

Analysis on the Impact of COVID-19 on the Garment Industries in Developing Countries

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ABSTRACT

In many countries in the developing world, the garment industry plays a major role in economic growth. In the wake of COVID-19, most countries declared national lockdowns, causing disruptions in the global supply chains. Garment industries and workers were likely to be most affected by such government measures. This paper discusses the performance of garment industries in developing countries before and after COVID-19 outbreaks. This research examines the impact of COVID-19 in garment industries in two Asian countries: China, the world's largest apparel exporter, and Bangladesh, where apparel accounted for the majority of exports in that country. The research was conducted using data from the World Bank and the United Nations Conference on Trade and Development, and statistical data was analysed. The study concluded that China remained the world's largest producer of garment exports after the disease outbreak, mainly because of its expertise in the garment industry and the shift from apparel to personal protective equipment (PPE). However, international retailers from global north cancelled Bangladesh's export apparel orders, resulting in a huge decline in the garment industry. As a result, people's wellbeing and standard of living decreased with the impact of COVID-19.

Keywords: Bangladesh, Garment industries, China, COVID-19, Developing countries, Export, Global supply chains.

1. INTRODUCTION

The COVID-19 pandemic has caused a huge loss of human life and posed a massive challenge to public health, food systems and the workplace worldwide. The World Bank's dataset shows a gradual increase in global GDP per capita between 1990 and 2019. Following the outbreak of COVID-19 in the beginning of 2020, the global GDP per capita declined from \$17,630.408 in 2019 to \$17,109.451 in 2020, almost a half of the global workforce are at risk of losing their jobs. Low- and middle-income countries have been disproportionately affected by the health and economic impacts of COVID-19. Additionally, international retailers cancelling apparel orders due to decreased demand and closure of stores. International trade fell between 13% and 32% due to the disease outbreak and the expected economic recovery in 2021 depends on the effective public policy decisions [1].

The garment industry is characterised by a highly integrated global supply chain, which means any disruption in the global value chains would have an impact in production elsewhere. China, as the world factory of apparel, has announced national lockdown in February 2020. How would this impact the Chinese garment industry? Many countries, such as Bangladesh, rely heavily on raw material importation from China for its own garment production. What consequences would shortage of raw materials result in the garment industry in Bangladesh? [5]

In developing countries, the garment industry has access to raw materials and cheap labour. The apparel industry is highly competitive and labour-intensive. The goal of international retailers is to lower production costs in developing countries so as to become more price competitive and increase their international competitiveness. Retailers from advanced economies invest in emerging markets because of the low wages and long working hours. As a result, local manufacturers would be exposed

to new technologies and methodologies which in turn would increase the efficiency of the manufacturing process. Local manufacturers are then able to increase sales revenue and thereby promote the regional economic activity.

The focus of this paper is to examine the impact of COVID-19 on garment industry in developing countries and emerging markets, such as the world's top exporter of apparel, China, which accounted for almost 44% of the global textile export market [10]. This paper also investigates the impact of COVID-19 on garment industry in Bangladesh since the readymade garment industry contributes no less than 80% of sales to the country's exports and 11% to its GDP with a value of more than \$30 billion [7].

2. IMPACTS OF COVID-19 ON GARMENT INDUSTRIES IN DEVELOPING COUNTRIES

2.1 Impacts of COVID-19 on Garment Industries in China

There are several reasons why international retailers relocate factories to China. Firstly, Chinese workers are willing to work for long hours, twelve hours a day and there are more skilled workers, in addition to cheap labour and low prices for land. China's garment industries have not been significantly affected by the COVID-19 pandemic due to the fact that China has many competitive advantages in the garment manufacturing industry. For instance, efficient supply chains management, high productivity, lowered commercial barriers and more availability of raw materials. In addition to a significant amount of expertise, China has an efficient and strong transportation system that shortens delivery time [2].

China's search for modernity and quest for globality are what have set the country on the path to globalisation [3]. Today, China is the largest exporter of raw materials and clothing in the world. In 2017, China exported \$106 billion of textiles and \$161 billion of clothing, making it the world's largest factory. Many global businesses have moved their manufacturing operation to China. Due to regional and global value chains, disruptions in Chinese production will likely to have an impact elsewhere [4]. Concerns have been raised by retailers about COVID-19 containment measures. For instance, the closure of garment factories and the closing of roads to tackle the movement of

people. Reducing supply of intermediate inputs in China would affect the production capacity and, thus, exports of other countries whose production is heavily dependent on China [4]. For example, Bangladesh's garment industry relies heavily on China for raw materials for its garment industry [7].

In 2019, China was the top ranked global clothing exporter with a share of approximately 30.8%. However, with impact of COVID-19 outbreak, China's Manufacturing Purchasing Manager's Index (PMI) showed there was a significant fall of production index by 22 points in February 2020. PMI is related to exports which suggest a decline in exports. According to Oliver Wyman, China's garment industry will lose RMB 400 billion in 2020 and its market size will shrink by 15% due to COVID-19. Consumers have reduced their clothing and footwear consumption by more than 75% in the first quarter of 2020. Despite the expected retaliatory consumption in April, the consumption of low-income groups was still expected to be 15% lower than in 2019 [9].

Despite the impact of COVID-19, China remained the world's leading clothing manufacturer and exporter. In 2020, China dominated the global textile export market with an export value of almost \$154 billion, which accounted for almost 44% of the global textile export market [10]. Textiles are the raw materials used to make clothing and finished garments. According to the United Nations, the European Union ranked the second with a value of approximately \$64 billion, which was half the value of China [10]. Export value of India was \$15 billion, almost a tenth of the value of China. As a result of an increase in demand for face masks and other personal protective equipment (PPE), China's garment exports rose about 30.4% in 2020. China remained the world's number one clothing exporter, with more than 40% of worldwide trade in textile and clothing [2].

2.2 Retailers from Global North Cancelling Clothing Orders Cause Supply Chain Disruption

The Sustainable Textile of Asian Region (STAR) released a joint statement on the issue in order to mitigate impacts on small businesses firms and workers in developing countries, especially in the supply chain and to abide by contract. Encourage them to support those businesses involved in the global supply chain and aim for the business continuity, supply chain unity and social sustainability [6].

The COVID-19 pandemic had long-term effects on global supply chains. Due to decreased demand for garments, buyers and retailers in the Global North cancelled large numbers of garment and apparel orders. The COVID-19 pandemic, as well as store closures, became unforeseen events for the brands and resulted in clothing orders being cancelled under the force majeure clauses in the contracts [7]. International retailers cancelled orders would cause supply chain disruption and significant impacts in these sourcing countries. Over \$3 billion in apparel orders were suspended by international retailers in Bangladesh [6] and led to \$6 billion loss in export revenue [7]. Therefore, international retailers pushed financial liabilities to suppliers in Global South by cancelling apparel orders in Bangladesh, including those already shipped.

Bangladesh Readymade Garment Export Association President Dr. Rubana Huq requested brands and retailers not to cancel clothing completed clothing orders [7]. This would have a negative impact on garment workers and Bangladesh's economy. There would be 4.1 million unemployed workers and without incomes [7]. The global value chains have been disrupted low-cost sourcing countries that rely heavily on garment exports for their incomes. The garment workers already suffered from hunger, with 14% being food insecure at home, whereas 29% only having enough food for a few days [7].

2.3 Non-essential Nature of Garment Led to a Fall in Demand Under the Impacts of COVID-19

As a non-essential industry, the fashion industry is at risk of falling revenues due to the COVID-19 pandemic. Apparel retailer stores closed down and consumers turned to buy necessities such as food and health care products. In order to mitigate the severe effects of COVID-19 since 2020, many countries have enacted national lockdowns and work-at-home schemes. As a result, consumers in the Global North stopped shopping for virtually anything other than essentials [7]. Consumers are spending most of their time at home, thus reducing the number of people who need to buy new clothing. As a result, the fashion industry faces a downturn and falling revenues. Additionally, COVID-19 outbreak affected people's income levels and they opted for cheaper and fewer purchases.

Another impact of COVID-19 on garment industries is a reduction in logistics and service frequency which would lead to delays in clothing transport and affect sourcing countries. The garment and textile industries are considered as time-sensitive industries and delays in delivery of products would result in reduced profit margins for producers [4]. As a consequence of new fashion trends and consumer tastes, the lifecycle of the garment industry is short. This leads to small stocks and fast delivery for garment logistics. Most trade logistics were stopped or were used to deliver emergency healthcare equipment and other PEE products during the COVID-19 outbreak.

3. THE CASE OF BANGLADESH

The major garment exporters that account for a significant share of export earnings are Bangladesh, Pakistan, Cambodia and India. With approximately 85% of its total exports, Bangladesh was the most badly affected by the COVID-19 pandemic. According to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) report, the total apparel exports in March 2020 declined by 30.19% while shipment decreased by 77.76% during the first week of April 2020 [7].

The majority of developing countries do not have a plan to deal with economic uncertainty during the pandemic situations. Despite public health service system and social safety nets, the government is less well equipped to respond to the outbreak of disease. The experience with disease outbreak in wealthy and poor countries was therefore different [8]. People's living standards fell sharply in low-and-middle income countries in Asia, with median income dropping by 68%. Most households were unable to maintain the pre-crisis standards of living with government subsidies. They are still suffering from hunger and poverty [8]. Nearly half of Bangladesh's garment workers were not paid their wages and they suffered poverty and protested in the streets [7].

Readymade garment workers were among the disadvantaged and vulnerable groups in Bangladesh who have been impacted by the COVID-19 outbreak. Most of them had little education and were unskilled. Garment factories in Bangladesh were closed because of a national shutdown. Export of garments to other countries became difficult due to lockdowns in many countries and the closing of borders to contain COVID-19. As a result, there were 10 million garment workers returned to their

hometowns as they had no income and could not provide for their families in Dhaka, the capital of Bangladesh. However, international brands refused to contribute to paying workers' wages. According to the study, a third of workers did not receive severance pay, partly as brands refused to contribute to their wages [7]. With the permission of Bangladesh government, garment factories reopened on 26 April 2020 so that orders could be fulfilled internationally [6].

National lockdown and closure of garment factories in China early in 2020 provided the opportunities to the readymade garment industries in Bangladesh as they could now take in the clothing orders that were initially placed in China and were unable to be produced during the shutdown [7]. However, Bangladesh's garment industry also faced challenges. Due to the garment industries heavily rely on China to make apparel, more than 50% of its garment raw materials and 40% of its machinery are imported from China. Therefore, there was no increase in garment production in Bangladesh without importing raw materials from China.

4. SUGGESTIONS

Retailers should reconsider cancelling garment orders that have already been completed by the factories in developing countries. Due to the fact that this may make it difficult for the supply chain of the entire garment industry to recover when factories were forced to close, and workers are unemployed. Communications and respect among partners in the supply chain are conducive to the development of the whole garment industry. After the virus outbreak, brands with strong supply chain partnerships will quickly recover. Moreover, international brands in the garment industry should adapt to changing preferences of consumers. For instance, people tend to wear leisure clothes and sportswear longer instead of wearing suits as they spend most of their time at home. Additionally, there are increasing opportunities for mergers and acquisitions of distressed brands during the COVID-19 outbreak. The government should also encourage reopening of factories by providing financial support and safety support and by ensuring that appropriate safety measures are put in place to protect garment workers. Finally, the garment industry is also responsible for the ongoing environmental crisis. Clothing manufacturers should invest and innovate in more eco-friendly materials for face mask production to achieve

sustainability and become more competitive in the industry in the post COVID-19 era.

5. CONCLUSION

The coronavirus outbreak caused China to take a break in the garment production in the beginning of 2020. China's garment industry was calculated to lose RMB 400 billion in 2020 and its market size shrink by 15% due to COVID-19 [9]. However, China remained the world's leading clothing manufacturer and exporter due to an increase in demand for face masks and other personal protective equipment (PPE).

The global garment industry is characterised by a highly integrated global value chain. Any disruption in the global value chains would have an impact in production elsewhere. A fall in the supply of raw materials in China would affect production of garment industry in Bangladesh. Under the impact of COVID-19, international brands cancelled apparel orders to mitigate their financial loss in store closures and revenue deficit, which caused suppliers in the Global South to cut wages of garment workers. Workers had to protest in the streets due to poverty and hunger. Despite developing countries would have more time to learn from successful experiences in controlling COVID-19 in China, the health and safety measures put in place in the garment production in Bangladesh were still not efficient. Furthermore, garment industry was fast growing, but it still faces concerns such as sustainability, carbon footprint, waste, workplace conditions, and environmental pollution during production.

AUTHORS' CONTRIBUTIONS

This paper is independently completed by Xinyuan Tang.

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