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Impact of Tariffs on the Textile Value Chain

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How the tariff shock moved through the value chain and the cost.

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Clothing, according to Maslow, is one of the basic physiological needs of man. But as the tariffs and other geo-political events pushed inflation up, cost of apparel has become a topic that impacts each one of us, not just as people in the textile trade, but also as consumers. Over the last year and a half, we have seen frequent changes to trade policy that have had an impact on how we price apparel for buying and selling.

As we try to decode the tariff puzzle, there is no clear winner here! Every member of the long value chain has been impacted. From us, the consumers, to the raw material manufacturers and farmers. What has been challenging, however, is to quantify the impact at each level of the value chain. This becomes complicated as raw material price sluggishness, exchange rates, local government policies to support trade, etc. have an impact that is not directly visible.

To best understand the impact, we will begin with studying the tariff puzzle and some of the factors that affect the timing and impact on prices.

The tariff puzzle

Between 2024 and 2025, the average tariff rate applied to US apparel imports more than doubled, from 14.7% to 31.5%, per the Commerce Department's Office of Textiles and Apparel (OTEXA). Over the same period, the average unit price of those same imports rose from $3.08 to $3.14 per square meter equivalent, a mere 2% increase. Retail apparel prices, a few steps down the value chain, rose just 0.6%, though consumers report significant affordability pressure.

+17 pts

increase in average US apparel import tariff rate, YOY 2025 (OTEXA)

+2%

increase in average import unit price over the same period

+0.6%

increase in US retail prices over the same period

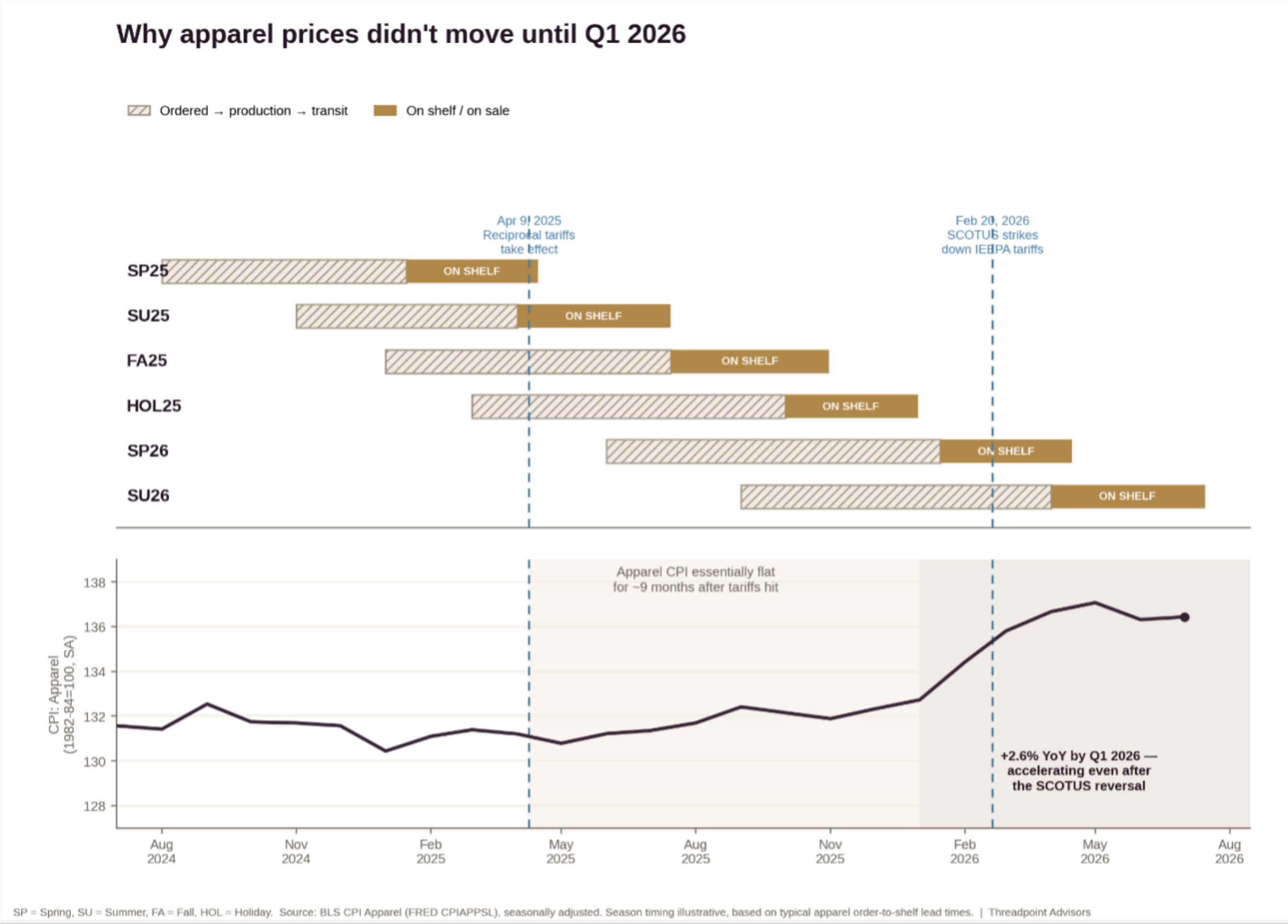
If tariffs had been passed through the value chain, consumers would have seen an average of a 17% price increase, however, across the 106 categories that OTEXA tracks, only about half saw any price increases between 2024 and 2025. So where did the 15%+ increase go? Why didn't retail prices go up immediately?

We will begin by analyzing how the long lead times delay the tariff impact.

Lead times and tariff impacts

The textile value chain is made up of various players: us — the consumers, the retailers, the brands or wholesales/importers, the cut and sew operators, the fabric/raw material vendors. Given how long this supply chain is, fabric/raw material commitments are made many months if not a year in advance so the rest of the value chain can be fed with inputs for consumption.

It is interesting to note that as tariffs began to impact goods from April/May 2025, most retailers and importers already had up to 12 weeks of inventory in the US at the lower, tariff-free prices. Hence, the lead times allowed for a lower price increase in the initial stages of the tariff news. Post the Supreme Court ruling, consumers saw a 2.6% increase in apparel prices, their share of the 10–12.5% tariffs that are now imposed on most nations.



As the tariff news started trickling, importers and retailers began cancelling orders, moving orders to different geographies, or delaying deliveries. To continue operations, many overseas vendors made tough decisions on taking tariff hits versus shutting down operations all together. Every member of the value chain took a hit, some more than the others.

The negotiations led to a tariff sharing mechanism that impacted cut & sew factories and importers/brands disproportionately. There is a lot of anecdotal evidence that shows that small and medium sized enterprises across the world were affected more than the larger players, primarily due to their staying power from strong cash flows.

Who funded this cost impact

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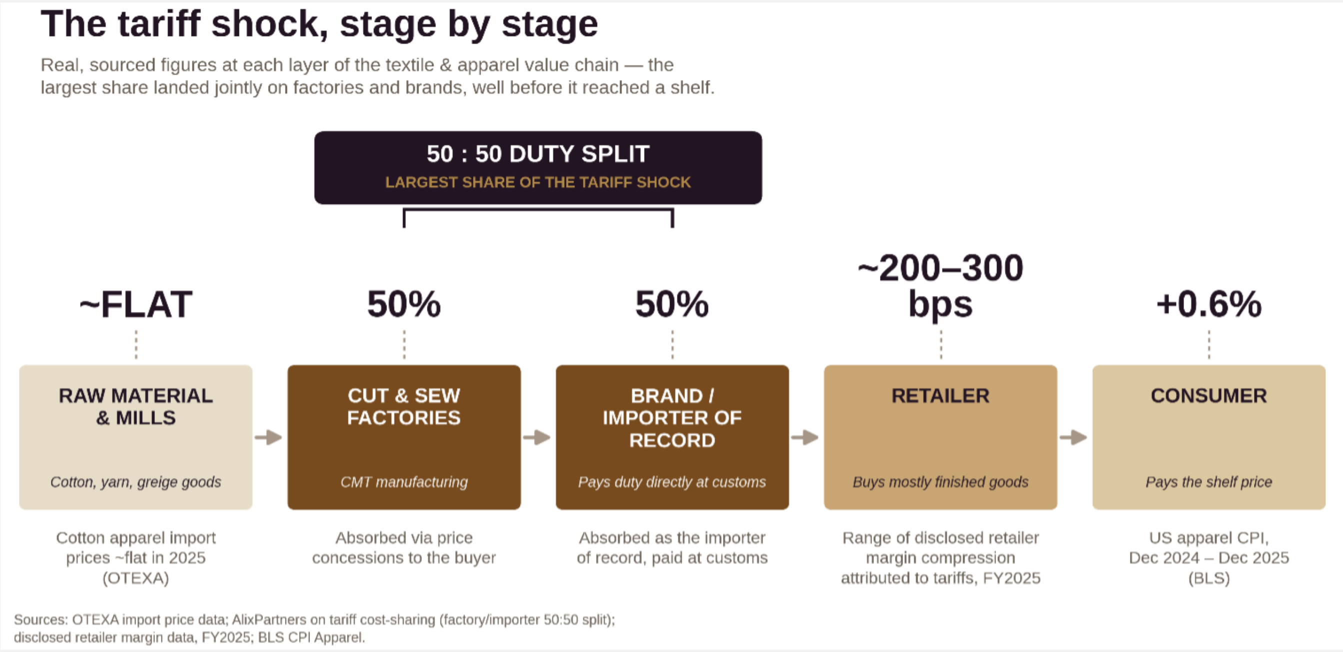


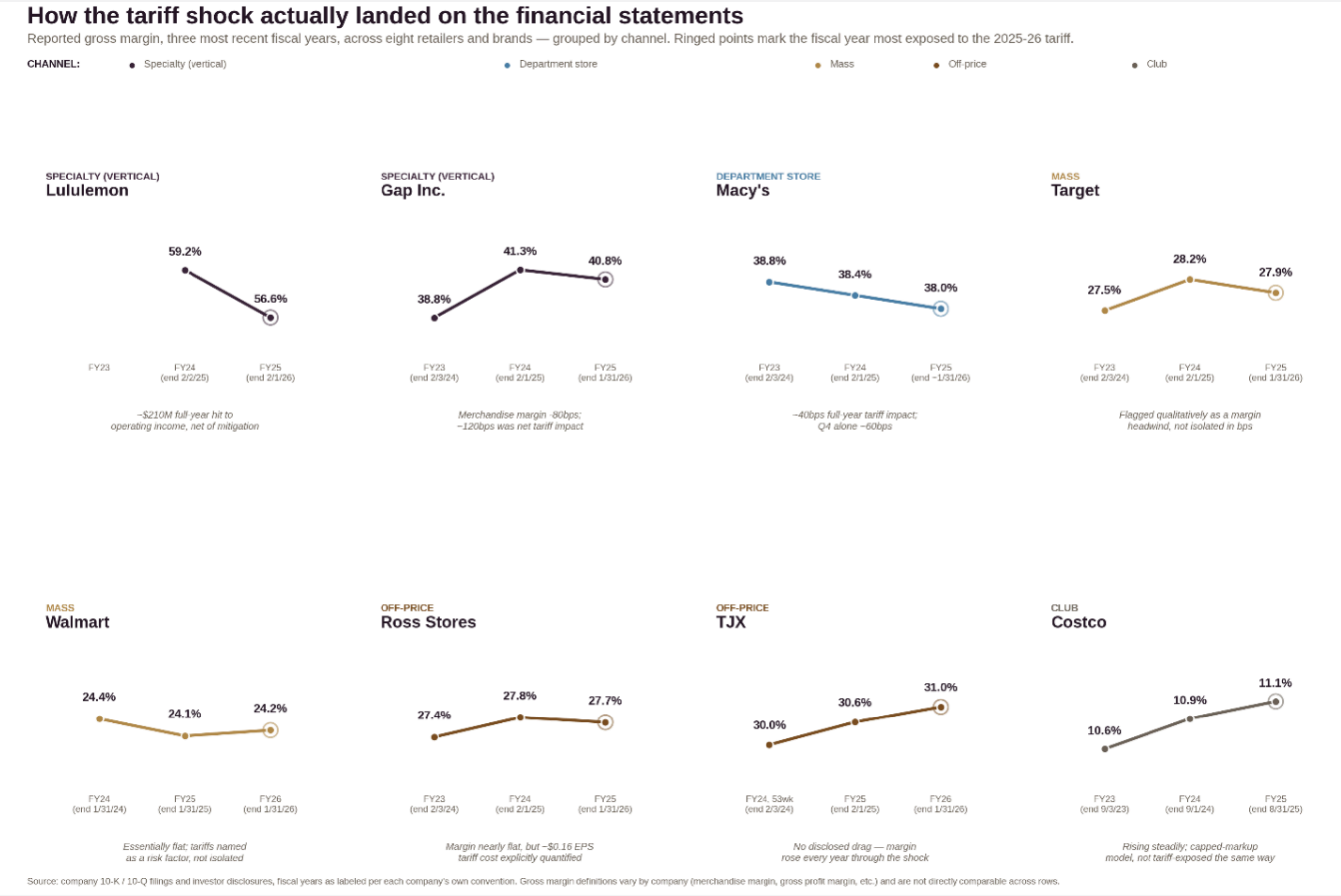
While different raw material manufacturers saw impact trickle down and personal experiences may vary, the above chart summarizes the overall industry average. In 2025, the impact was clearly felt strongly by manufacturers and brands. Retailers saw some impact with consumers feeling the impact coming in slowly in early 2026.

What was the impact on US retail apparel trade

Let's also study what the apparel brands and big-box retailers reported in their financial statements with respect to the tariff impact on their business. Most retailers showed a slight dip in gross margins primarily due to the timing of the tariffs, delaying and discount negotiations with importers and factories to maintain their margins.

The off-price channel seems to have seen no impact, primarily because a crisis like this aligns well with their sourcing strategy of opportunity buys. All the orders cancelled or delayed by retailers and importers, forced factories to sell their goods at deeply discounted prices so they could keep their operations running.

This is validated by the close review of the financial statements of a few top retailers in the US, as validated by the chart.



The chart clarifies the impact across the brand (Lululemon/Gap) and the retail value chains, with the off-price channel, and clubs being the biggest gainers overall. Please note that the gross margins for the retail channel are overall data, as retailers do not disclose apparel data separately.

What about overseas players and nearshoring?

The tariff shock has been especially difficult for US small and medium-sized enterprises, which have less pricing power, thinner cash buffers, and fewer sourcing alternatives than larger retailers. The New York Fed's 2025 Small Business Credit Survey found that 55% of goods-sectors and 67% of retail-sector small businesses nationally reported tariff-related financial challenges. The pressure was even more acute in the NY/NJ/CT district, where 72% of retail small businesses reported tariff-related strain. Roughly 80% of goods and retail firms also reported higher imported input prices in 2025 versus 2024.

A separate 2026 survey of 241 businesses by wepaythetariffs.com points in the same direction, though it should be treated as directional rather than nationally representative because the sample was small and self-selected. In that survey, 85% of respondents said they cut profit margins, 83% raised prices, and 29% laid off workers. Most notably, among businesses that tried to switch to a US supplier, only 3% found an alternative that matched both product specifications and budget. This suggests that, for many SMEs, reshoring was not a practical near-term substitute for established import supply chains.

Bangladesh is the clearest documented example of how tariff pressure interacted with broader operating stress in export apparel. Reported closures and layoffs point to a severe industry contraction, including 155 factories closing and 134,000 workers displaced across garment, knitwear, and textile operations, with more than half of the impact occurring in the six months before the report. One major example was Beximco Industrial Group, which reportedly laid off roughly 40,000 workers across 15 factories. However, this should not be attributed to tariffs alone: Bangladesh industry leaders also cited energy shortages, labor unrest, banking-sector instability, high interest rates, and difficulty opening letters of credit as major contributors.

The evidence from Cambodia, China, and India is less concrete and should be reviewed more carefully. While Cambodia has no confirmed closure or layoff count tied directly to tariffs; available reporting is largely exposure-based, with consultants and sector observers warning that hundreds of thousands of garments, footwear, and travel-goods workers depend on US demand and could face risk if tariff pressure reduces orders. In China, the documented impact is also not an aggregate factory-casualty count, but rather a shift in trade share, weaker apparel export momentum, and falling orders among Shein-linked workshops in Guangzhou, alongside reports of shortened shifts, layoffs, and wage-related protests. India is similar: the Apparel Export Promotion Council warned that a 50% US tariff could be a "death knell" for micro and medium apparel exporters because the US accounts for roughly one-third of India's garment exports, but that statement is a warning about vulnerability rather than evidence of realized closures.

So, what's next?

With trade now settling into a 10–12.5% tariff regime, the focus should shift from short-term absorption to long-term supply-chain optimization. As geopolitical factors continue to push up input costs and ocean freight, retailers, brands, and importers will need to build more agile and resilient operating models. Key actions include:

01 Move from a China+1 strategy to a broader China+many sourcing approach.

02 Partner with larger and financially stronger suppliers that can better withstand tariff shocks.

03 Explore nearshoring opportunities where cost, capacity, and speed-to-market economics make sense. I recommend leveraging the total cost estimator tool reshorenow.org/tco-estimator hosted by the reshoring initiative.

04 Revisit long-established pricing, margin, and cost-sharing structures.

05 Build a supply chain that can absorb volatility without relying on any one geography, supplier, or margin lever.

ABOUT THE AUTHOR

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