



## THE SITUATION IN NOVEMBER

Most nations beat the ‘Covid Crisis’ only to now be hit with what looks like a longer-than-expected global economic slowdown.

The **logistics issues** that plagued the industry for over two years are receding, but they left behind a glut of **excess inventory** as brands and retailers tried to get ahead of what they thought would be stock shortages.

Even in the U.S. where consumer spending has remained somewhat more buoyant than in other markets, **shoppers are growing increasingly concerned** as to what their financial situation might look like in the coming months. Thus a growing number say that they are taking a more conservative approach to holiday shopping this year.

Meanwhile, **costs are continuing to increase for manufacturers**, as hence brands. Raw materials prices are leveling off but interest rates are set to continue to rise, and most analysts expect energy prices to continue to increase.

**Liquidity** is becoming an issue at a growing number of factories and likely weaker brands will struggle to service their debt.

That means that the entire supply chain will move towards **caution and consolidation**.

Already we see factories breaking from tradition and turning away orders where the price is too low and/or the risk of getting paid is too high.

This could put more pressure on fast fashion, where the business model is based on big volumes at rock bottom prices.

As consumers look to stretch their budgets further, an increasing number are not only buying less, but are **looking for apparel that is more durable**.

This holiday season will **pull back the curtain on consumer sentiment**, which until now has been measured more by survey responses since the Christmas season is only just getting underway.

“The unstable global situation and the likeliness of an economic downturn mainly in Western countries have raised serious concern over the export situation for the second half of the year.”

- GMAC Secretary-General Ken Loo

### 5 KEY SIGNALS WE'RE WATCHING

1. **A STRONG DOLLAR** and its impact on sourcing - especially for EU and Japanese buyers whose currencies remain weak.
2. **ORDER VOLUMES** as retailers try to clear excess inventory. It's not a matter of will order sizes be reduced - its a matter of by how much.
3. **HOLIDAY SALES PERFORMANCE** as an early indicator of potential bankruptcies in early 2023. Even if revenue is meets expectations, profit margins are likely to disappoint.
4. **RISING INTEREST RATES** adding significant cost pressure to both suppliers and brands.
5. **ENERGY PRICES** and their impact on both supply chains and consumer spending. There's also concern over potential shortages - especially for industry - as governments will need to prioritize households.

## BANGLADESH

**RAW MATERIALS** Bangladesh has reached out to India for greater cooperation since most raw materials like cotton and petrochemicals for apparel production are imported from India.

- Ready made garment exports to India are expected to exceed \$1 billion this financial year from \$764 million last year.

## U.S. IMPORTS OF COTTON FIBER APPAREL: JANUARY-SEPTEMBER 2022

**GREEN** indicates strong growth.  
**RED** highlights a significant decline.

### Imports of cotton apparel soared in the first nine months of 2022

- A rising tide lifts all shifts, as the saying goes. This was certainly true for cotton apparel imports across all categories and exporting nations. The race to build up inventory when brands still feared having too little inventory is evident in the surging imports.
- Back to work has meant a return to men's woven shirts, where collective imports from all markets rose 64% year-on-year in the January - September period.
- Bangladesh benefited from its strength in knits with mens cotton knit shirts increasing 71% year-on-year in the nine-month period.

In US\$ mil		World	% Change	Bangladesh	% Change	Cambodia	% Change	China	% Change
338	M/B Cotton knit shirts	7,582	39	733	71	321	48	685	5
339	W/G Cotton knit tops	5,508	29	330	33	355	49	176	24
340	M/B Cotton non-knit shirts	1,721	64	452	66	26	119	151	85
341	W/G Cotton non-knit tops	909	51	80	68	9	140	127	25
347	M/B Cotton trousers	5,806	36	1,653	49	284	88	445	9
348	W/G Cotton trousers	5,658	26	1,034	43	423	44	841	2
		India	% Change	Indonesia	% Change	Pakistan	% Change	Vietnam	% Change
338	M/B Cotton knit shirts	673	49	349	73	495	62	970	33
339	W/G Cotton knit tops	360	38	450	38	135	43	1,126	13
340	M/B Cotton non-knit shirts	231	83	106	66	5	31	303	56
341	W/G Cotton non-knit tops	349	64	119	66	5	-14	92	43
347	M/B Cotton trousers	198	55	229	52	431	43	724	37
348	W/G Cotton trousers	182	45	395	37	443	39	1,151	16

Source: OTEXA. Compiled by IF Staff

*“Bangladesh and India do not compete with each other in the international market for garment exports to the global market, rather we complement each other and want to enhance the cooperation for a win-win situation.” - Garment Manufacturers and Exporters Association (BGMEA) President Faruque Hassan.*

**COMPETITIVENESS** Bangladesh is increasingly conscious of the need to diversify both in terms of products and export markets. From uncertainty in its traditional export markets to graduating from LDC in 2026, the industry is being pushed to be prepared.

*“We are also diversifying our export basket into emerging markets... we are working to diversify from natural yarns to synthetic yarns and its product basket from basic 5 RMG products which constitutes 82 percent of all our exports to more fashion-oriented products.” - BGMEA*

**EXPORTS** During July - October garment exports grew only 10.55 percent year-on-year to \$13.95 billion, compared with 20.78 percent growth a year ago - and down from the 99 percent growth in the July and August period.

- Economic headwinds in Europe, which accounts for more than 60 percent of Bangladesh's exports, are weighing heavily on factories.
- The real export earnings from the apparel shipment showed a positive growth as orders are shifting to Bangladesh from other countries, especially from China, according to factories.
- International buyers have placed 30 percent fewer orders for the next season that runs from March to May 2023.
- Of the total earnings from the apparel segment, \$7.72 billion came from knitwear, which was up 7.14

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percent. The woven sector earned \$6.22 billion, up 15.08 percent.

Bangladesh manufacturers estimate that orders from Europe could fall as much as 20 percent in the coming season.

**ENERGY** Rising energy costs are taking a toll on local mills where production has recently declined as much as 50 percent as spinners and weavers are already facing high cotton prices and freight costs.

- Local spinners supply 90 percent of the raw materials for the knitwear sector and 40 percent for the woven sector.

## CAMBODIA

**EXPORTS** Cambodia earned \$10.25 billion from exports of garment products – clothes, footwear, and travel goods – during the January-September period of this year, a year-on-year increase of 24 percent, according to a report from the General Department of Customs and Excise.

- Garment exports are the largest foreign exchange earner for Cambodia, accounting for almost 60 percent of the country's total export value of \$17.25 billion, per GDCE data.

*“The government’s policy on Covid-19 vaccination has made Cambodia a production chain hub during the Covid-19.” - Heng Sour, Secretary of State*

- Bangladesh manufacturers estimate that orders from Europe could fall as much as 20 percent in the coming season.

- Cambodia's garment, footwear and travel goods industry is the nation's largest foreign exchange earner.
- The sector consists of nearly 1,300 factories and branches, employing approximately 830,000 workers, mostly female.

**LOGISTICS** FedEx Express, a subsidiary of FedEx Corp., is establishing a direct commercial presence in Cambodia, to meet the country's growing international shipping demands.

- With a direct presence in the country, businesses in Cambodia gain greater access to a wider portfolio of FedEx shipping solutions, while the local service provider continues to provide the local infrastructure for ground operations.
- Local customers will have access to a range of FedEx digital tools through the FedEx website, including tracking shipment status in real time, creating shipping air waybills, scheduling courier pickups, and managing billing.

**Siem Reap-Angkor International Airport** is still on track to open in October 2023, with work on Phase I reaching 44 percent as of end-September, according to a senior civil aviation official.

- The airport will reportedly be able to receive about seven million passengers per year initially, 10 million by 2030, and 20 million by 2050.
- Annual cargo capacity is also expected to rise from 10,000 tonnes initially to 60,000 tonnes by 2050.

## U.S. IMPORTS OF MAN-MADE FIBER APPAREL: JANUARY- SEPTEMBER 2022

**GREEN** indicates strong growth.  
**RED** highlights a significant decline.

### Man-made fiber apparel imports continue to show strong growth

- Not surprisingly, China and Vietnam remain the two biggest sources of man-made fiber apparel.
- Vietnam is benefitting from increased investment in domestic mills to strengthen its supply chain.
- Indonesia is stepping into the sourcing spotlight for man-made fiber apparel, in part due to its domestic mills that can supply synthetic yarns and fabrics.

In US\$ mil		World	% Change	Bangladesh	% Change	Cambodia	% Change	China	% Change
638	M/B MMF knit shirts	4,526	46	99	93	109	67	392	65
639	W/G MMF knit tops	3,549	23	96	47	171	32	823	17
640	M/B MMF non-knit shirts	678	44	113	111	8	33	91	109
641	W/G MMF non-knit tops	1,064	33	54	66	20	66	296	35
647	M/B MMF trousers	3,249	34	450	90	177	55	380	37
648	W/G MMF trousers	3,442	20	133	47	177	26	594	15
		India	% Change	Indonesia	% Change	Thailand	% Change	Vietnam	% Change
638	M/B MMF knit shirts	22	87	148	134	113	79	674	72
639	W/G MMF knit tops	32	14	207	20	36	55	759	33
640	M/B MMF non-knit shirts	29	106	42	31	6	142	114	54
641	W/G MMF non-knit tops	134	17	147	43	1	61	259	31
647	M/B MMF trousers	30	26	199	48	77	15	770	29
648	W/G MMF trousers	46	39	251	60	29	8	1,177	17

Source: OTEXA. Compiled by IF Staff

## CHINA

**COMPETITIVENESS** The development of a China-Laos rail route will make it easier for China to capitalize on lower costs in Laos, while leveraging its own state-of-the-art manufacturing know-how. In the event of anti-China sentiment in export markets, products could also have country-of-origin as ‘made in Laos’.

**LOGISTICS** The opening in recent months of the rail link connecting western China to Myanmar offers Beijing the potential to establish a vital route to the Indian Ocean.

**CURRENCIES** The yuan has become the fifth most

traded currency, surpassing Australian, Canadian and Swiss currencies as China seeks to reduce its dependence on dollar payments.

- The yuan fell to around 7.28 to the US dollar in late October, down from a rate of 6.3 to the US dollar in April (just prior to the Shanghai lockdowns).

Pre-covid the yuan was trading at around 6.8 to the US dollar.

**PRODUCTIVITY** China’s garment industry registered steady expansion in terms of revenue, profits and exports in the first eight months of this year, data from the Ministry of Industry and Information Technology shows.

- The combined operating revenue of the country’s 13,117 major apparel enterprises reached \$133.86 billion in the period, up 3.7 percent year on year,

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- ‘Going green’ requires significant funding, which is possible only for firms with a strong financial position. Unfortunately, most textile firms are small- and medium-sized.

according to the ministry.

- These companies raked in total profits of \$6.07 billion in the January-August period, up 3.4 percent over one year ago.
- During the same period, garment exports of the sector surged 17 percent year on year to \$104.4 billion.

## INDIA

**EXPORTS** Orders from global brands are picking up after a three month-long decline.

- India’s textile and garment exports fell 8.5% to \$18.3 billion in the first half of fiscal year 2023 from \$20 billion a year ago.
- High cotton prices and shortages were blamed, as well as weaker demand from the US and EU markets.
- India has lost orders to Bangladesh and Vietnam, where prices are more competitive.
- Vietnam’s recent EVFTA has rolled back tariffs to the EU whereas duties are between 9% and 16% for imports from India.

**RAW MATERIALS** Indian cotton spot prices have softened by about 6.21% in October to date to trade near \$392 per bale (170 kg) as cotton arrivals have picked up.

Cotton prices have been losing on higher domestic production estimates for the crop year 2022-23.

“The export situation has started improving. Recently, yarn prices in India have decreased by 10-15%. Currency depreciation is also helping.”

- Tiruppur Exporters Association (TEA)

Cotton demand remains sluggish while lower prices have made Indian cotton cheaper than Pakistan, which will raise Indian cotton demand in the international market.

Chinese yarn banned by the US is now finding its way into the Indian market at cheaper rates.

Cotton prices had gained 40% in May-June and were at an 11-year high due to a demand-supply mismatch.

*“We now expect prices would fall to \$386/\$361 per bale in the coming days while it can slip to \$301.5 in the medium-term,” said Tarun Satsangi, research analyst with Origo Commodities.*

## MYANMAR

**COMPLIANCE** Marks & Spencer (UK) has said it will stop sourcing from Myanmar over concerns of human rights abuses in the country. The retail said it had been monitoring the market closely in partnership with the Ethical Trading Initiative, as well as doing on-the-ground audits.

- The company said it is working towards a “responsible exit” from the country, and plans to have completely exited by March 2023.



“This year the market is not just slow, but dead.”

- Megha Khemka, director of Vietnamese cotton supplier S.P. Yarns, told Nikkei Asia

- In September, the ETI urged fashion retailers to reconsider their connections with suppliers in Myanmar, a country which has been under political turmoil since its army's coup against the government in February 2021.
- A report commissioned by Ethical Trading Initiative (ETI) said there was “evidence of forced labour and exploitation at a sector level”, with workers also “unable to exercise their right to freedom” in alignment with international labour standards, among other alleged violations.
- High inventories and declining consumption in importing countries will cut demand for Asia's exports more generally, the World Bank said. It forecast regional economies will expand 3.2% this year, rather than the 5% projected in April.
- Vietnam earned more than \$31.8 billion from exporting textiles and garments in the first 10 months of this year, up 21.9 percent from the same period last year, according to the General Statistics Office.
- In October alone, Vietnam's textile and garment export rose 5.7 percent year on year to around \$2.8 billion.
- Although the textile and garment market is forecasted to slow down until the end of the fourth quarter and through 2023, it is still possible to reach the export target of \$43 to \$44 billion this year, said Truong Van Cam, deputy chairman of the Vietnam Textile and Apparel Association.

## PAKISTAN

**LOGISTICS** Pakistan has put its first-ever smart distribution center (SDC) into operations in Karachi, a milestone towards revolutionizing Pakistan's e-commerce ecosystem. A second smart logistic hub is slated to open in Lahore.

- Built by Cainiao Smart Logistics Network of China in partnership with Daraz, the largest player in Pakistan's e-commerce market, the 50,000-square-meter-large distribution center will be one of the most technologically advanced logistics facilities in South Asia.
- It will be equipped with an automatic assembly line and smart distribution set-up with least human interference to ensure operational quality and stability.

## VIETNAM

**EXPORTS** The country's export growth is slowing down, after an optimistic first half of the year.

**SUSTAINABILITY** Manufacturers are being warned that the European Union (EU) has published its sustainable and circular textiles strategy, which requires eco-design and sustainable production and consumption. That means fast-moving-consumer products will be replaced by sustainable ones, which are recyclable and reusable to reduce environmental impacts.

- The government is urging factories to get ahead of the curve and be prepared to meet these new standards.
- This will be particularly important for Vietnam manufacturers who are looking to win more orders from EU brands on the back of the recently implemented EVFTA.