COTTON USA Sourcing Program
April 16, 2020

Update on Latin American and Asian Government COVID-19 and Impact on Garment and Textile Companies

As countries around the world respond to the spread of COVID-19 – below is an update from April 1 report on Latin American government actions as well as reports from CCI staff in China and Turkey with updates from Thailand, Vietnam, Indonesia, India, Bangladesh, and Pakistan.

In the Western Hemisphere, most textile and apparel companies continue to be closed following the Holy Week holidays unless making masks or PPE.

Pakistan, China, Turkey, Indonesia, Thailand, and Vietnam industries are at reduced capacities because of customer order cancellations. India and Bangladesh industries remain closed by government lockdowns with the exception of companies making PPE products.

Below is a summary of government measures in each country although the situation remains fluid.

Turkey: As shopping malls closed in both Europe and Turkey in response to the COVID crisis, the Turkish textile-garment manufacturing complex began to shut down the week of March 23rd and over the last 3 weeks the industry has come to a near standstill with about 30% of textile capacity operating. Like their counterparts around the world, spinning mills are stuck with cotton shipments arriving while sales yarn contracts have been canceled. Yarn spinners are trying to postpone shipments and working on detention and demurrage exceptions while trying to cash their receivables to pay for cotton. The Central Bank of Turkey has taken measures to support banks and businesses through flexibility with exchange rate management requirements and offering liquidity, particularly exporting firms.

Garment manufacturers are closed except for those producing PPE products for the medical industry. The Turkish Clothing Manufacturers' Association has sent appeals to global brands and retailers, primarily in their main export destination of Europe requesting partnerships to work together cautioning "*However, if some retailers and brands prioritize short-term gains at the expense of other stakeholders in the supply chain, the word "sustainability" loses its credibility as the guiding principle for them and becomes an empty promise for the next generations. Businesses should remember that once the pandemic is over, they will be looking for long-term strategic partnerships that is kept intact; and true partnerships are those that yield long term benefits for decades.*"

Due to cooler weather condition over the Turkish cotton growing areas, plantings are later than seasonal average as farmers are now under wait & see mode because of low prices, higher production cost, and no increase in government subsidies. This could result in reduced production by 25 to 30% vs last year.

Turkey had its first COVID case about a month ago (March 11) which started a series of responses from President Erdogan beginning with the restrictions on the elderly and starting April 2, local government instituted curfews in 31 cities representing about 80% of the population. Schools, restaurants, shopping malls, sporting events are closed. Ports remain open and borders remain open for commerce (no tourists/travlerers) and Turkish airlines has extended its suspension of all international flights to May 1 with domestic flights limited to 14 metropolitan cities while all other domestic flights have been halted.

ASIA:

China: China continues to be wary of the 2nd COVID wave from visitors outside China and bans all foreign visitors to the country (including those holding visas or APEC cards). Although gradually movement within the Beijing metropolitan area is becoming more relaxed, direct flights into Beijing are not allowed with required travel to nearby airports/testing/14 days of quarantine, before allowed to enter the city. Anyone leaves Beijing is quarantined for 14 days upon return. The hope is that after the May Day holiday (May 1-5), people can have more freedom of movement. In other parts of China such as Shanghai and the Yangtze River Delta area, life is more or less returning with shops open and consumer consumption is beginning to rebound. Southern China has a pocket outbreak in Guangzhou and travel restrictions have been tightened in Tier 1 and 2 cities in the south. Most schools expect to open from the end of April.

After being frozen for several months following the start of the COVID, 80-90% of the textile mills and garment manufacturing had resumed operation by the end of February/early March and were busy completing orders for deliveries received prior to Chinese New Year. As the virus moved across the world bringing cancellations of export orders and stagnation of foreign market demand, the industry suffers also from ongoing increased operation cost and decreased domestic orders. The small and middle-sized companies are especially vulnerable as financial difficulties thought to be temporary when China was the outbreak center now threaten bankruptcies in the coming few months.

In 2018 China manufactured 45.6 billion pieces of apparel with 1/3 consumed domestically with the rest exported around the globe. Now there will be more players fighting for the domestic market leading to severe competition and potential price wars. Some export dependent Chinese manufacturers have already turned production to focus on the domestic market creating problems for the domestic yarn market from increased competition. Many mills are now running at partial capacity.

All of this has played out under the backdrop of the US-China trade dispute, as US-China "Phase One" Trade Deal had only just been signed January 15, 2020, and China had made progress to approve tariff exemptions and import U.S. goods including cotton fiber. Some large mills purchased U.S cotton after under the Phase One tariff exemption process in early March. However, due to the relatively high purchase price compared to current prices, their high yarn price has not accepted by their customers thus creating a wait-and-see approach to future cotton fiber purchases for a clear market situation. The potential boycott of Xinjiang cotton and it products from global NGO's adds to the complications for the Chinese textile and apparel complex.

Vietnam: Assessment are required to evaluate employee COVID risk for factories with 100+ workers making it very difficult for labor intensive industry such as garment and footwear. A large 65,000 worker shoe manufacturer was stopped for the re-arrangement of working spacing between workers. All spinning mills reported reduction in their production (50%-70% capacity) and some of them reported no yarn orders after Apr 20. 100% Vietnam garment factories are hit by order postponement with orders stuck at warehouses and ports and no plans for Q3. Large factories are rearranging workers to comply with the required health advisories while smaller firms with no orders have closed for now. Fitch projects Vietnam's GDP growth will slow to 3.3% in 2020, from 7.0% in 2019 - the lowest annual growth rate since the mid-1980s - reflecting the impact of COVID-19 pandemic on Vietnam's economy through its tourism, export sectors and weakening domestic demand.

Thailand: Garment and textile factories are still operating to fulfill existing orders that will be completed by the end of April with no new from the E.U., U.S. and Japan markets. International brands and retailers have asked manufacturers to hold shipments, postpone contracted orders and cancel forecasted orders that haven’t occurred with payments deferred. Domestically, sales have dropped more than 90% due to retail stores closures scheduled to last to the end of April. The Thai textile/apparel complex sends products about 50% export/50% domestic. To keep their factories running, textile and garment manufacturers started cotton masks production lines for domestic/ export sales.

Indonesia: The Indonesian government has practically established a "lockdown" situation in the capital of Jakarta and the 5 other large cities are in lockdown or semi-lockdown. The government is blocking gradually the train and bus circulation across the nation. The large textile mills are operating at 40-50% capacity as committed existing orders are completed with current cotton stocks. With no orders from overseas or domestically, production capacity will go down drastically in April/May. A few medium-sized and small mills are closing awaiting new orders.

India: Prime Minister Modi extended the initial nationwide lockdown to May 3 but has said in some areas outside of Covid-19 hotspots could have conditional relaxations to resume important activities after April 20. India's economy, already growing at its slowest pace in six years prior to COVID, was estimated by Barclay the economic loss to be around USD 234 billion (8% of India’s GDP). Textile and apparel factories remain closed except for the small amount making PPE products. Overseas buyers have cancelled orders by 30% and exporters in forward contracts with banks are unable to pay committed amounts on foreign exchange due to payment delays. Domestic retail demand is also stopped production with industry estimates that the Indian apparel sector, employing 12.9 million, will have a domino effect across numerous ancillary industries.

Pakistan: Pakistani government mandated lockdown was extended from April 14th and will be extended April 30. All Pakistan Textile Mills Association(APTMA) received government exemption for textile export-oriented companies in Punjab Province subject to complying with COVID health guidelines, and some manufacturers in Lahore and Faisalabad have reopened. The textile industry, already in disarray because of the cancellation of export orders creating high inventories and the heavy burden of the worker salaries, is facing more problems such as power companies issuing provisional bills while although deferring the late payment surcharges. However, the Pakistani Government had offered up to Rs100 billion to the industrial sector as a support following the challenging situation created from the COVID-19 pandemic with Rs47 billion for the textile sector in the next 100 days.

Bangladesh: Bangladesh government shutdown has been extended until April 25. Textile and apparel mills are hoping to reopen on April 26. Prime Minister Sheikh Hasina announced a stimulus package of BDT727.5 billion (US$ 8.564 billion) to overcome the potential economic impact because of coronavirus including BDT50 billion (US$ 589 million) for paying wages to the export-oriented industries' workers. In the package the government has added US$1.5 billion to the current US$3.5 billion to the Export Development Fund (EDF) to help the textile industry for import of materials, including cotton fiber. In response to the public pleas on behalf of the Bangladesh government and industry associations, several US and EU brands have agreed to accept shipments of goods already produced. It is uncertain if this will have a chain effect on knitters and spinners unless they are allowed to carry on production of pre-Covid orders.

Mexico: The Mexican federal government has suspended all classes throughout the educational system, meetings over 50 people and non-essential work activities until April 30th. President López Obrador asked all companies with non essential activities to pay full salaries, benefits and no termination of employees; however, this measure is not accompanied by any fiscal stimulus or tax exemption. Companies must continue to pay, electricity, water, wages, payroll taxes, social security and full import taxes. The Mexican peso suffered a devaluation of at least 30% since the beginning of April and revaluated 10% in these last days. Fuel prices have not fallen to the same extent that international price and a significant inflation is expected. Ports and airports remain opened, as so as the border with the US for commercial activities.

Following the Holy Week holidays, activity of the only companies making PPE are allowed to open with companies limited to 50 workers per shift. Most companies expect to be back to work by May 4th. Most spinning mills that are working at low capacity – medium/ small at 20% of their capacity of their capacity. All fashion apparel programs were stopped by law and deliveries were renegotiated with national and international clients with only those making PPE products in operation. Companies are awaiting government instructions regarding resumption of activities

Guatemala: The Guatemalan government extended last week's curfew (4:00pm - 4:00am) to April 19 as well as the suspension of work activities and public transportation. Maritime, air and land borders continue to be closed until further notice. Except for companies manufacturing PPE materials, most companies are closed.

Honduras: Honduras has extended the curfew until April 19. The government has also begun to supply Honduran made masks to the population with 12 companies re-directed to make masks and PPE products with limited workforce. 450,000 workers in the private sector have been suspended and will receive 6,000 lempiras per month. Gildan announced it has suspended operations until June 7. Maritime, air and land customs continue to work normally.

El Salvador: The state of emergency was extended until today and could be extended for another month. Garment manufacturers can operate with up to 50 workers which complicates logistics. Some operations are operating with a small percentage of their workforce to manufacture non-surgical masks. The official date for factories to resume is April 28th (may be extended to mid-May) and may require workforce reductions of 30% – 40 %. Companies indicate that orders for the fall season were cancelled and current orders on hold in both garment and fabric forms. All payment terms have been extended 60 – 90 days on in addition to the original 30-45 days.

Nicaragua: The suspension of work activities continues until mid-May in several free trade zones continues until mid-May. Approximately, only 30% of the companies are currently working (some making medical products for export) because of low demand as the Nicaraguan government has not closed companies. Korean companies are operating but with few orders and are reducing production lines and are considering closing their facilities until the COVID crisis ends. The Nicaraguan government continues to disregard the severity of COVID-19.

Haiti: Thousands of Haitians have fled the Dominican Republic in the last several weeks due to the coronavirus and, despite the border being closed. To keep the textile industry afloat amid the coronavirus economic shutdown, the Haitian government has authorized the reopening of seven factories that will be making protective medical gear – 3 making PPE for the US market and some for use in Haiti and 4 will switch from sewing cotton t-shirts for the U.S. export market to making face masks for Haitians.

Dominican Republic: President Medina extended the state of emergency and the curfew until May 1 making the use of masks is mandatory. Most of the companies are closed except those making masks and PPE products.

Colombia: The nationwide quarantine was extended to April 26th continues and masks are now required for everyone – men are allowed out of the house on odd days/women even to purchase groceries, medicine, etc. All land, air and sea borders will remain shut until May 30. All textile/apparel companies are closed except for those making PPE products.

Peru: President Vizcarra extended to April 26 the State of Emergency and nationwide quarantine. All textile/apparel companies are closed except for those making PPE products.

Brazil: While most states have imposed quarantine measures, President Bolsonaro has challenged the restrictions as needlessly harming the economy. Fears for Brazil's indigenous communities are growing as experts report higher vulnerabilities because of fewer natural defenses to external diseases with the death of an indigenous teenager in northern Brazil as the first officially confirmed indigenous person death. With regards to the textile/apparel industry, textile association surveys report apparel production has closed by 52% and raw material production decreases of 24%