

Brexit's potential impact on apparel manufacturing and luxury fashion

Abstract

Background: An unprecedented vote took place in June 2016 wherein the British people chose to exit the European Union; hence this British exit was labeled 'Brexit'. In December 2018, 27 other EU nations agreed that the UK could leave the EU bloc but with no substantive changes to the legally binding agreement. Britain's parliament will hold a final vote in 2019. In addition, Britain has until March 29, 2019 to finalize negotiations with all of the EU member states if they wish to optimize economic policy. The problem is that there is much uncertainty, division, and wavering in the British government as to what policies to enact. The current study examined how free-trade based economic policies could impact the apparel manufacturing and luxury fashion sector of the UK. Using a case study approach, public and archival data were analyzed to produce eight propositions for future study. The overall perspective speculates that policies based upon free-trade principals could leverage the current uncertainty surrounding Brexit to ultimately promote the growth of the luxury apparel sector and the British economy overall.

Keywords: Brexit, luxury fashion, apparel manufacturing, apparel, free trade policy

Introduction

In June 2016, the United Kingdom's Article 50, commonly known as "Brexit," passed. Many did not believe it would happen, but it did.¹ In a speech at the Business of Fashion VOICES conference,² Professor Alexander Betts of Oxford University gave his view of why the Article was passed and what it means to the fashion industry at large. He argued that Brexit occurred because of concerns over immigration and the desire for sovereignty. He showed that the voting map revealed those who voted for the withdrawal from the EU had experienced the loss of labor-intensive manufacturing jobs. He identified the demographics of those "Leave" voters as having less education, fewer socio-economic opportunities, and generally older in age. "Remain" voters, he noted, generally were better educated, cosmopolitan, and younger, but they did not turn out in large numbers to vote. He charged the fashion leaders to help the government create industrial policies that benefit the "hollowed out" manual labor sector of the country. He predicted that the EU would not experience a mass exodus of other countries and would eventually stabilize.

Prof. Betts analysis begs several questions: How will Brexit impact the apparel manufacturing and luxury fashion industries? If policies are enacted to aid the manufacturing sector, will it bolster the UK economy? How would this impact the luxury fashion industry, e.g. pricing, discretionary spending? How would resurgence in domestic apparel manufacturing affect the UK's trade partners? Will other member states leave the EU and how would this impact the global economy?

The case study examines the history of the EU and contributing factors that led to Brexit, the perceived benefits and threats of Brexit pertaining to apparel manufacturing and luxury fashion industries, and posits how the budding "cottage industry" of apparel manufacturing could bolster the British economy.^{3,4} Finally, it examines how free-trade policies in the Brexit deal could ensure long-term success for both apparel manufacturing and luxury fashion retail industries within the UK. Propositions are put forth for future study.

Methods

The study utilized the case study approach, allowing for contemporary examination of the public and archival data collected. Ideal for examining economic phenomena (Yin, 2003),⁵ the study was bound by event (Brexit), location (United Kingdom and European Union), and industry (luxury fashion). Data were analyzed for emergent themes in order to create propositions. Propositions are embedded throughout.

Results

The case study examined the potential impact of the United Kingdom's departure from the European Union, aka Brexit, on the apparel manufacturing and luxury fashion sectors of the British economy. Examination of public and archival data revealed that a variety of free-trade based economic policies are likely to have a positive impact upon the British economy as a whole and the luxury fashion sector. Eight propositions were put forth for future study.

Discussion

Brexit's potential impact on the UK's luxury fashion industry

The goal of Brexit is to be driven by the clearly expressed wishes of ordinary, working-class Britons, not the elite few (May 2017).^{6,7} The fashion industry in the UK faces a unique opportunity with Brexit in both apparel manufacturing and the luxury fashion sectors. Both industries represent important industries for the UK with significant growth potential. The luxury market contributes 2.2% of the UK's national GDP, equating to £32m, employing 113,000 people (Walpole 2017).⁸ Seventy eight percent of those goods are exported, yielding approximately £35.5m to the luxury trade.⁹ Luxury remained salient during the 2008 recession and is expected to grow in the coming years (Walpole 2017).⁸

"Leave" voters were from the hurting manufacturing sector of the

UK's work force. British apparel manufacturers began outsourcing to China and other Asian countries in the 1970s and 1980s, as did much of the rest of the industry, in favor of lower production costs.¹⁰ This gutted a once 1 million-person strong work force.¹¹ Recently, however, apparel manufacturing has experienced steady growth. In the 2nd half of 2015, the industry saw increases of 10.7%.¹² The UK and Italy was the only EU member states to report increases in this industry; the UK's growth was twice that of Italy (Flanagan 2016).¹³ The industry now employs approximately 132,000 people.¹² The future of these portions of the UK fashion industry is dependent on the policies enacted in the areas of trade, taxation, immigration, and education.¹⁴ Thus, the following proposition is put forth.

Proposition 1: Economic policies enacted to aid the apparel manufacturing sector will bolster the UK economy post-Brexit.

Potential impact of policies aiding the apparel manufacturing sector on the UK economy

Part of Britain's apparel manufacturing problem was off shoring production to China and other Asian countries in the '70s and '80s. These foreign countries could do the work cheaper and more efficiently than the Brits,¹¹ despite situations of abhorrent treatment of workers. It is important to consider China's financial enticements that won British manufacturing business. Export-processing zones (EPZs) provided government subsidized infrastructure¹⁵ and tax-free zones for foreign investors.¹⁶ Rather than innovating in their own country, the Brits sent their work away, causing the reduction of a once 1 million-person labor force to near obsolescence.¹¹ In considering the future, there are options such as the public-private partnership (PPP) business model wherein the public sector (local, state, or federal government) partners with private business on a project. The key benefits of PPP are that they share risk between the government and the public, create new streams of revenue, improve project delivery time by involving private industry experts running private businesses, and reduces project costs while continuing to innovate.¹⁷ Given this, the following propositions are put forth.

Proposition 2: Economic policies that provide an enticing tax structure for investors will aid the apparel manufacturing sector post-Brexit.

Proposition 3: An economic strategy to promote and support the public-private partnership (PPP) business model wherein the public sector (local, state, or federal government) partners with private business on projects could mitigate risk between the government and the public.

Proposition 4: Economic policies that support the public-private partnership (PPP) business model would create new streams of revenue, improve project delivery time by involving private industry experts running private businesses, and reduces project costs while continuing to innovate.¹⁷

Proposition 5: Economic policies that create tax credits or tax-exempt municipal debt will incent private companies to engage in PPP.

Potential impact on the luxury fashion consumer

From a demand perspective, Brexit has come at an impeccable time for both apparel manufacturing and luxury in the UK. The growing millennial luxe customer demographic values slow-fashion, locally produced goods, and quality product.¹⁸ The increasing consumer demand provides impetus to luxury retailers to serve this demographic

wants and needs for local, quality goods.⁵ Analysts say that the "Made in Britain" label could be worth £2.1 billion to the UK's economy.¹⁰

Luxury fashion retailers will save on import costs and meet market demands better if they source locally. Imports have become increasingly expensive due to customs and freight costs, not to mention time-to-market delays.¹⁹ Meanwhile, the fashion calendar is shifting to a "see now, buy now" delivery cycle. Customers have greater and earlier previews of designers' lines due to social media. This is challenging for designers and retailers because customers must wait 4-6 months for goods to be produced, shipped, and received at their stores. The goods do not sell as well because customers find them "old" or "uninspiring," forcing early markdowns for the retailers. This makes sourcing goods locally very attractive. Luxury retailers pay more up front for domestically produced goods, but they ultimately save in import and markdown costs. Large fashion houses are unlikely to source all products from local manufacturers due to current capacity limitations of the budding industry, but they may source locally for small capsule collections.¹⁹

The recent weakness of the British pound is a significant factor in customer spending patterns and imports as well. The luxury fashion market saw a significant uptick of 30-40% in business over the second half of 2016 due to the weakened pound post-Brexit vote (Walpole 2017).⁸ It is probable that the pound will remain weak for the next few years due to the uncertainty around Brexit negotiations. Tourists, however, are more likely to shop in the UK to take advantage of the cheaper conversion rates. This could mean continued increased sales for luxury fashion retailers until final agreements are made.

Proposition 6: Economic policies that create support local apparel production will benefit the luxury fashion consumer trend towards locally-sourced goods.

Potential impact of domestic apparel manufacturing resurgence on the UK's trade partners

The EU accounts for 74% of UK exports, making them the largest apparel and textiles export market for Britons currently. For 2016, the UK exported £9.1 billion to the EU, an increase from £8.5 billion in 2015.²⁰ While this is substantial, it may not impact the UK as much as people think because the rate of export from the UK to the EU has steadily declined in the past 20 years with record lows recently.²¹ The UK is seeking to secure free trade agreements with China, India, Vietnam, Bangladesh, and US. To do this, UK must withdraw from European Customs Union, Common External Tariff, and Common Commercial Policy.¹⁴ Securing new free trade agreements with these trade partners could profit both members of the deal since new sources of business would be available and restrictive policies and tariffs would be gone. Just as liberal economic theory suggests, trade would occur in both imports and exports, leading to wealth creation.²²⁻²⁴

Proposition 7: Economic policies that secure free trade agreements with EU member states and new global trade partners will cause exponential growth in the apparel manufacturing and luxury fashion sectors.

Immigration policy will be a challenge for the UK. An estimated 30% of the workforce for luxury fashion comes from EU nationals (Walpole 2017).⁸ UK wants and needs highly skilled workers. The EU will seek to ensure that EU nationals migrating to UK get same rights and privileges as those already residing in the UK. Prime Minister May is open to this provided Britons get same rights when

migrating to EU.¹⁴ The key to getting this policy right is balancing national security with skilled workforce needs. Even though the UK did not join the Schengen Area, the British immigration process needs to be streamlined; it is far too cumbersome.²⁵ Also, growing their manufacturing workforce within UK is important. They should focus first on the workforce in all UK member countries (Britain, Scotland, Northern Ireland, and Wales). This would keep the UK's sovereignty and immigration controls secure while growing local economy.

Further, the UK's apparel production industry must also build solid production facilities and labor forces to sustain the demand. Outsourcing gained momentum because Asian countries provided a skilled, more efficient workforce.¹⁰ The UK can improve their manufacturing industry by investing a portion of £12.9bn previously paid in EU membership fees into grant opportunities for technical schools and universities.⁶ This would ensure quality education programs could receive funds if they qualified and avoid the "welfare state" nature of subsidies.²³

Proposition 8: Economic policies that create grant-based funding for technical schools and universities with apparel design and merchandising programs could help close the skills gap¹³ in the manufacturing labor force.¹³

Conclusion

History has shown that liberal trade policies follow the patterns of short-term pain for long-term gain.^{23,24} Brexit's impact the apparel manufacturing and luxury fashion industries will depend upon the policies enacted around free trade, immigration, taxes, and education.¹⁴ Free trade agreements with new and existing global trade partners would yield major growth for these sectors. The UK must ensure that immigration policies are reciprocally clean and simple for expat Brits and EU nationals. Competitive tax structures must be put in place the benefit of domestic and foreign investors. Finally, with £12.9 billion becoming available, the UK should create grants – not subsidies – for technical schools and universities to ensure qualified education programs receive necessary. If they do this, temporary pain inflicted by the EU will give way to long-term flourishing for the Brits.^{6,15,23}

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Conflicts of interests

Authors declare that there is no conflict of interest.

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