



Sourcing's new order – Covid's impact on world's top three apparel exporters

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While many studies have explored how the Covid-19 pandemic is shifting the sourcing strategies of Western fashion brands and retailers, its impact on apparel exporting countries is mostly unknown – until now. Here, Victoria Langro and Sheng Lu from the University of Delaware take a detailed look at trade trends in the world's three largest apparel exporters – China, Vietnam, and Bangladesh.

Since it first emerged in early 2020, Covid-19 has been the single biggest challenge facing the apparel industry, resulting in significant order cancellations, factory shutdowns and supply chain disruptions.

By leveraging the latest monthly trade statistics collected from UNComtrade and GlobalData, **this article examines the export performance of China, Vietnam and Bangladesh in 2020.** The findings shed a new light on the impact of Covid-19 from a suppliers' perspective and will help fashion brands and retailers plan their apparel sourcing strategies in the years ahead.



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Impact of Covid-19 on apparel production and exports

During the pandemic, three factors have had most impact on a country's apparel export performance: government lockdown measures, textile raw material access, and comprehensive export competitiveness. On these three points, producers in China, Vietnam and Bangladesh have faced common but differentiated business challenges and opportunities.

CHINA

- **Lockdown measures:** China was the first country hit by Covid-19. Factory shutdowns started in January 2020, resulting in significant disruption to textile and apparel production. In the first three months of 2020, China's garment production shrunk by as much as 20.3% from the year before. Thanks to relatively quick and effective Covid-19 containment, most Chinese textile and apparel factories started to reopen in April 2020. They resumed an overall 90%-95% operational capacity rate by July 2020. China's garment production totalled 22.3bn pieces in 2020, down 7.7% from a year earlier but slightly higher than the volume in 2018.
- **Textile raw material access:** China has one of the world's most complete textile and apparel supply chains, allowing garment factories to access textile raw material and accessories locally. In recent years, China has also played an increasing role as a leading textile supplier for other apparel-producing countries in Asia. Being able to obtain textile raw material locally made garment factories in China less vulnerable to shipping disruptions during the pandemic.
- **Export competitiveness:** Compared with its competitors, China's garment producers enjoyed several unique advantages during the pandemic. For example, despite rising wages, apparel "Made in China" remains competitive in its total production cost thanks to factories' higher productivity, more skilled labour, and better infrastructure. The vast production capacity also allows China's garment factories to meet importers' growing demand for flexibility, such as adjusting the order quantity, product assortment or the shipping schedule in a short window. Compared with many of its competitors in Asia, China can also offer a relatively short lead time for Western fashion brands and retailers. **However, the tariff war and escalating US-China trade tensions remain the top concerns for sourcing apparel from China.**

VIETNAM

- **Lockdown measures:** As a neighbouring country to China, Vietnam first experienced Covid-19 cases in late January 2020. According to industry sources, over 70% of garment factories in Vietnam were affected by lockdown measures from February to March 2020. However, these began to ease in late April 2020, and factories reported operating at around 90% capacity by July 2020. According to official statistics, Vietnam's garment production in the first seven months of 2020 dropped by 4.6% from a year earlier.
- **Textile raw material access:** Vietnam still relies heavily on imported textile material, making its garment factories vulnerable to potential supply chain disruptions during the pandemic. For example, when China's yarn and fabric supplies halted in early 2020 due to Covid lockdowns, many garment factories in Vietnam had to cut their production due to a shortage of raw materials.
- **Export competitiveness:** As a popular alternative to "Made in China," Vietnam is one of the few sourcing destinations that can offer a relatively balanced sourcing solution against all the primary sourcing criteria, from sourcing cost, speed to market and flexibility to social and environmental compliance. By leveraging its membership in several mega free trade agreements, Vietnam is also one of the very few first-tier apparel suppliers that enjoys duty-free access to more than half of the world's apparel import markets. This includes the EU (through the EU-Vietnam Free Trade Agreement) and Japan (through the Comprehensive and Progressive Agreement of the Trans-Pacific Partnership, or CPTPP). **The duty-saving benefits offer "Made in Vietnam" apparel a unique competitive edge as fashion companies and consumers become more price-sensitive during the pandemic.**

BANGLADESH

- **Lockdown measures:** Industry sources indicate that most garment factories in Bangladesh were affected by Covid-related lockdown measures from March to May 2020. While these started to lift in June 2020, limited resources available to support reopening meant that as of August 2020, the country's garment factories had still only recovered to around 60-80% of their full production capacity. The prolonged lockdown measures were estimated to have cost the Bangladeshi garment industry more than \$4.9bn in lost revenue.
- **Textile raw material access:** Bangladesh is over 80% self-sufficient in accessories production, including thread, buttons and labels. However, its garment factories still rely heavily on imported yarns and fabrics, especially for woven apparel and man-made fibre items. Like Vietnam, more than 50% of textile raw materials come from China, which is why garment production suffered severe disruption in the first half of 2020 when China's textile supply was delayed.
- **Export competitiveness:** One notable advantage of Bangladesh as an apparel sourcing destination is its competitive production cost, with a wage level that remains one of the world's lowest (less than \$100 per month). To add to this, clothing exports from Bangladesh to the EU and Japan enjoy duty-free market access under the EU Everything But Arms (EBA) programme and Japan's Generalized System of Preferences (GSP) scheme. However, garment producers struggled during the pandemic with a lack of resources (such as PPE for frontline garment workers) and under-developed infrastructure. On top of this, whereas Western fashion companies would have typically sourced large volume basic items from Bangladesh, they have shifted to **smaller orders with a different product assortment to meet changed consumer demand**. This explains why order cancellations seemed to disproportionately affect garment factories in Bangladesh.

Export performance*Export volume***Table 1: Growth rate of apparel exports to the world**

Exporter	Q1 2020	Q2 2020	Q3 2020	2020 (Q1-Q3)
China	-32.8%	-32.6%	-28.6%	-30.9%
Vietnam	-16.0%	-36.3%	-33.5%	-28.7%
Bangladesh	-12.4%	-50.6%	-24.1%	-28.4%

Source: Data from UNComtrade (2021), GlobalData (2021)

Monthly trade statistics collected from UNComtrade and GlobalData show that Covid-19 significantly impacted apparel exports from China, Vietnam and Bangladesh in 2020.

As Table 1 shows, all three countries **suffered an unprecedented (nearly 30% year-over-year) drop in their apparel exports to the world in 2020 (Q1-Q3) due to Covid-19**. This mirrored reduced import demand in major consumer markets, where the local economies were also hit hard by the pandemic, including the US (down 2.3%), the EU (down 4.3%), and Japan (down 4.8%).

Notably, China's total apparel exports in 2020 suffered a more significant drop than Vietnam and Bangladesh. Exports showed more variance in the US market – with China's apparel exports dropping by 31.6%, much steeper than Vietnam (down 6.9%) and Bangladesh (down 12.6%). It seems that even though Covid-19 may favour China as an apparel sourcing base, **US fashion companies have given more weight to non-economic factors, such as the ongoing trade war, in their sourcing decisions involving China.**

*Seasonal export patterns***Table 2: Seasonal patterns of apparel export**

Exporter	China		Vietnam		Bangladesh	
Quarters/Year	2019	2020	2019	2020	2019	2020
Q1	0.95	0.92	0.95	1.12	1.04	1.27
Q2	0.77	0.75	0.85	0.76	0.95	0.65
Q3	1.28	1.32	1.20	1.12	1.01	1.08

Source: Data from UNComtrade (2021), GlobalData (2021)

Note: A higher value of seasonal factor means more apparel exports took place in that particular quarter.

Apparel exports follow a seasonal pattern – that is, each month and quarter stably contribute a certain percentage of exports that year. However, Table 2 shows **Covid-19 disrupted apparel exporters' regular production and export schedules in 2020**. For example, second quarter apparel exports from China, Vietnam and Bangladesh were all far below the average seasonable level. But exports in the third quarter were higher than usual.

Lockdown measures in each country had the most significant impact on seasonal export patterns. Specifically, as the first country hit by Covid-19, China's apparel exports were at their lowest from February to April 2020, but recovered quickly from May 2020 when factories resumed production. In comparison, apparel exports from Vietnam and Bangladesh were at their lowest level from April to May and May to June 2020, respectively, when their factories had to close.

Additionally, Bangladesh's apparel export seasonality saw a more dramatic change in 2020 than in China and Vietnam. A possible reason is the export product structure. As noted earlier, China and Vietnam export a more diverse range of products, whereas apparel exports from Bangladesh concentrate on basic fashion items. Industry sources indicate that between February 2020 and February 2021, US apparel imports from China and Vietnam saw a significant structural change – including

more Covid-popular items such as sweaters, smock dresses and sweatpants, and fewer dresses, shirts and suits. However, over the same period, the product structure of US apparel imports from Bangladesh barely changed, but also included few of the Covid-popular categories mentioned above. **In other words, despite order cancellations, garment factories in China and Vietnam seem more likely to receive new sourcing orders than their counterparts in Bangladesh due to their advantages in production flexibility and agility.**

Diversification in export markets

Table 3: Diversity of apparel export markets

Exporter	China	China	Vietnam	Vietnam	Bangladesh	Bangladesh
Export markets	2019 (Q1-Q3)	2020 (Q1-Q3)	2019 (Q1-Q3)	2020 (Q1-Q3)	2019 (Q1-Q3)	2020 (Q1-Q3)
USA	18.6%	18.4%	20.1%	26.2%	10.0%	12.2%
EU(27)	19.9%	22.8%	5.8%	6.2%	34.0%	33.9%
Japan	10.5%	12.4%	6.0%	5.8%	2.0%	2.4%
Rest of the world	51.0%	46.3%	68.2%	61.8%	54.0%	51.4%

Source: Data from UNComtrade (2021), GlobalData (2021)

Table 3 shows that **China, Vietnam and Bangladesh all became less diversified in their apparel export markets during the pandemic. Notably, the US, EU and Japan have become more critical customers than ever**, accounting for a combined 53.6% of China's total apparel exports in 2020 (up from 49% in 2019). Similar patterns are seen in Vietnam (up from 31.9% to 38.2%) and Bangladesh (up from 46% to 48.5%) over the same period.

This result suggests that **compared with fashion companies' efforts to diversify their sourcing, it has been more challenging for garment-producing countries to diversify their export markets during the pandemic**. Expanding into new international markets typically requires many resources, which are not available when exporters are already struggling financially. Moreover, apparel imports plummeted globally due to Covid-19, leaving few growth opportunities out there to explore.

To sum up, Covid-19 has significantly affected apparel exports from China, Vietnam and Bangladesh, resulting in both expected and unexpected trade patterns. **While optimistic that the volume of world apparel exports will enjoy positive growth in 2021, it is impossible to predict how soon it will return to pre-Covid levels as the pandemic continues to evolve**. This means apparel producers and exporters in China, Vietnam and Bangladesh still need to prepare for possible supply chain disruptions in 2021, and new order cancellation or postponement this year are NOT unlikely either.

On the other hand, among all three countries, Vietnam seems to be in the best position to expand its apparel exports in 2021. Compared with China, sourcing from Vietnam involves fewer worries about non-economic factors, such as the tariff war and forced labour concerns. Fashion companies can also enjoy more product assortment choices and flexibility than in Bangladesh.

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