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Garment exporters face storm as new orders drop

Buyers also defer placing orders owing to the second wave



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Apparel makers are once again facing trying times.

On the one hand, the flow of new orders for shipment during the summer has fallen. On the other hand, many buyers are deferring placement of new orders as retail sales in the West are yet to pick up because of the second wave of coronavirus infections.

This forced a large number of garment manufacturers to cut back on their production and run below capacity at a time when their overheads have not dropped to that extent.

As a result, leading manufacturers of apparels, the lifeline of Bangladesh's economy and jobs, are appealing to the government for a fresh stimulus so that the sector can come out of the troubled waters.

KEY POINTS

Factories are running between **60%** and **70%** capacity

Retailers and brands placed **30%** fewer work orders for December – March season

Economists and manufacturers demand for second stimulus package

Retail sales declined **9%** in EU and USA in September slipped down to **13%** in October

Government gave Tk **10,500** cr in first phase of stimulus package

"We need a supporting hand from the government to cope with the second wave of coronavirus infections," said Md Fazlul Hoque, managing director of Plummy Fashions.

Hoque's factory has been affected by a slowdown in orders from buyers.

"The buyers are extra cautious in placing orders and are waiting for Christmas sales and the arrival of vaccines," said Kutubuddin Ahmed, chairman of Envoy Group.

The demand for another round of stimulus package came on the heels of a slower-than-expected recovery of global trade.

Despite substantial improvement in recent months, merchandise trade is still well below the 2019 levels, and preliminary estimates suggest services trade remains severely depressed, the World Trade Organisation said on December 5.

Local garment manufacturers have received 30 per cent fewer work orders for the next summer season because of the fallouts of the second wave in the main export destinations such as Europe and the US. The production for the next season starts in December and continues up to March.

The government has acted swiftly in introducing the first stimulus package after the crisis hit the country in March.

So far, the government has given Tk 10,500 crore to the export-oriented garment sector in three phases since April at 2 per cent service charge to help workers' salaries and allowances to be paid.

Ahmed F Rahman, managing director of Kappa Fashions, said currently, 50 per cent of his production capacity was sufficing as buyers were delaying placement of work orders.

Last week, one of his Korean buyers slashed orders to \$1 lakh from the original commitment of \$1.5 lakh as part of its go-slow policy.

"Every year, one of my Spanish buyers places an order of a substantial amount around this time of the year. But this year, I have not received any order from the buyer yet," he said.

AK Azad, managing director of Ha-Meem Group, said his shipments to the US had not yet been much affected by the second wave, but that to Europe had been severely impacted.

He suggested amending the rules on the disbursement of stimulus funds if a second package was unveiled to enable micro, cottage and small units to avail it.

"The micro, cottage and small units are the worst sufferers of the pandemic," he said.

A former president of the Federation of Bangladesh Chambers of Commerce and Industry, Azad himself suffered some of the worst on American company JC Penney going bankrupt.

He supplied garment items worth \$1.9 million. But so far the company has paid him only \$0.5 million. Azad said he was waiting for the rest.

"The second wave is obviously affecting our business," said KM Rezaul Hasanat, CEO and chairman of Viyellatex Group.

However, the full effect of the pause in orders is yet to be known, he said.

Buyers are not cancelling orders, but there is a deferment as the stores of many retailers have remained closed due to the second wave. The presence of customers is thin at stores, said Bakhtiar U Ahmed, chief operating officer of Fakir Apparels.

"The impact is that we are approximately 20 per cent behind our sales target and overheads are growing very high. This situation may continue until March."

"We need a policy support from the government to survive and sustain these mainstream industries in such a critical situation," he said.

The second wave is more severe for the garment sector of Bangladesh as the exporters, particularly the small and medium-sized firms, are not getting adequate support from the stimulus package, said Sheikh Danial, managing director of Finesse Apparels.

Mahmud Hasan Khan Babu, managing director of Rising Group, has witnessed a deferment of an order involving \$1.6 million after the second wave hit the western nations.

"We expect that the government will enhance the repayment period of our previous loans from one year to at least three to four years," he said.

Rubana Huq, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), said the severity of the second wave could be realised simply by analysing retail sales data on clothing stores in the US and European Union.

Year-on-year, retail sales growth that had stood at 9 per cent in the negative both in the EU and the US in September further slipped down to 13 per cent in October.

"This is enough to have a clear understanding on the fact that the demand for clothing is further slashed from the already suffering situation in September," Huq said.

After a freefall in retail sales from March to June, the decline had decelerated in July-September as lives started to get back to some form of normalcy, she said.

"But with the resurgence of the viral infection since the start of fall, economic activities slowed again resulting in an immediate shock in retail sales in the West."

"We are in the middle of the crisis. So, the government should not come back from its lending option to the garment sector," said Ahsan H Mansur, executive director of the Policy Research Institute of Bangladesh.

He said the retention of jobs of millions of workers in the garment sector had been possible because of the government's quick and prompt move in approving a significant amount of stimulus funds.

The government should defer recovering loans as exporters are not in a position to pay instalments, Mansur said.

Many exporters are in negotiations with buyers to recover payments for cancelled or deferred export orders against which products had already been manufactured or were in transit.

"So, the demand made by the BGMEA is valid, and the government should meet the demand to save the export, economy and employment," Mansur said.

Zahid Hussain, a former lead economist of the World Bank's Dhaka office, said the export had not recovered fully yet. The woven sector has been still languishing from the hit of Covid-19.

He said the government should launch an independent verification to identify the sectors and factories that have been affected before deciding to roll out the second stimulus package.

"The government needs to offer the second stimulus package to the firms and sectors that deserve the most in order to protect the jobs of poor workers. The stimulus package can be given to pay the wages to the workers as the first stimulus package worked well."

The economist called for fair disbursement of the stimulus package so that all other deserving sectors and firms, especially the micro, small and medium units, can benefit from the assistance.