



**SOUTHERN VOICE**

**Study on**

**Recovery of the Apparels Sectors of Bangladesh from the COVID-19 Crisis**

***Is a Value Chain based Solution Possible?***

Presented by

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## Study Team

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# Discussion Points

1. Introduction and objectives of the study
2. Methodology of the study
3. Six key findings of the study
4. Conclusion: identifying a framework of cooperation in the value chain

# **1. Introduction & Objectives of the Study**

# 1. Introduction & Objectives

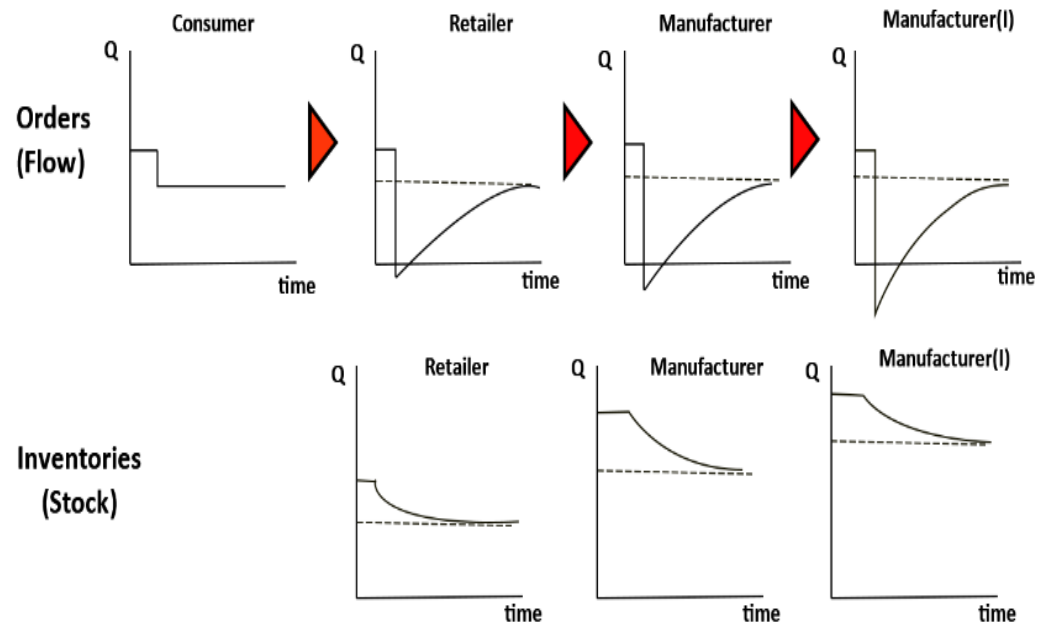
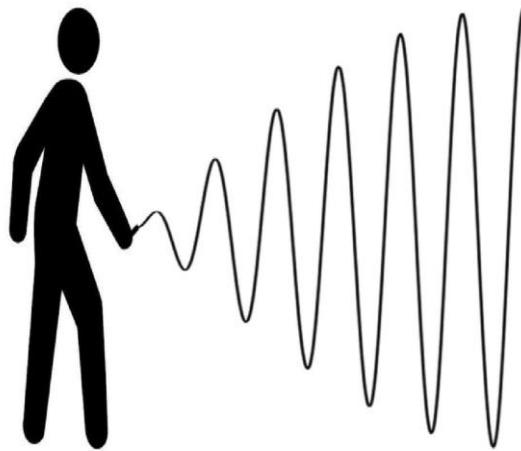
- ❑ The global apparel value chain has experienced an **unprecedented disruption** in view of the COVID-19 pandemic
  - Unlike the earlier crisis, all kinds of activities both at **up-and down-streams** of the value chain collapsed (ILO, 2020)
- ❑ Failure to ensure early and sustainable recovery would have a significant negative impact on many apparel supplying countries achieving SDGs
- ❑ Various measures have been undertaken so far at the national level to **address the immediate and short-term crisis** to cope with the risks and vulnerabilities
  - Targeted to address the short-term crisis, those, yet, were **inadequate** to meet the demand as per requirement
  - **Fiscal constraints** of apparels supplying countries are found to be a major constraint to provide adequate support for the suppliers and workers (Gupta & Liu, 2020)
- ❑ The **medium-term recovery** in the apparel value chain is likely to be more **challenging**
  - Market players require innovative strategies, approaches and tools to tackle a prolonged period of demand slump in the retail market
- ❑ The challenges have further intensified with the attack of the second wave of COVID-19 pandemic in major markets
  - Forced to partial/full closure of retail business operation, especially during the Christmas season

# 1. Introduction & Objectives

- ❑ The global crisis usually causes both **demand and supply-side shocks**
  - Businesses usually face **forecast error** during the time of crisis which results in demand volatility, and that has a consequent adverse effect across the supply chain (Altomonte, Mauro, Ottaviano, Rungi, and Vicard, 2012)
  - These different levels of reaction across the value chain are called the **'bullwhip effect'**

A 'bullwhip effect' after a negative demand shock

## BULLWHIP EFFECT



# 1. Introduction & Objectives

- ❑ The most important question to the market players is how the **uncertainty in the value chain could be reduced** and would ensure a sustained recovery
- ❑ The value-chain based **strategies and measures** to address global economic crises are rather **limited**
  - A major strategy in the value chain **is demand and inventory smoothing** across the supply chain
- ❑ The study explores a **value-chain based solution** for the apparel value chain
  - All market players both up-and down-stream of the value chain will participate to ensure a sustainable recovery in the medium term



## Objectives of the study

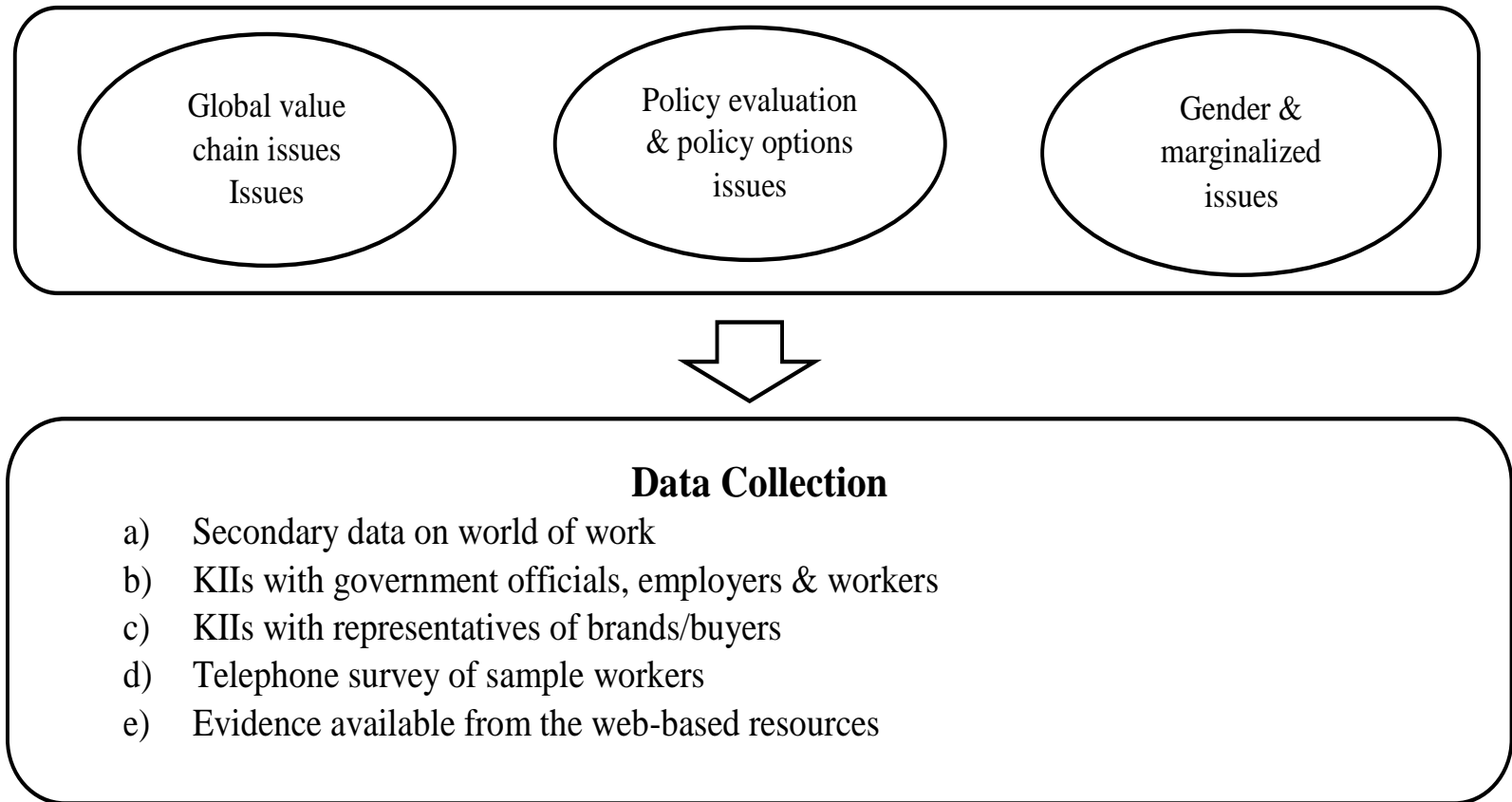
- ❑ The study seeks to develop value-chain based solutions for medium-term recovery of the apparel sector of supplying countries. The objectives of the study are as follows:
  - **Identify short and medium-term challenges** facing the apparel value chains of Bangladesh in case of consumers' demand, the price offered by buyers, bullwhip effect, supply smoothing, keeping the existing workforce, their payment of wages, occupational safety and health (OSH) and assessing the need for support measures
  - **Review ongoing local and global initiatives** in support of the apparels sector, especially their scopes and coverage, modalities of implementation, and state of progress till now
  - **Explore cross-country evidence** involving sourcing/supplying countries, brands, and suppliers to ensure sustainability in the 'world of work' in supplying countries
  - **Put forward a set of forward-looking solutions** within the value chain framework which could facilitate recovery of the supplying countries

## **2. Methodology**

## 2. Methodology

- ❑ This is a **cross-country study** involving Bangladesh and Sri Lanka
  - ❑ The sector is a major contributor of their GDP (9% and 5% respectively in 2019), manufacturing output (40% and 18%), export (85% and 47%), employment (7% and 5%), women's empowerment, and overall poverty alleviation
- ❑ The study has **followed an evidence-based policy (EBP) analysis** method taking into account a multi-disciplinary approach (see the figure in the next slide)
  - Such an approach calls for evidence on –(a) value-chain related issues; (b) policy measures; and (c) gender and worker-related issues
- ❑ A blend of primary and secondary data is used to conduct the EBP analysis
  - **Secondary data** is used to gauge the extent of disruptions caused by COVID-19 on both countries' export and import related to the apparels sector, state of employment, safety measures undertaken by factories and their implications in protecting workers from the disease
  - **KIIs** are conducted with suppliers, brands/buyers, trade union leaders/workers' representatives, government officials and officials of Bangladesh
  - CPD has conducted **a sample survey** with workers working in the apparel factories; 50 workers were interviewed in Bangladesh

### Methodology of the Study



Source: Authors'' Illustration

## 2. Methodology

- ❑ Apparel related trade data has been compiled from the ITC Trade Map with regard to importing of apparels by the world and major sourcing countries
- ❑ Disaggregated import data has been collected for major supplying countries including Bangladesh, Sri Lanka, China and Vietnam, which are considered to be major Asian suppliers and major competitors
- ❑ To test the ‘bullwhip effect’ in the value chain of Bangladesh, disaggregated import data of raw materials from important sources, have been analysed
- ❑ A **unit value analysis for Bangladesh’s** export of apparels and import of raw materials have been presented to appreciate the ‘price effect’ during the time of crisis along with the ‘quantity effect’ of global demand shock of apparels
- ❑ Besides, secondary data has been collected on various issues related to the ‘**world of work**’ such as status of employment in the sector with a focus on women, wages and occupational safety and health (OSH)
  - Secondary data and information are gathered from published official documents and rapid survey reports

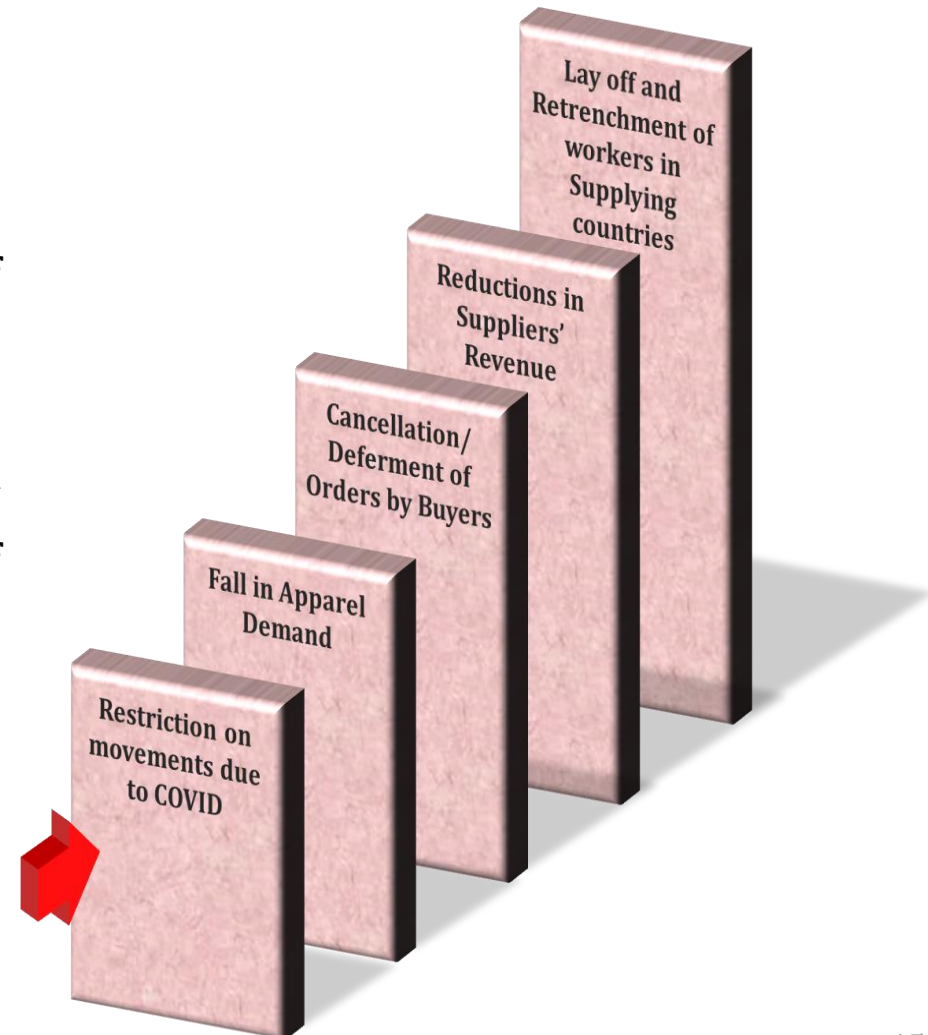
### **3. Six Key Findings**

### 3. Six Key Findings

#### *1. Unprecedented global crisis resulted in multidimensional shocks across the global apparel value chain*

- ❑ The outbreak of COVID-19 has **negatively impacted** the global demand for apparels
- ❑ Immediately after the outbreak of the pandemic in major global apparel markets, particularly in the months of **April and May 2020**, the **global demand for apparels fall drastically**
  - About **40% and 41%** respectively (compared to similar months of 2019)
- ❑ The sudden massive fall in the global apparel demand produced '**domino effect**' (Figure)
  - This has rendered multiple consequences across the value chain

#### **Domino effect due to the COVID 19 in the apparel industry**



### 3. Six Key Findings

- ❑ **Impact on brands/buyers:** The retail sale of apparel buyers fell massively within a very short period of time
  - In the USA alone, the **sale of clothing stores declined by 79%** in April 2020 compared to March 2020
- ❑ Anticipating overloading of the inventories, they had to cancel their advanced and ongoing orders using “**force majeure**”
  - The imbalance between cost and revenue, owing to the pandemic forcefully **bankrupted numerous buyers**
- ❑ In general, brands and buyers needed to adapt quickly with the **changing marketing practices** due to lock down and maintaining social distance by the customers
  - **The online-based shopping** has started getting importance to the customers in the short run and likely to continue in the future
  - A large part of traditional brands and retailers are based **on ‘bricks and mortar’** shops and have limited businesses online
  - Even some big brands are **not interested in expanding online**
- ❑ Overall, brands, retailers and buyers are in **transition to accommodate the changing business practices** and tried to accommodate within that structure



### 3. Six Key Findings

#### ❑ *Impact on Bangladeshi suppliers*

❑ According to the **Better Buying Special Report** (April 2020), the majority of suppliers (76%) had to face the challenge of reduction of export orders

- The **highest amount of orders reduced include Bangladesh (93%), Vietnam (80%), China (74%) and India (61%)**

❑ The global apparel import from Bangladesh decreased by **23%** during **January–July 2020**

- Import from Sri Lanka decreased by **31%** during Jan.–Aug, 2020

❑ **Basic to medium end products** produced by Bangladesh has experienced a moderate level of adverse impact in major markets due to their relatively less elastic demand

**Changes in apparels export of selected countries (2019-2020)**

Export to	Exported by			
	Bangladesh	Sri Lanka	China	Vietnam
	% Change between 2019 & 2020	% Change between 2019 & 2020	% Change between 2019 & 2020	% Change between 2019 & 2020
World	-23 <sup>a</sup>	-31 <sup>h</sup>	-18 <sup>g</sup>	-14 <sup>a</sup>
EU (27)	-21 <sup>b</sup>	-23 <sup>h</sup>	-15 <sup>b</sup>	-12 <sup>b</sup>
USA	-13 <sup>c</sup>	-	15 <sup>c</sup>	-7 <sup>c</sup>
Canada	-27 <sup>d</sup>	-	7 <sup>d</sup>	-17 <sup>d</sup>
Australia	-16 <sup>e</sup>	-	-8 <sup>e</sup>	-5 <sup>e</sup>
Japan	-12 <sup>f</sup>	-	-18 <sup>f</sup>	-7 <sup>f</sup>
China	-39 <sup>g</sup>	-	-	-20 <sup>g</sup>

Source: Author's Calculation based on (ITC trade Map, 2020)

Note: <sup>a-b</sup> Jan–Jul, <sup>c-f</sup> Jan–Sep, <sup>g</sup> Mar–Jul, <sup>h</sup> Jan –August

### 3. Six Key Findings

- ❑ It is **hypothesised** that demand shock during crisis makes a more adverse impact on quantity compared to that on the price of products
  - In other words, 'price effect' is relatively lower than 'quantity effect' during the crisis period
  - Analysis of the unit value of apparels imported from Bangladesh and Sri Lanka during January–July 2020, reflected mixed results
- ❑ The COVID-19 made a moderate effect on prices of Bangladeshi apparels imported by major countries (**see the next slide**)
  - In case of **knit products (HS code 61) the changes** were between (-) 4% in Italy and 27.2% in Switzerland
  - The changes in unit value in woven products (HS code 62) were in between (-) 5.6% in the UK and 4.6% in France
- ❑ **Sri Lanka** has experienced a rather **significant drop in unit value** during the COVID period
  - In case of knit products, unit value has declined by **34%**, and in woven products, it has declined **by 33%**
  - The higher negative impact on the price for Sri Lanka's apparels is perhaps related to their concentration of **medium to high-value products** with elastic demand

### 3. Six Key Findings

#### Unit Value of Apparel Products (HS Code 61 & 62) Imported from Bangladesh

Export Destination	(HS Code 61)			(HS Code 62)		
	Average Unit Price (2019)	Average Unit Price (2020)	% Change	Average Unit Price (2019)	Average Unit Price (2020)	% Change
France	15.78	16.67	5.6	19.22	20.11	4.6
USA	14.22	13.78	-3.1	16.67	16.33	-2.0
Japan	16.11	15.56	-3.4	21.44	22.11	3.1
Australia	2.59	2.65	2.4	5.95	5.81	-2.2
Switzerland	29.00	36.89	27.2	-	-	-
Italy	14.4	13.8	-4.0	-	-	-
Canada	3.1	3.2	3.0	-	-	-
UK	14.67	14.33	-2.3	17.89	16.89	-5.6

Source: Authors' Calculation based on (ITC Trade Map, 2020)

Note: i) Comparing available same months data for the period (Jan-July).

ii) Only major sourcing countries for respectively raw materials have been compared

### 3. Six Key Findings

- ❑ **Impact on raw materials suppliers ('bullwhip effect'):** A bullwhip effect is observed through a higher level of reduced demand for raw materials and intermediate products for manufacturing apparels vis-à-vis that of export of apparels by Bangladesh
- ❑ In view of COVID-19 crisis, the shortfall in demand for apparels has directly squeezed the demand for raw materials which is reflected in the import of those raw materials
  - In fact, the import of raw materials fell at a much higher rate compared to that in the import of finished products (see the table in the next slide)
  - The import of **top three raw materials** (human-made staple fibres, cotton and human-made filaments) has declined between **44–52%** during COVID-19 period
- ❑ The **price effect** is evident in the raw materials market
  - The low demand for raw materials forced its suppliers to reduce their unit values
  - In the case of Bangladesh, the unit value of the **top three raw materials has mostly declined**
- ❑ This reduction in the price of raw materials is partly reflected in the **reduced price of apparels** exported by intermediate countries such as Bangladesh and Sri Lanka

### 3. Six Key Findings

#### Bangladesh's import of top three raw materials and intermediate products

Import from	Human-made staple fibres (HS Code 55)			Cotton (HS Code 52)			Human-made filaments... (HS Code 54)		
	2019 (US\$ '000)	2020 (US\$ '000)	% Change	2019 (US\$ '000)	2020 (US\$ '000)	% Change	Jan.-Jul., 2019 (US\$ '000)	Jan.-Jul., 2020 (US\$ '000)	% Change
World	1,619,823	778,847	-52	2,788,860	1,338,398	-52	658,998	366,793	-44
China	517,517	329,189	-36	923,654	650,890	-30	370,509	256,400	-31
Thailand	55,280	32,790	-41	29,002	26,141	-10	33,194	28,966	-13
Korea	18,537	13,724	-26	6,796	4,815	-29	38,924	28,632	-26
Turkey	12,555	9,101	-28	44,221	42,607	-4	1,086	705	-35
USA	-	-	-	319,284	259,509	-19	-	-	-
Brazil	-	-	-	168,450	215,337	28	-	-	-
Japan	-	-	-	19,089	15,799	-17	20,868	10,486	-50

Source: Authors' Calculation based on (ITC Trade Map, 2020)

Note: i) Comparing available same months data for the period (Jan-July).

ii) Only major sourcing countries for respectively raw materials have been compared

### 3. Six Key Findings

#### *2. Lack of preparation against vulnerability and limited resilience capacity intensified suppliers' challenges in the immediate and short term*

- ❑ Bangladeshi **suppliers did not experience** such a robust and long-lasting crisis earlier
  - Immediately after the outbreak of the pandemic, Bangladeshi suppliers suffered from a shortage of raw materials
  - The closure of factories made it challenging for the suppliers to make payment to their workers
  - Their suffering exacerbated further due to the decline in export orders, delay in payment and so on
- ❑ The orders which had been **cancelled were reinstated** at different levels because of repeated interaction with brands/buyers
  - About **90% of the total cancelled** orders of BGMEA members, and **55% of total** cancelled orders of BKMEA members have been reinstated
  - **Sweden and the Netherlands** governments assured that their buyers won't cancel orders
- ❑ After the reopening in **mid-April 2020**, the **garments factories** continued their operation only in exchange for a massively discounted price offered by buyers
  - Suppliers have **no other alternatives** but to accept lower price for those already placed orders
  - The number of **new orders** provided is in decline

### 3. Six Key Findings

- ❑ The **capacity utilisation** of firms which declined by 85% has been improved over time
  - The current level of capacity utilisation has increased up to 70% (MiB, 2020)
- ❑ Many **buyers have gone bankrupt** and/or their payments have been stuck or getting late
  - **Export Permission (EXP) of these suppliers** needed to be extended, which otherwise gets overdue and limits many facilities
  - Bangladesh bank has introduced a guarantee for credit risks of open LCs (55%)
  - There is **no such case of application of 'force majeure'** in case of Bangladeshi suppliers for their import from intermediaries of other countries
  - Bangladeshi local banks made the payment and created a similar amount of credit against local suppliers
- ❑ Overall, Bangladeshi suppliers were not prepared for handling a crisis like COVID-19

### 3. Six Key Findings

#### *3. Fiscal constraints of the government squeezed domestic capacity to support the apparels sector during the crisis; initiatives of sourcing countries were inadequate*

- ❑ ***Initiatives undertaken by the Bangladesh government:*** Bangladesh government quickly responded by undertaking immediate support measures to provide relief to the factories from cash constraints
  - The package was worth **Tk.5,000 crore** (USD 588 million) subsidised credit to RMG enterprises and could only be disbursed in the form of workers' wages.
  - Subsequently, at the behest of the RMG owners, the package was extended once, and the total size of the fund reached **USD 1.2 billion**
  - The credit support has been directly paid to **workers' bank/mobile financial service accounts**
  - Government and Bangladesh Bank came out with **several fiscal and monetary policy measures**
- ❑ ***Initiatives undertaken by the Sri Lankan government:*** The Sri Lankan government has responded to the current crisis largely through monetary policy mechanisms
  - Due to a **high debt burden and narrow fiscal space**
- ❑ ***Initiatives undertaken by the governments of the sourcing countries:*** There is a substantial cut in the development budget of sourcing countries
  - This has squeezed their capacity to support the apparel supplying countries
- ❑ Overall, **fiscal constraints of supplying countries squeezed** their capacity to directly support the employers and workers
  - The contribution of sourcing countries to support the sector was at a modest level



### 3. Six Key Findings

#### 4. The dismal state in the world of work could not be lessened through limited effort of the government and suppliers

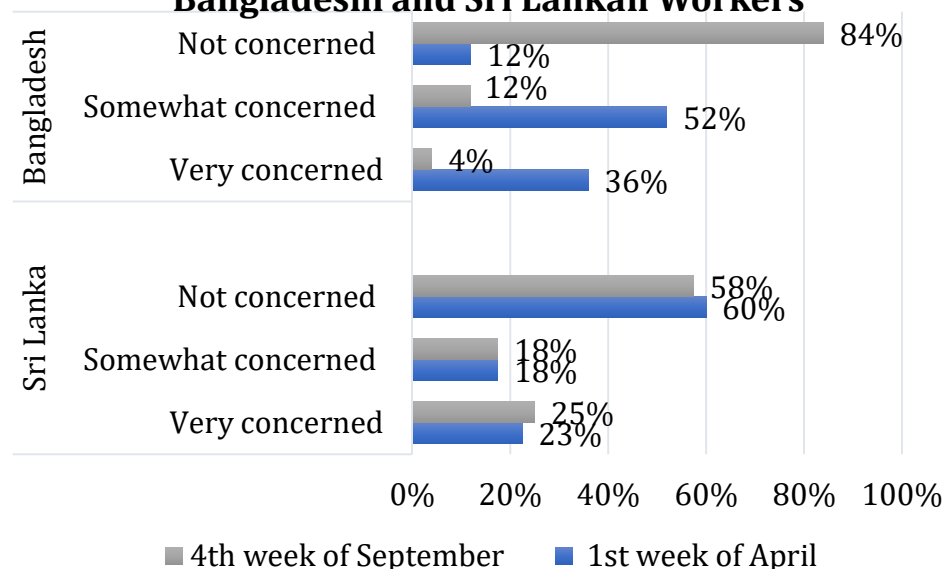
- ❑ The world of work was adversely affected during the immediate and short-term period
- ❑ Workers were partially employed, a large part was furloughed and partly laid off
- ❑ The suffering intensified more as workers hardly received any compensation or support from their employers during retrenchment according to interviewed trade union representatives
- ❑ Monthly average data shows a significant number of workers were still being fired during the last four months (June–September 2020)

Month-wise fired/retrrenched workers

Months in 2020	Average no. of workers fired	Average no. of workers laid off	Average no. of workers with due wage payment
June	21023	12083	399251
July	24534	15782	272008
August	23582	19831	93998
September	23660	22978	108629

Source: Author's calculation based on DIFE (2020)

Perception of job-related uncertainty among Bangladeshi and Sri Lankan Workers



Source: Based on workers perception survey, 2020

### 3. Six Key Findings

- ❑ In Bangladesh, the **suppliers were in agreement** with the government and trade unions that workers were not laid off and not retrenched
  - Instead, workers will be paid but at a reduced wage rate during April–June 2020 (60–65% of their gross wages)
  - According to the interviewed trade unions' representatives and workers, a section of the suppliers are **implementing a silent way of firing** and laying off the workers
- ❑ The fall in the earning of the workers resulted in a few negative consequences
  - Between December 2019 and September 2020, **workers' average earnings have declined by 8%** (The difference was higher in the earlier months of COVID attack (April, May, and June 2020))
  - According to conducted survey, **58% are now in more financial burden**, **82%** experienced a deterioration in their food intake than before, **17%** of the workers experienced an increase in work-related harassment and only **12%** of them received some support to address their households' needs
- ❑ There is **sharp contrast observed** among workers of Bangladesh and Sri Lanka regarding uncertainty in jobs (see the figure in the earlier slide)
  - Bangladeshi workers are now relatively less concerned regarding their job security compared to that in April 2020 (**declined from 36% to 4%**)
  - Sri Lankan workers are still concerned about their job due to the covid crisis (**from 23% to 25%**)

### 3. Six Key Findings

- ❑ The world of work experienced other challenges– about 17% of the workers experienced an increase in **work-related harassment** in recent months
  - Due to the immense **pressure of the buyers to complete the reinstated** orders in a short time
  - Consequently, the workers felt an **increase in the work burden** as in some cases as they are overloading with works within the same working hour
- ❑ Given the uncertainty owing to the second wave of COVID 19
  - The suppliers are now preferring recruiting the workers in **contract basis** instead of recruiting them permanently
  - A section of the workers is being **paid daily** by the suppliers to avoid the due wage-related issues in recent future
- ❑ Given that, the **security of their job still uncertain** and the scope of operating trade union activities has also been narrowed down
  - The workers are left with no option but cope with the lower-earning

### 3. Six Key Findings

#### *5. Medium term recovery challenges will be extended with the COVID-19 pandemic during the second wave*

- ❑ Daily new confirmed COVID cases have been in **the rising trend both in Europe, USA and Canada**
  - Different **restrictions imposed** on the movement and economic activities have started to make an adverse impact on retail businesses in these countries
- ❑ The outlook of the **world economy** for 2021 is **not very promising** (see the table)
  - Despite the possibility of revival from the recession in 2020, the world economy may experience positive growth in 2021– from (-) 4.4% in 2020 to 5.2% in 2021
  - That shift of the world economy in a positive direction **would not ensure adequate employment** in 2021. Unemployment levels would marginally decline in 2021
  - Such high unemployment would **affect consumer behaviour** and not improve the dampening effect of the high rise in demand in the post-COVID period
- ❑ The **consumer confidence index** in major markets has been gradually improving (see figure in the next slide)
  - Since June 2020, it has started to improve, though the level improvement is much slower compared to what it was in the last year (2019). It **has stalled since second wave** of Covid pandemic in the EU, USA and other developed countries
  - A **long way to go towards** reaching the confidence level of the pre-COVID period

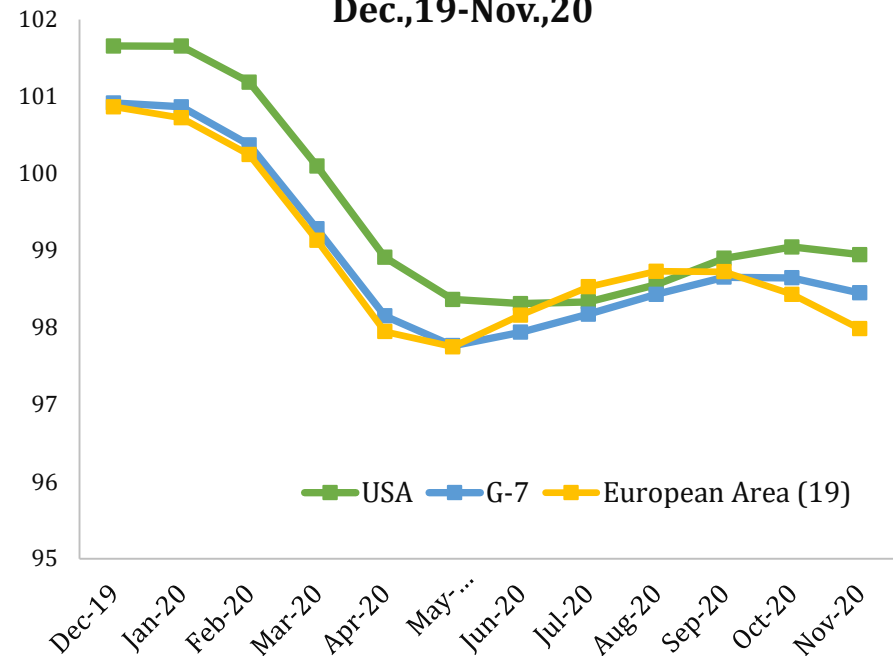
# 3. Six Key Findings

## Projections on GDP growth & unemployment rates in 2021

Countries	Estimated /projected GDP growth (2020)	Project ed GDP growth (2021)	Rate of unemploy ment (%) in 2020	Projected rate of unemploye nt (%) in 2021
World	-4.4	5.2		
EU (27)	-7.6	5	8.9*	9.1*
USA	-4.3	3.1	8.9	7.1
Canada	-7.1	5.2	9.7	7.9
Australia	-4.4	5.2	6.9	7.7
Japan	-5.3	2.3	3.3	2.8
India	-10.3	8.8	no data	no data

Source: (IMF, 2020); Note: \*for European Area

## Consumer confidence index (CCI), Dec.,19-Nov.,20



Source: OECD (2020)

❑ The medium-term challenges are most importantly conditioned with the extent of attack of Coronavirus

- The latest projection of economic recovery for 2021 carried out by the IMF **does not indicate a quick rise in consumer spending** due to the persistence of the high rate of unemployment in the post-COVID period
- Thus, a **demand-led growth** of apparel value chain would be **largely uncertain** in the medium term

### 3. Six Key Findings

- ❑ ***Challenges perceived by brands/retailers/buyers:*** Since the buyers are placing new orders at a limited scale due to the second wave, deep uncertainty regarding suppliers' business remain as a big challenge
  - The **uncertainty has been further increased** by the low sell for Christmas
  - Despite the uncertainty in the recovery process, the **brands are confident about the Bangladesh** market as a major source of apparels in the coming months
- ❑ According to brands working in Bangladesh, **it is too early to project** about future recovery given that the second wave has been spreading further
- ❑ Fashion brands, working **in Sri Lanka**, will face greater challenges since their stock tends to be more seasonal
  - ❑ It will see a return in demand only during the spring and summer of 2021
- ❑ Brands and retailers are also likely to **initiate further wage cuts and layoffs** by **closing down retail stores** in particular if consumer demand continues to remain low

### 3. Six Key Findings

#### ❑ *Challenges perceived by suppliers:*

The growth in export of apparels of Bangladesh which significantly dropped initially after the outbreak of COVID-19 period started to recover in subsequent months

❑ The **fragile recovery of the export came to a halt** as it experienced -0.7% export growth in December 2020

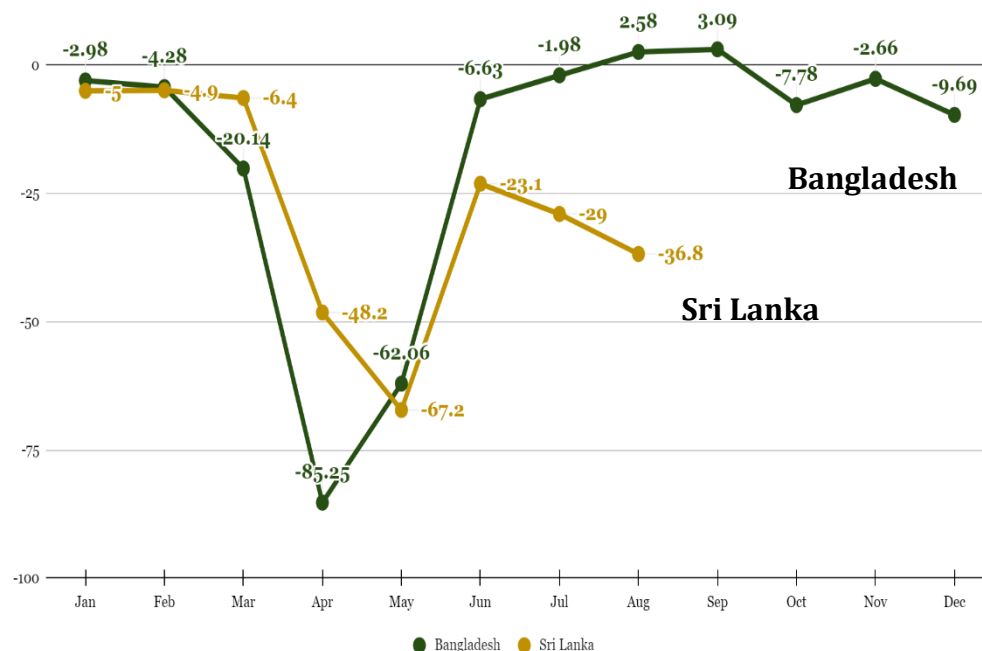
❑ The **negative trend** in the latest month indicates the **advance impact of the anticipating second wave** of COVID 19 in the near future

❑ The **recovery** of both Bangladesh and Sri Lanka's apparels sector will largely depend on the **containment of the virus and opening up of economic activities** in major sourcing countries

❑ Bangladeshi factories may need to **reduce the size** of the production capacity given the changing consumer behaviour

➤ There is a need to **go vertical, more automation and product diversification**

Month on month changes in export of RMG products in Bangladesh and Sri Lanka



Source: EPB (2020) and author's calculation based on ITC Trade Map (2020)

### 3. Six Key Findings

- ❑ The **BGMEA sought support** from multilateral agencies such as IFC, World Bank (WB) and IDB on three points:
  - (a) small and medium support, (b) unemployment fund scheme, and (c) reconsolidating businesses
- ❑ Bangladeshi suppliers have **limited exposure to online sales**
  - As of yet, the volume of online selling is very low, although the price of products for online sales is better compared to that in traditional store sales
  - Due to the high uncertainty regarding the future, the Bangladeshi suppliers are **not interested in making a new investment**, particularly in online selling which is not very familiar to them
- ❑ In Sri Lanka, those interviewed mostly felt that orders are unlikely to return to pre-COVID-19 levels until at least the winter 2021 season
  - Beyond direct COVID-19 related impacts, the **imposition of import restrictions** in Sri Lanka in order to alleviate currency pressures has placed a considerable burden on small-scale suppliers
  - As such, the RMG sector could potentially see **more layoffs** in the medium-term as suppliers try to contend with a lack of demand for their products
- ❑ Overall, **inexperience of the stakeholders** to handle medium term challenges with the persistence of a high rate of unemployment, would make it difficult to ensure smooth recovery



### 3. Six Key Findings

#### *6. Limited initiatives undertaken across the value chain would delay the recovery process*

- ❑ **Brands led initiatives:** Brands working in Bangladesh have made a number of initiatives targeting **responsible business practices (RBPs)**
- ❑ A number of brands/retailers have formed an alliance– called Action, Collaboration and Transformation (**ACT**) made a commitment to ensure a **fair wage for RMG** workers in the supplying countries
- ❑ **22 brands** made the commitment that they would **not negotiate the cost of labour** so that the labour can get the right wage
  - These 22 brands are also committed to rolling out RBPs till December 2021
  - The commitment **still to be implemented**, and without the participation of the significant portion of the buyers under the commitment, the targeted outcome could not be achieved
- ❑ Another initiative taken by brands is being an **informal ‘guarantor’** on behalf of suppliers to assure banks about payment of bank loan on time through providing predictability about the future course of orders
- ❑ In Sri Lanka, large brand/buyers/retailers have **shifted more responsibility** with the relevant country team and reduced the dependence on a large central team
  - Brands have not **made any specific commitments** in order to support their supply chain since they face an uncertain future

### 3. Six Key Findings

- ❑ **Supplier led initiatives:** Some Bangladeshi suppliers are now in search of new markets so that they could sustain during a similar future crisis
- ❑ After the first wave of the COVID-19, some suppliers of Bangladesh are considering making their product basket more diversified
- ❑ The restriction on the movement owing to the pandemic has raised a new prospect regarding online-based businesses for the Bangladeshi suppliers
  - Most of the suppliers are not in a position to shift their business to online-based, which require new investment
- ❑ Due to the COVID, most of the suppliers in Bangladesh are trying to concentrate on backing up their resources so that they can survive during the second wave
  - Thus, the uncertainty regarding the second wave is refraining a considerable number of suppliers from shifting their business to the online-based platform
- ❑ In response to the current situation, some suppliers in Sri Lanka have also decided to focus on developing their brands for the local market in the medium term
  - Similar to the larger brands, suppliers with the required capacity, are also taking measures to digitalise their supply chains through the use of technologies such as 3D modelling, remote access coordination and inventory updates, etc.
  - Several other companies are now looking at potentially opening factories in other countries such as Vietnam

### 3. Six Key Findings

- ❑ ***Sourcing country-led initiatives:*** Sourcing country governments likely to put more focus on **responsible business practices (RBPs)** of their companies in the coming days
  - Despite the pressure on the budget, development of the private sector of the supplying countries will be a major focus of their support
  - Under the RBP, these sourcing countries will put focus on **labour rights, environmental development & industrial safety** issues in the supplying countries
  - A big focus will be given to ensure that the suppliers **do not ignore small buyers** as small buyers tend to be more resilient than large ones
  - Given that online selling has been growing at a faster rate compared to before, promotion of this will get an important focus in the upcoming future
  - The EU has extended **a grant of €113 million** which will be distributed among 1797 workers with a monthly payment of Tk.3000 for three months
  - In Bangladesh, ILO has extended support to the DIFE in developing the safety protocol and guideline to be maintained at the factory level
  - GIZ has been working with the Bangladesh government and ILO on Employment **Injury Insurance (EII)** as part of setting up scheme for industrial workers
- ❑ ***Supplying country-led initiatives:*** In the medium term, the government of Bangladesh has so far taken a few initiatives. **Limited fiscal space is** a major constraining factor for the government. Due to a high debt burden and narrow fiscal space, no specific fiscal stimulus was passed in Sri Lanka

## **4. Conclusion**

## 4. Conclusion

### *Identifying a framework of cooperation between stakeholders in the global apparel value chain to address the medium-term recovery challenges*

- ❑ It is apprehended that the recovery period would be **beyond a year**
  - The strategies, approaches and tools to be applied to address the recovery would be **innovative, effective and time-bound** in order to address the challenges of the recovery period
  - Existing initiatives have limitations to ensure medium to sustainable recovery
- ❑ The study explores an alternate approach in combination of value chain level and national level initiatives
  - The value chain level initiatives indicate **whether a better distribution of orders between supplying countries and their products would better** contribute to the recovery process of supplying firms in different countries
- ❑ The study analyses changes in the distribution of the market share of knit (HS code 61) and woven (HS code 62) products between the pre-and post-COVID period of major supplying countries

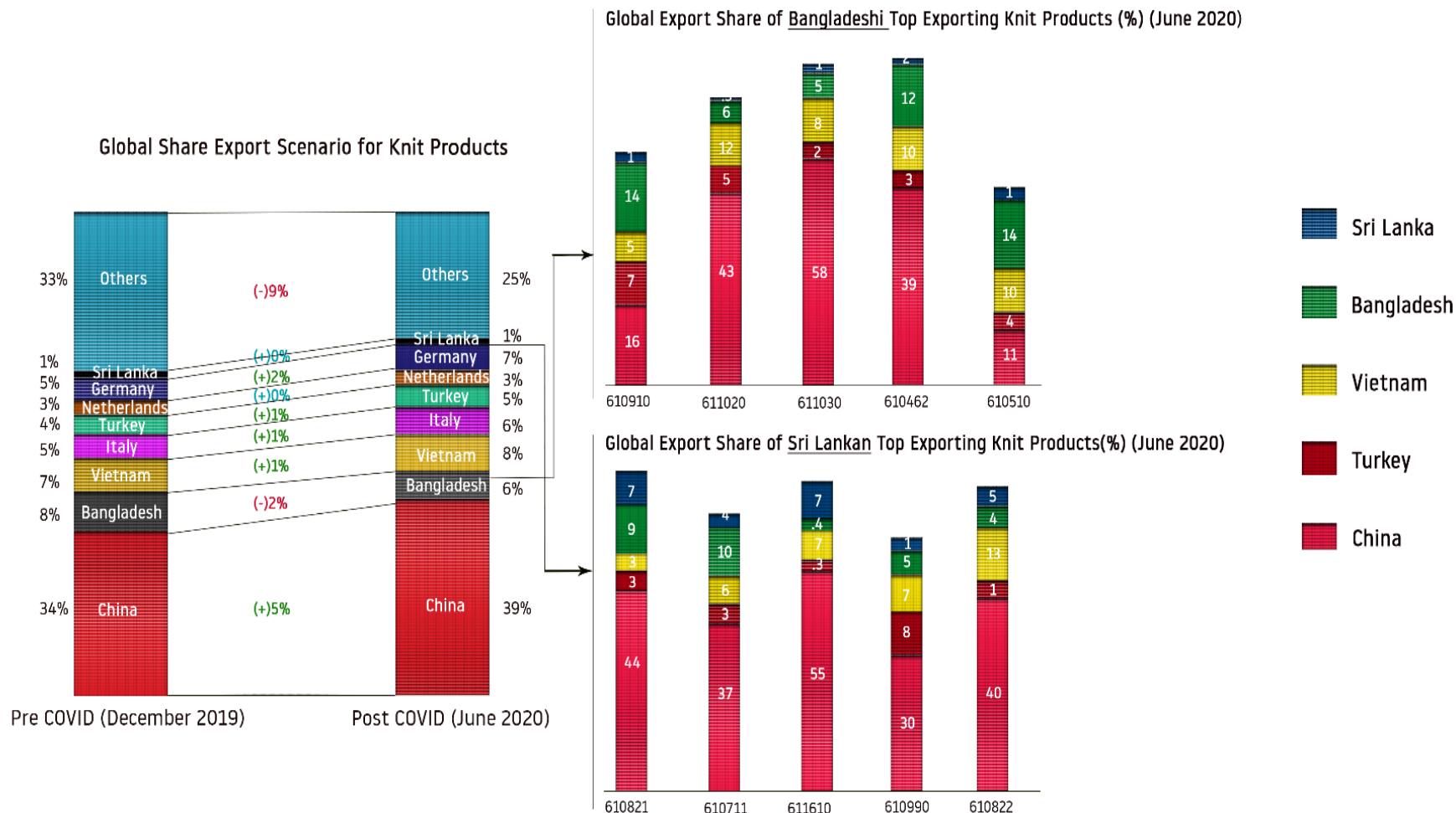
## 4. Conclusion

- ❑ Among the **top twenty apparel supplying countries**, the market shares experienced significant changes between pre-COVID (December 2019) and post-COVID (June 2020) period (see the figures in next slides)
  - The **highest rise in market share** was observed in China, followed by Vietnam, Germany, Italy, Turkey, Netherlands, Belgium and France
  - The **suppliers of developed and developing countries** which received a **higher share of export orders** during this period have benefitted through additional orders
- ❑ Brands and buyers have been **over-focusing on a few large supplying countries** which adversely affected poor supplying countries to get their normal market share
  - For example, if the market share of export orders is maintained by brands/buyers at the pre-COVID period in case of the largest supplier, China, an additional could be distributed to other countries **USD 2 billion worth of orders**
- ❑ A **product-wise analysis of Bangladesh** and Sri Lanka indicates such distribution was feasible even within the product basket of these supplying countries
  - Both the countries would be benefitted with higher amount of orders

# 4. Conclusion

## Market Share of Knit Products of Major Supplying Countries during Pre- and Post-COVID Period

(a)

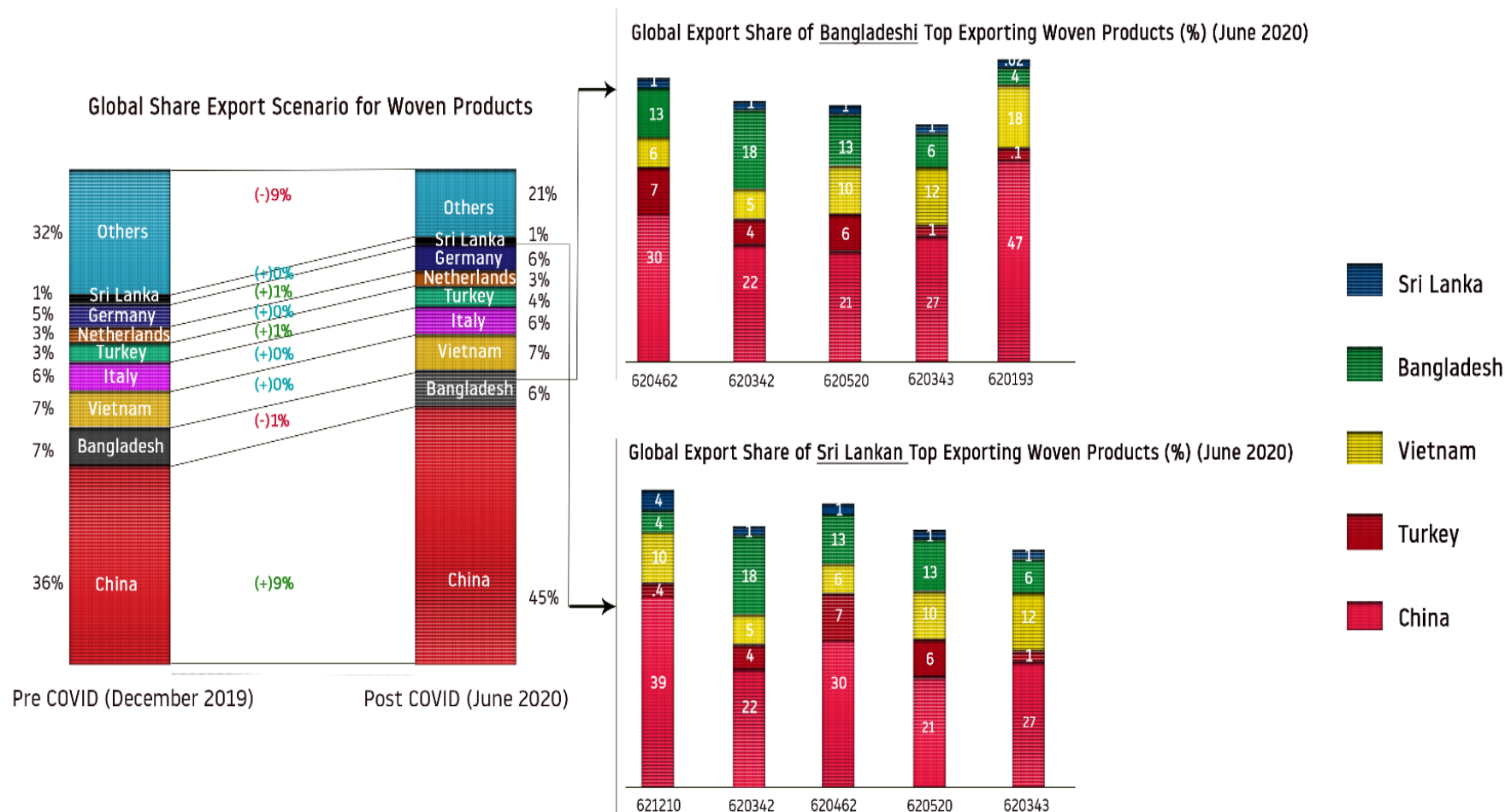


Source: Author's calculation and illustration based on (ITC, 2020)

# 4. Conclusion

## Market Share of Woven Products of Major Supplying Countries during Pre- and Post-COVID Period

(b)



Source: Author's calculation and illustration based on (ITC, 2020)

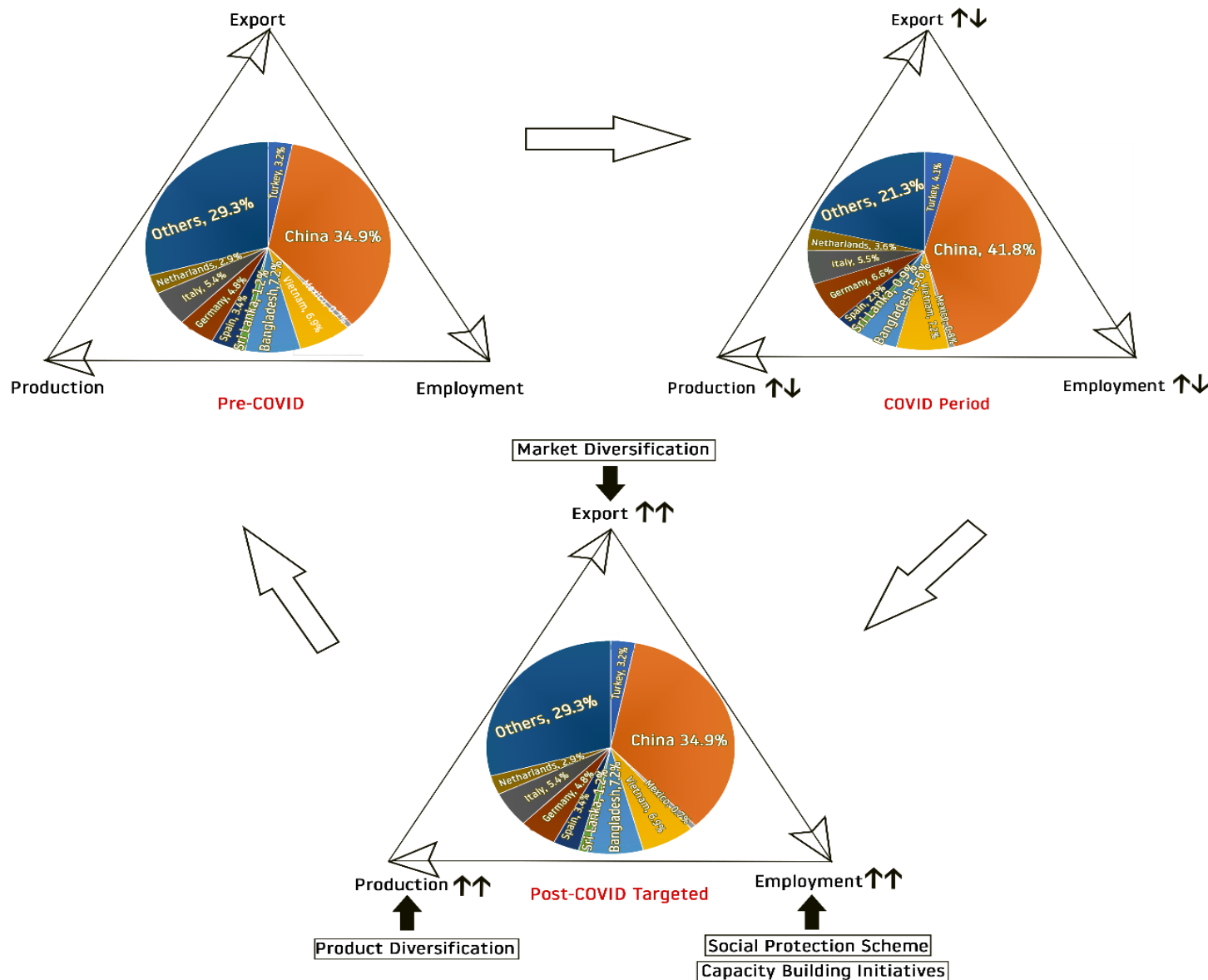


## 4. Conclusion

- ❑ The point is that the developed and developing countries **which received additional orders, are well-positioned** to support their industries and workers
  - Under their social support and other schemes
- ❑ In contrast, there are countries (Bangladesh and Sri Lanka) in the supply chain which would be benefitted more **by getting this additional export orders**
  - Particularly when these **countries face fiscal constraints**
  - **Weak social support schemes** to support their industries and worker
- ❑ The study proposes that market players of the **global apparel value chain should consider a distributive approach**
  - In terms of ensuring the **minimum required amount of orders and income** of the suppliers where supplying country governments of having the limited financial capacity to handle the challenges of enterprises and workers through the social support scheme and support through public borrowing
- ❑ The **principle of distribution of orders would be keeping the benchmark level of orders of supplying countries** having strong social support programmes at the pre-crisis level,
  - Total monthly export orders will be redistributed between countries which need more orders
- ❑ **Major brands and buyers through their appliances and forums** would take decision with regard to the distribution of orders to different supplying countries

# 4. Conclusion

## Proposed framework of cooperation in the global apparel value chain



## 4. Conclusion

- ❑ This redistribution would be further extended between suppliers within a targeted country where more vulnerable factories would get a higher share of orders during the crisis period
- ❑ Such a redistribution would be an effective instrument to keep factories in operation as well as to ensure workers well-being for a longer period
- ❑ The suggested distributive approach could be considered by major buyers from major sourcing countries/regions like USA, European Union Canada
- ❑ The government of the major sourcing countries would undertake necessary official position and would encourage their local brands and buyers to follow distributive approach in case of import of apparels
- ❑ By assisting the apparel industry's recovery, the measure could play a significant role in salvaging suppliers and millions workers involved with the global apparel value chain
- ❑ *A global campaign could be launched with the cooperation and support of the governments of the sourcing countries, major global brands/retailers, major supplying countries, major trade bodies and international trade unions*
  - *For ensuring fair distribution of orders by the brands and retailers for countries with limited fiscal capacities and potentials of high social impact*

**Thank You**