

IMPACT OF THE COVID-19 CRISIS ON TEXTILE- AND GARMENT INDUSTRY SECTOR WITH FOCUS ON CEE AND WB COUNTRIES

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Abstract: *Covid-19 crisis has a significant impact on the textile and fashion industry worldwide. The impact of the coronavirus pandemic on textile manufacturers has been unprecedented. According to the latest reports, reducing sales, closed factories, and lower wages are just some of the problems. The economic downturn associated with the COVID-19 epidemic has posed challenges to the textile, clothing, and footwear industries. Companies, brands, and designers fight for their survival. This article attempts to give insight into some general facts of the impact of the COVID-19 pandemic on the textile- and garment industry sector worldwide and in some of the Central East European and West Balkan countries.*

Keywords: *COVID-19 crisis, garment industry, textile industry, CEE, and West-Balkan Countries*

INTRODUCTION

COVID-19 is an infectious respiratory disease caused by a coronavirus that presumably started in September 2019 from Wuhan Province, China. Coronaviruses are spread among animals but can also infect humans. Overall, COVID-19 is the name of a new human epidemic created by the new coronavirus worldwide, which can cause fever, fatigue, cough, breathing difficulties, and even death. The coronavirus pandemic's negative economic effects around the world are unquestionable, and the impact of the coronavirus pandemic on the textile and fashion industry and the manufacturers has been unprecedented. This article attempts to introduce the critical information to give insight into some general facts of the impact of the COVID-19 pandemic on the textile- and garment industry sector in some of the Central East European and West Balkan countries.

GLOBAL ECONOMIC IMPACT OF THE COVID-19 PANDEMIC ON THE TEXTILE AND FASHION INDUSTRY

Over the past 10 years, world trade has grown by an average of 4.8% and total world GDP by an average of 1.6%. In 2020, however, the OECD forecasted a 15% decline in world trade volumes. A similar fall was also exemplified by the Great Depression and the 2008 crisis.

The situation has been twice as severe in history, once during the World Economic Crisis of 1929-1930, when it affected 83.8% of the countries. During the World Economic Crisis of 2008, it affected 61.2% of the countries and caused a significant economic downturn. The acceleration of globalization can explain the current high level of involvement.

According to Lacy Hunt's summary, the IMF, or World Bank, estimates that 92.9% of countries globally will go into recession by 2020. [1] (Fig. 1)

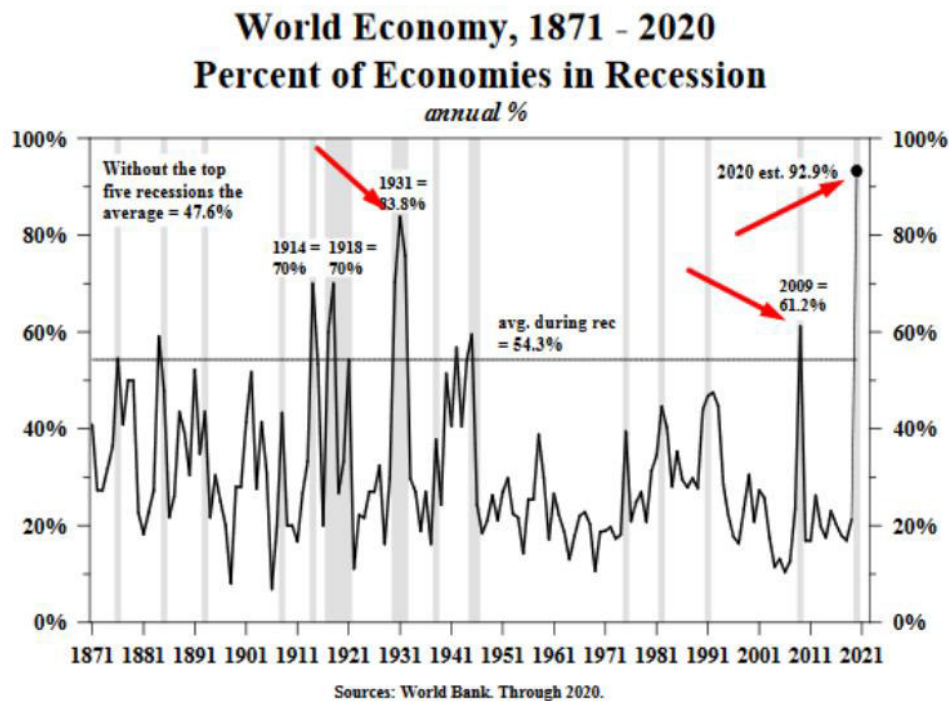


Figure 1: Diagram of economic recession according to Lucy Hunt's summary

Globally, many people have lost their jobs⁷, countless businesses have gone bankrupt, and the presence of a pandemic has caused people to feel generally unwell and worried. Some economic sectors were made entirely impossible by the closure of national borders, but economic areas could quickly adapt and operate during the epidemic.

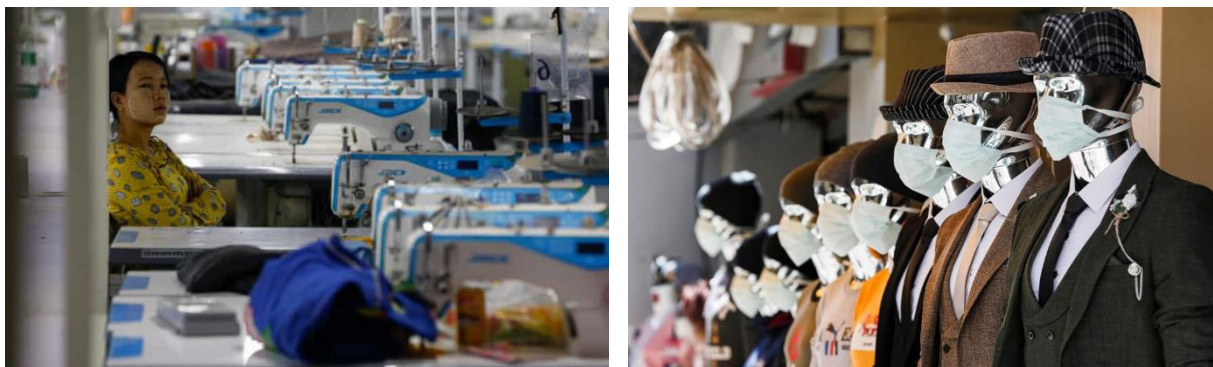


Figure 2: (Left) A woman sitting near sewing machines in a recently closed garment factory in Myanmar to demand her salary; (right) Illustration

⁷ In Cambodia, however, the law requires employers to ask permission from the government to lay off workers, and they would be required to pay 40 percent of the minimum wage there for half a year to workers, but locals say this is not the case and they have not even received their pay. (See: Fig. 4) (Source: The Guardian) [11]

The pandemic's harmful effects have hit tourism and the fashion and luxury goods market hardest, where consumption has fallen dramatically due to their so-called non-essential nature. In contrast, the demand for health and hygiene products needed to meet our basic needs and food consumption showed a slight increase.

The changes are also affecting our daily lives, and the looming economic recession will have a significant impact on our shopping habits. *“From Chinese raw material production to online commerce, the impact of the coronavirus is also being felt in the clothing industry. Besides, the downturn is coming in more waves and will hit the most vulnerable hardest: developing countries and producers with ever-smaller margins.”* [2]

The International Labor Organization (ILO)⁸ estimates that 65 million people work in the textile and clothing industry in the 10 countries most concerned with the textile industry.⁹ Furthermore, an ILO study points out that the global textile trade collapsed in the first half of 2020. On the one hand, because of the main purchasing region's needs, the EU, the United States, and Japan have fallen by 70%. On the other hand, the supply chain has already collapsed at the production level due to a lack of cotton, material, and other necessary equipment. [3] The figure below shows the percentage of textile and clothing purchases in the 6 main import countries by the 3 main importing countries, i.e., the EU, the USA, and Japan, paralleled to the same month of the previous year. Demand had already fallen drastically in April, and the situation has only worsened since then.

Less textile exports to EU, USA, Japan 2020, change year on year in percent

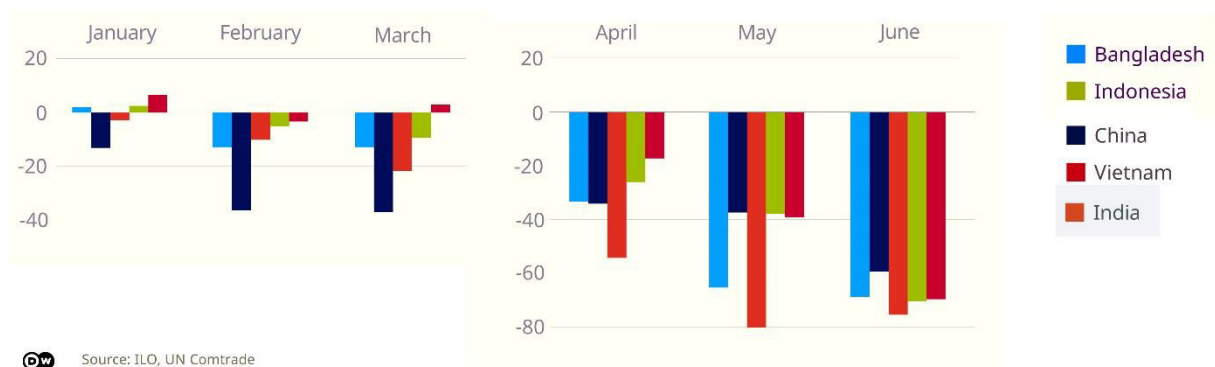


Figure 3: Declining export chart

When the virus exploded, clothing manufacturers and suppliers worldwide faced the cancellation of completed or near-completed orders. A study of 500 garment manufacturing facilities found that 86% of these companies were affected by canceled or pending orders. As a

⁸ Organization of the United Nations

⁹ Namely Bangladesh, Cambodia, Pakistan, Sri Lanka, Myanmar, Vietnam and China. , India, Indonesia, and the Philippines

result, 40% of the companies have difficulty paying workers' wages, leading to mass redundancies and factory closures. As these are the poorest countries globally, the livelihoods of many people have been put at risk. However, even in this situation, consumers expect brands to adhere to their ethical commitments. Furthermore, in a 6,000-person study that found responses from, among others, American, English, Italian, German, and Chinese consumers, they favored companies that paid for laid-off workers or redesigned their manufacturing processes to make health equipment for workers, or and donated to the community. Also, environmental programs were evaluated by the respondents.¹⁰ [4]

"The pandemic has exacerbated pre-existing inequalities," the ILO report assumed; before the pandemic, women – even worked longer hours – were typically paid less than men.



Figure 4: Garment workers in Bangladesh's capital Dhaka took to the streets to demand payment of wages in May; police later dispersed them

The probable impact of the COVID-19 epidemic in 2020 on global fashion and luxury product sales is hard to estimate accurately. However, after a low of 59-68% in April, an improvement has been forecasted for the end of the year. An average decrease of 28-38% is expected for 2020 compared to 2019 sales. Experts estimate that the global fashion industry (clothing and footwear sector) will fall by 27-30% compared to 2019, although the industry is projected to grow by 2-4% in 2021 compared to 2020. If stores remain closed for 2 months, McKinsey's analysis will put 80% of listed fashion companies in Europe and North America in financial trouble, suggesting that many fashion companies will go bankrupt in the next 12-18 months. [5] [6] Also, the expert predicts that the only way to secure survival is e-commerce. The development of the companies' digital abilities and tools can boost the fashion industry if the Covid-19 takes to hold. [7]

¹⁰ Apparel Coalition: Weaving a better future: Rebuilding a more sustainable fashion industry after Covid-19

LATEST UPDATES ON THE IMPACT OF COVID-19 CRISIS ON THE EUROPEAN GARMENT SECTOR

In the matter of latest updates on the impact of COVID-19 crisis on employment and Government measures in some of the Central East European and West Balkan countries, the latest reports show that *“a complete recovery is still uncertain, despite some positive signals – the latest economic data show.”* [8]

General information on the Hungarian Textile and Garment Industry (HGTI)

The Hungarian textile and garment industry (HTGI) has been in a problematic situation for more than a decade. The first problems occurred around 2005 when imports of cheap Asian textiles and clothing increased significantly. It was followed by symptoms of mushroom-growing second-hand shops around 2008-2010. Some corporations have become so strong that they have also become essential taxpayers in the country.

According to the latest available information (2019), the Hungarian textile industry:

- Employees (persons): 7316
- Production value: Nearly 400 million euros
- Number of registered enterprises: over 2600

According to the information available from 2019, the Hungarian clothing industry:

- Employees (persons): over 20 000
- Production value: nearly 300 million euros
- The number of registered enterprises: over 4000

Latest updates about the impact of the Covid-19 crisis on the HGTI

A non-representative survey conducted by the Hungarian Light Industry Association in April 2020 analyzes the Coronavirus economic crisis's impact on the domestic textile and clothing sector (SMS's). According to this statement, most responding companies are engaged in clothing production in the domestic textile and clothing sector. [9]

- Almost half of the respondents employed less than 10 employees. The companies, which employ 50-250 people, mostly came from companies that manufacture textiles and clothing accessories.
- The challenging export-import activity affected about half of the respondents. The share of companies providing contract work services was about 35%.
- 92% of the companies surveyed were severely affected by the coronavirus situation. Missing or canceling orders affected 90% of companies, and also, the decline in sales.
- 50% of them complained about the lack of access to local partners.
- 55% complained of increased raw material prices and were struggling with a shortage of raw materials.

Companies further complained about:

- Receipt and payment of ordered and manufactured products.
- Loss of domestic audience due to shopping malls being closed.
- Liquidity problems due to canceled orders are among those who are not engaged in the production of fashion goods but the production of uniforms and clothing supply for special events.
- Some were unable to function due to the workers' illness, problems in the textile supply chain, and logistical problems.

According to the analysis made by the State Audit Office analysis, The Government's response to the labor market crisis, which also affected the textile industry, was useful. The 5 most important measures:

- Tax relief and deferred payment on social security obligations;
- Tax and contribution reductions in specific sectors;
- Job protection and Job-creating wage subsidies;
- Increasing government orders;
- Soft loans.

Despite all this, half of the companies planned to reduce production and 20% to downsize altogether and close down the business.

Vision and future perspective of the Hungarian companies and representatives

Regarding the data of the non-representative survey, half of the interviewed respondents have a positive vision. They design to implement the following steps:

- Changing the supply chain
- Identifying new markets
- Temporary reduction of the workforce
- Reducing product workflow and manufacturing
- Switching to other products
- Introduction of online sales, webshop development

The measures taken to improve the Hungarian light industry's situation in Hungary are coordinated jointly by professional organizations, including the Hungarian Light Industry Association, the Textile Industry Technical Association, and the Hungarian Fashion and Design Agency. They have a dialogue with the Government. I'm involved in the Vocational Training Development Workshop of the Hungarian Fashion and Design Agency.

These organizations provide online training (HFDA Academy), do surveys, and coordinate start-up programs. The VOCATIONAL TRAINING 4.0 legal regulation changes, which came into force in the autumn, pose severe challenges for all sectors. It is also an opportunity. To ensure the success of human strategy developments in the domestic textile and clothing sector, the Government conducts consultations through these organizations, involving the Higher Education Institutions and the Vocational Training Office.

Information about the Serbian garment and textile industry sector (SGTI)

Textile and apparel production in Serbia has a long-standing tradition and, for many years, has been one of the leading export industries of the country. Nowadays, around 1800 active companies with more than 43 000 employees operate in the Serbian textile, according to data by the Development Agency of Serbia (RAS).

In 2014, the textile sector's export in the country reached a value of 1.2 billion dollars, which was a rise of about 8% compared to the previous year. The textile production and garment industry generated USD 853 million or 72% of this export, representing a rise of 7% compared to the same period in 2013. From 2001 to 2014, the growth of exports for the textile and clothing industry in Serbia rose from USD 228 million to a staggering USD 853 million, representing a growth rate of over 374% in 13 years. Heavy- and light garments, knitted garments, sportswear, jeans, children's clothing and baby equipment, work clothes, uniforms, underwear, socks, home textiles, and carpets; only some of the programs of Serbia's textile and clothing manufacturing industry capacity. Garment workers in Serbia¹¹ are said to be earning less than a living wage producing clothes for German fashion brands – with many having to carry on despite the Covid-19.

According to the Serbian Chamber of Commerce, the drop in production of the SGTI caused by the COVID-19 pandemic in April amounted to 62% compared with the same month last year. From the beginning of May, production began to return to normal, so that currently all producers can work at full capacity. [10]

CONCLUSION

The COVID-19 pandemic had disrupted the European textile and apparel industry like never before and significantly impacted the textile and fashion industry worldwide. The economic downturn has posed challenges to the textile, clothing, and footwear industries. Companies, brands, and designers fight for their survival. Experts predict a big recession and prolonged recovery of the fashion system; according to the latest expert predictions, investments in the brand portfolio and image, incorporation of sustainability and transparency, investments in digital abilities and tools. To reduce the companies' impact as much as possible, professional organizations and governments support textile and garment industry companies with different initiatives and present diverse COVID-19 recovery strategy for the textile and apparel industry. These initiatives focus on building a strong European textile alliance and focus on the public, private partnerships (PPPs) at the EU level for accelerating the research, innovation, pilot testing, and demonstration in critical areas, like digital manufacturing and supply chains. [11]

¹¹ Also: Ukraine, Croatia and Bulgaria.

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