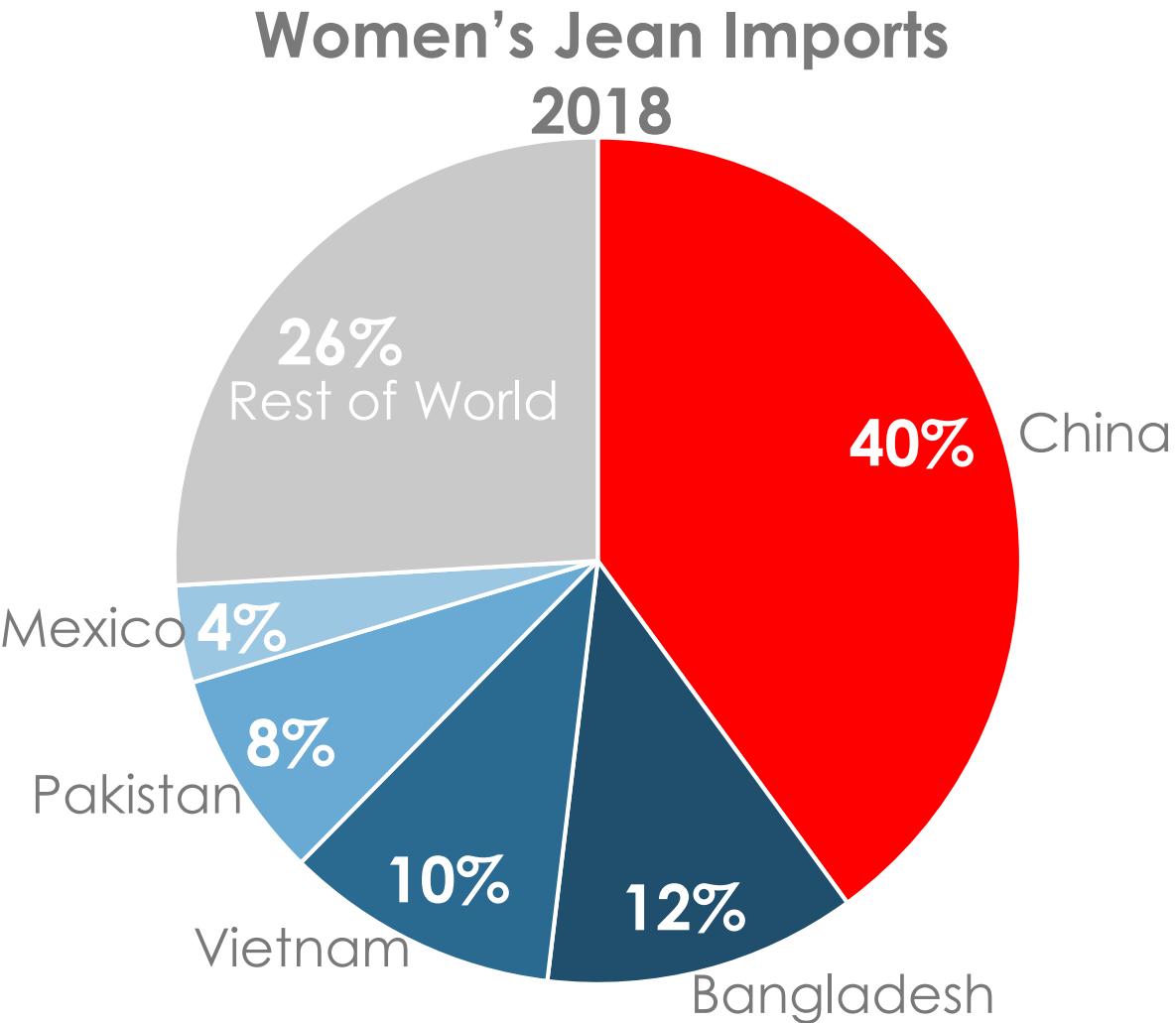
Women's Jean Imports



Source: OTEXA
cottonworks™



Women's Jean Imports



Change in Women's Jean Imports
year-over-year Sept.-Dec.

China

-41%

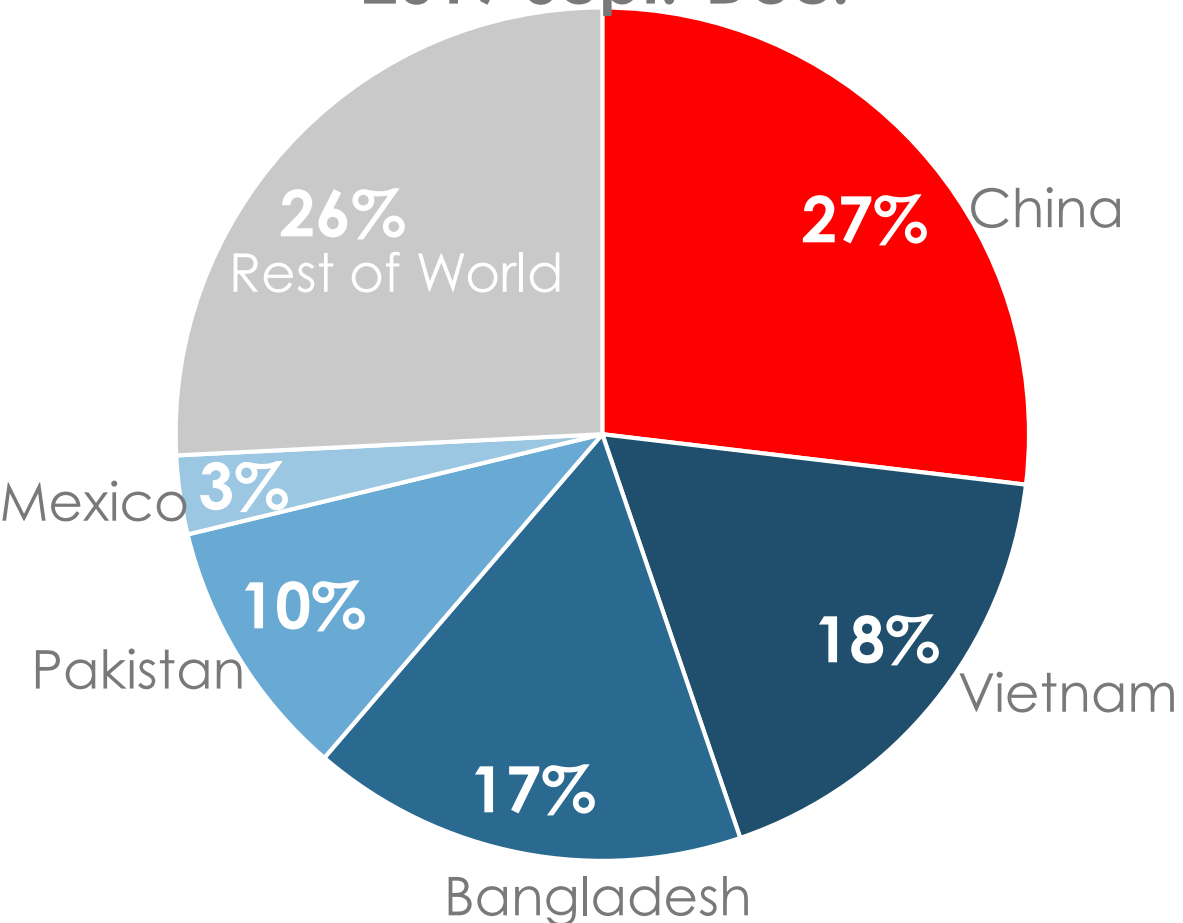
Vietnam	Bang.	Pakistan	Mexico	ROW
+28%	+13%	+15%	-31%	-9%

World

-13%

Women's Jean Imports

Women's Jean Imports
2019 Sept.-Dec.



Change in Women's Jean Imports
year-over-year Sept.-Dec.

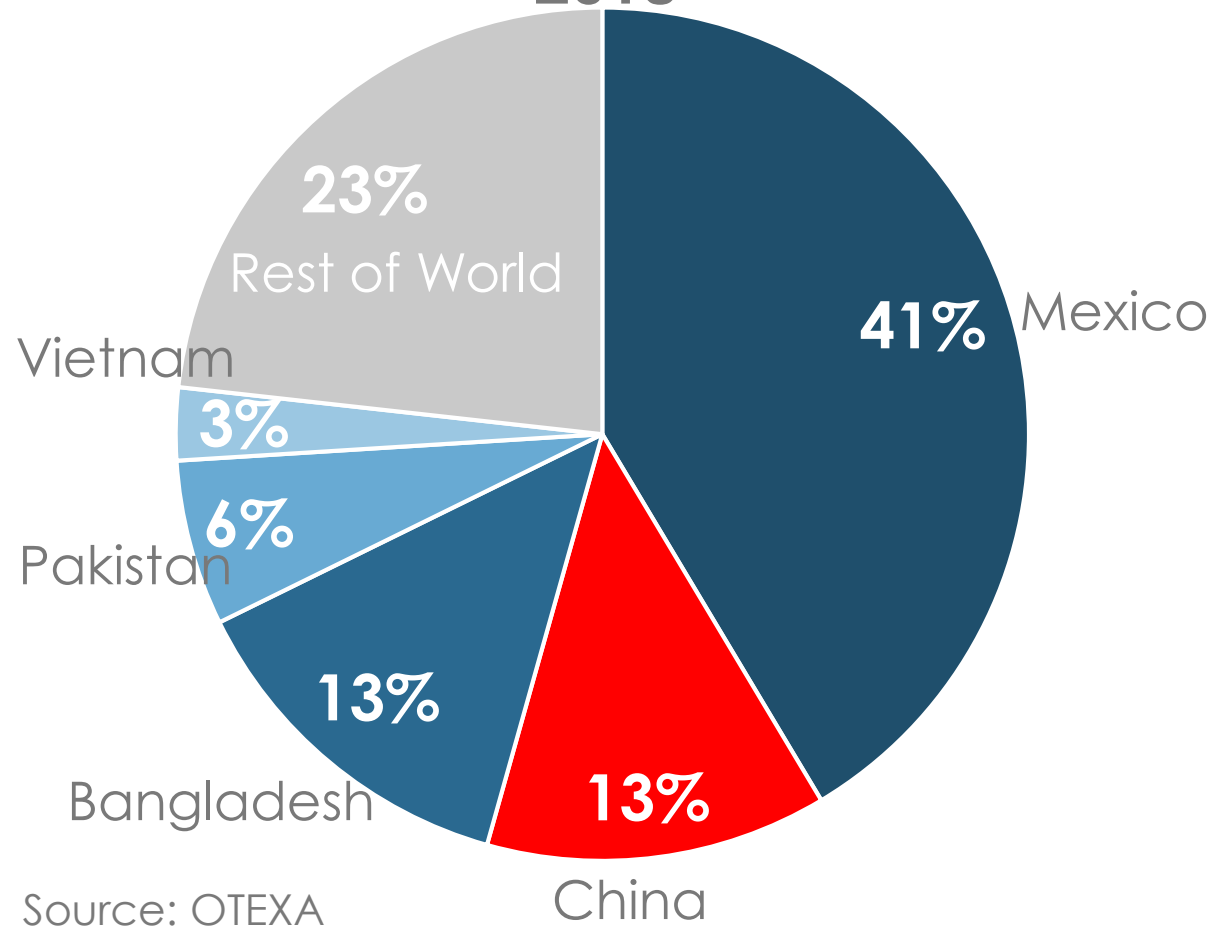
China
-41%

Vietnam Bang. Pakistan Mexico ROW
+28% **+13%** **+15%** **-31%** **-9%**

World
-13%

Men's Jean Imports

Men's Jean Imports
2018

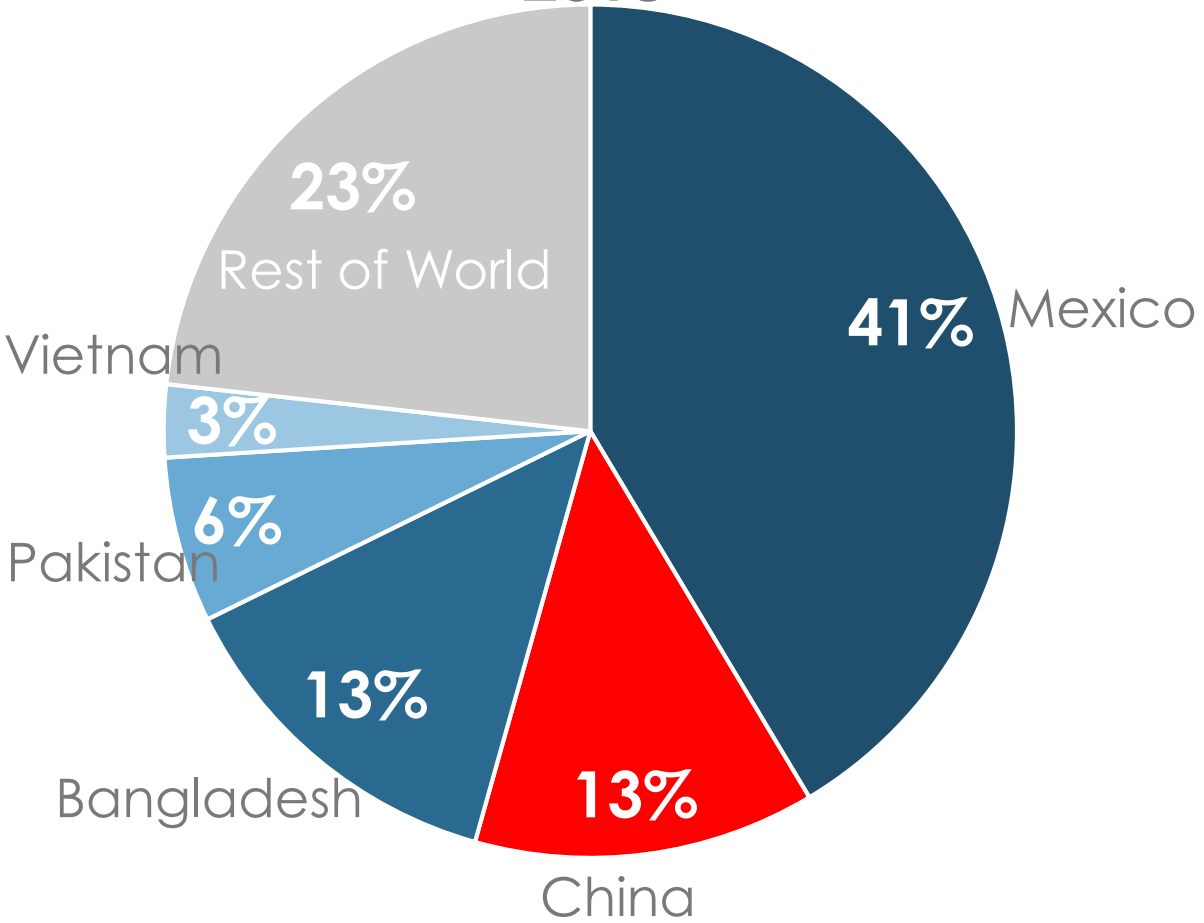


Source: OTEXA
cottonworks™



Men's Jean Imports

Men's Jean Imports
2018



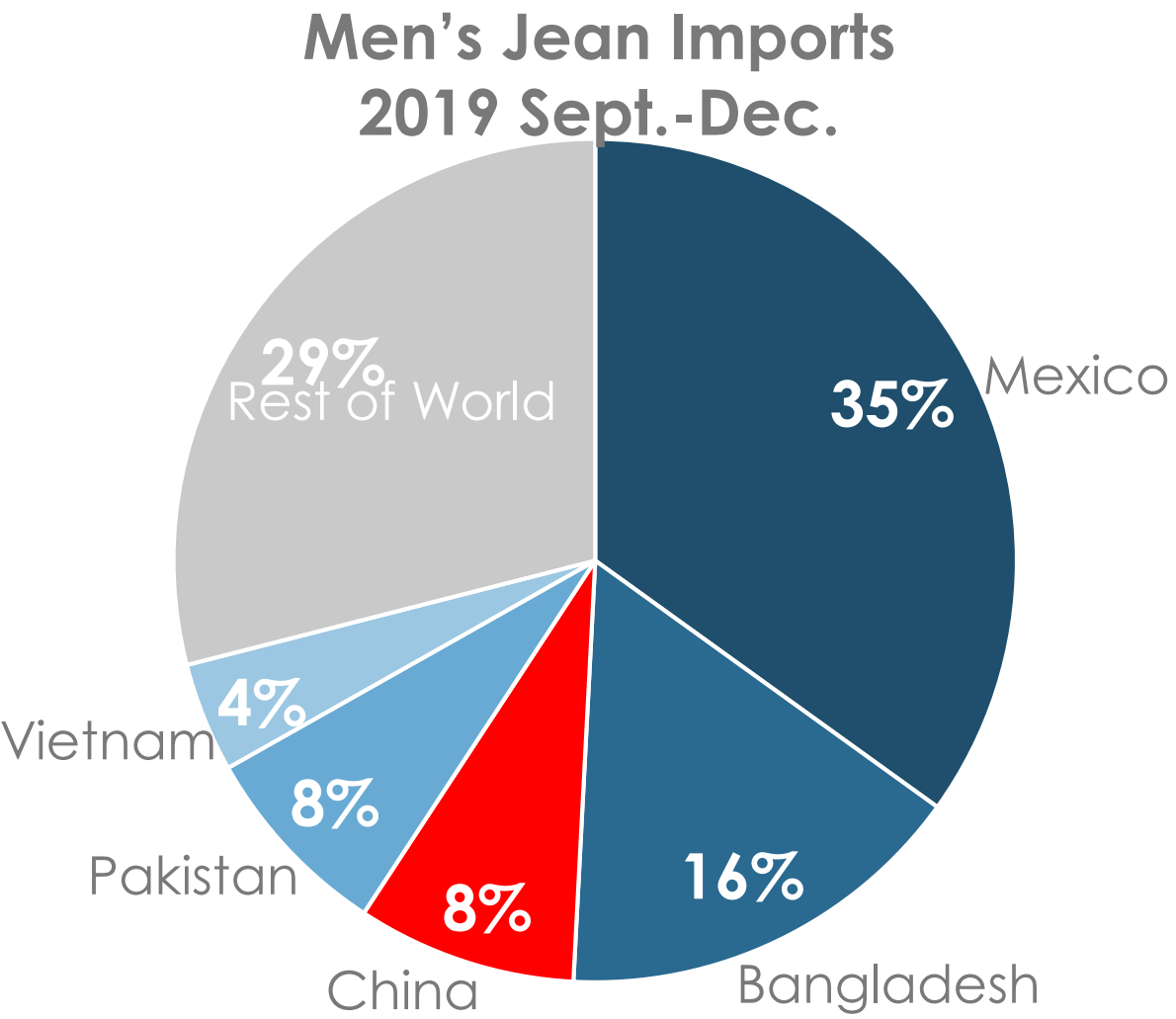
Change in Men's Jean Imports
year-over-year Sept.-Dec.
China

-46%

Mexico	Bang.	Pakistan	Vietnam	ROW
-25%	+2%	-16%	+23%	+13%

World
-14%

Men's Jean Imports



Change in Men's Jean Imports
year-over-year Sept.-Dec.
China

-46%

Mexico	Bang.	Pakistan	Vietnam	ROW
-25%	+2%	-16%	+23%	+13%

World
-14%

Cotton-Dom. Product		China Share 2018	Year-over-Year Sept-Dec	
			China	World
Knit Shirts	M&B	9%	-20%	+6%
	W&G	20%	-26%	-11%

Cotton-Dom. Product		China Share 2018	Year-over-Year Sept-Dec	
			China	World
Knit Shirts	M&B	9%	-20%	+6%
	W&G	20%	-26%	-11%
Woven Shirts	M&B	19%	-38%	-14%
	W&G	32%	-29%	-11%

Cotton-Dom. Product		China Share 2018	Year-over-Year Sept-Dec	
			China	World
Knit Shirts	M&B	9%	-20%	+6%
	W&G	20%	-26%	-11%
Woven Shirts	M&B	19%	-38%	-14%
	W&G	32%	-29%	-11%
Non-Denim Bottoms	M&B	20%	-25%	-8%
	W&G	37%	-33%	-15%

Cotton-Dom. Product		China Share 2018	Year-over-Year Sept-Dec	
			China	World
Knit Shirts	M&B	9%	-20%	+6%
	W&G	20%	-26%	-11%
Woven Shirts	M&B	19%	-38%	-14%
	W&G	32%	-29%	-11%
Non-Denim Bottoms	M&B	20%	-25%	-8%
	W&G	37%	-33%	-15%
Coats	M&B*	42%	-38%	-11%
	W&G	51%	-34%	-20%

Cotton-Dom. Product		China Share 2018	Year-over-Year Sept-Dec	
			China	World
Knit Shirts	M&B	9%	-20%	+6%
	W&G	20%	-26%	-11%
Woven Shirts	M&B	19%	-38%	-14%
	W&G	32%	-29%	-11%
Non-Denim Bottoms	M&B	20%	-25%	-8%
	W&G	37%	-33%	-15%
Coats	M&B*	42%	-38%	-11%
	W&G	51%	-34%	-20%
Dresses	W&G	39%	-6%	-1%

Source: OTEXA, *non-suit-type coats



Summary & Implications

Shipments from China have gone down, but so have imports overall

Decrease in apparel demand has consequences upstream in supply chains

When extended across industries, macroeconomic effect is evident

Phase One helpful, but no clear path for a return back to pre-tariff world



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The Trade Dispute & U.S. Apparel Sourcing

E-book: Classification & Tariff Engineering

Topics > Sourcing & Manufacturing > Tariff Engineering

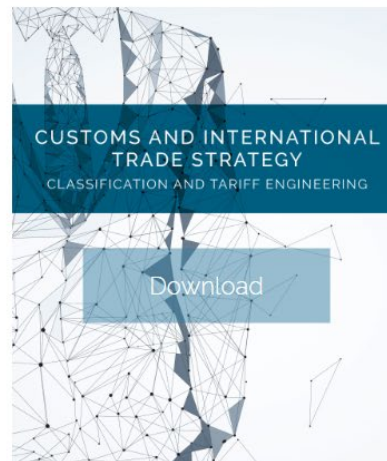
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Classification and Tariff Engineering Overview

The International Trade Strategy Series offers insights into customs and international trade and furnishes tools to help navigate your day-to-day business. We provide suggested solutions that can be applied immediately, to contribute to duty savings and improve margin.

The most successful design, product development, and sourcing teams use a collaborative approach to optimize product quality and price. This volume is meant to enhance those skills needed to contribute to good business decisions:

- Designers and product developers will discover nuances in fiber content and blends that can make products more competitive without sacrificing the design aesthetic.
- Technical designers will learn to modify garment construction in ways that reduce the duty rate.



NEW: Tariff E-book Customs and International Trade Strategy: Classification & Tariff Engineering

Volume I



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Tackling Our Ocean's
Plastic Pollution
Problem

Breaking it Down:
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Biodegradability in
Aquatic Environments

Breaking it Down:
Cotton's
Biodegradability in
Various Environments

Sustainable Solutions for
Denim Processing

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The Trade Dispute & U.S. Apparel Sourcing



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