

Voluntary Report – Voluntary - Public Distribution

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Report Name: Zero-Tolerance COVID Policy Stretches Thin Textile and Apparel Industries

Country: China - People's Republic of

Post: Beijing

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Report Highlights:

A recent industry survey in one of China's leading provinces for textile and apparel manufacturing highlights the negative impact of the PRC's zero-tolerance COVID policy in the world's largest cotton market and area economy. According to survey results, production estimates are down, costs are higher, and deliveries are delayed.

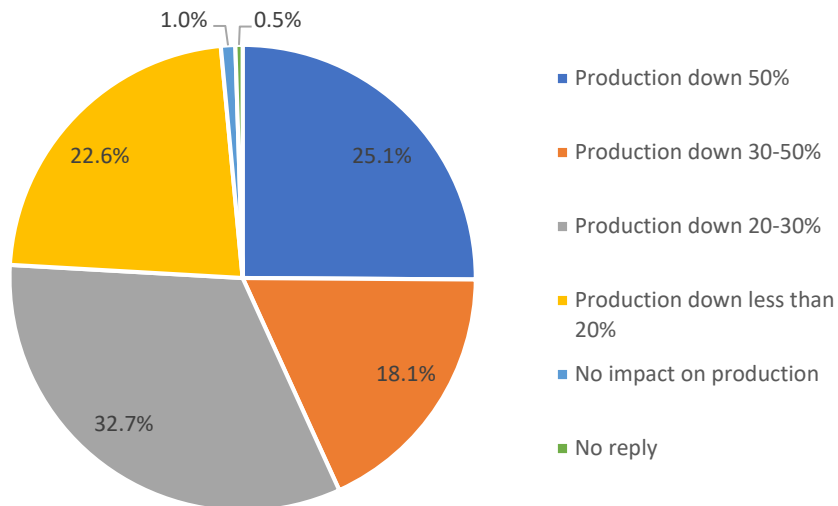
Summary

In response to surging COVID-19 cases in Shanghai, in late March 2022, the Shanghai Municipal Government began enforcing a near universal lockdown of workers and businesses. Neighboring cities Suzhou and Kunshan in Jiangsu province and Hangzhou in Zhejiang province soon followed suit. This caused major disruptions to one of China's most dynamic economic regions, including critical hubs for textile and apparel manufacturing.

In mid-April, the Jiangsu Textile and Apparel Industry Association conducted a survey on *The Impact of Covid Related Restrictions on Jiangsu's Textile and Apparel Enterprises*. From April 14 - 22, the survey collected results from 199 leading manufacturers including 52 textile enterprises, 143 apparel enterprises, and 4 textile/apparel equipment producers.

In assessing the impact of recent COVID-19 related restrictions on operations, as shown in the below chart, 25.1 percent of surveyed enterprises reported a production decline of 50 percent or greater; 18.1 percent reported a production decline of 30-50 percent; 32.7 percent reported a production decline of 20-30, and 22.6 percent reported a production decline of less than 20 percent. Only 1 percent reported no impact (0.5 percent did not reply).

China: Chart 1. Percent of Production Decline Due to COVID-19 Related Restrictions



In response to a question on the “main challenges” facing the industry, 73.4 percent of respondents reported increased production costs, 66.8 percent reported declining orders, 65.3 percent reported difficulty in maintaining normal operations, 40.7 percent reported difficulty collecting receivables and 27.6 percent reported payment defaults due to non-performing contracts.

Increased Production Costs

Local Jiangsu-based industry reports suggest that China's COVID-19 measures have increased production costs for textile and apparel manufacturing in several areas. Overall freight costs

have increased by 20 to 30 percent as restrictions and delays on trucks entering and exiting ports or traveling between regions limited transport and delivery options. The logistics challenges have, in turn, led to delays in receiving raw materials, manufacturing equipment and parts, and other apparel components, all of which have hurt businesses bottom lines. Labor costs have also increased, including higher social security payments and higher expenses for COVID prevention measures for workers. The above challenges, combined with worker shortages due to lockdowns, have slowed business' ability to deliver finished goods to both domestic and overseas buyers.

Lower Domestic and Overseas Orders and an Uncertain Future

The survey notes logistics and transportation bottlenecks have constrained industry's ability to ship product samples to overseas customers, increasing the time it takes for buyers to confirm and place orders. Delays in receiving raw materials, including yarn, fabrics, and accessories, have stretched delivery times to overseas buyers and increased stock levels at domestic facilities. The survey reports some foreign customers have stopped placing orders, waiting to logistics issues to improve, while other have shifted business to Southeast Asia and other regions.

The survey shows a decline in domestic orders for textile and apparel due to rising on-time fulfillment concerns; travel restrictions impeding business visits and marketing events, and irregular closures and COVID control measures placed on retail outlets. Online sales, which have helped sustain other industries affected by similar challenges, have also been hampered by delayed deliveries and higher refund request rates. In estimating 2022 production trends, 80.4 percent of surveyed enterprises expect revenue to fall, and 60.3 percent expect a decline in labor use, compared to 2021.

On April 22 - 23, the Vice Minister of the Ministry of Industry and Information Technology conducted a field visit to study the impact of COVID related restrictions on the textile industry in Jiangsu and Zhejiang. The Vice Minister emphasized that with over 34,000 enterprises providing direct employment to over 20 million people, the textile industry remains critical for China's economy, further noting Jiangsu and Zhejiang's combined textile production accounts for 40 percent of China's total textile industry capacity.

According to the National Bureau of Statistics (NBS), textile exports reached U.S. \$36.6 billion and apparel exports U.S. \$35.7 billion in the first quarter of 2022, up 15.1 percent and 7.4 percent, respectively, from the previous year. Prior to the April lockdowns, combined textile and apparel exports in March reached U.S. \$22.1 billion, up 16.8 percent year-on-year and up 23.9 percent from February. Based on NBS data, Jiangsu's production of yarn, fabrics and chemical fiber accounted for 12.1 percent, 10.6 percent, and 24.2 percent, respectively, of China's total production in 2021. China's Customs data from the Jiangsu/Nanjing Customs area shows Jiangsu's textile and apparel exports accounted for 16.4 percent of China's total textile and apparel exports in 2021.

Ramifications to Other Areas and Potential Impact on Trade

Although the survey only covers one province, the interconnected nature of China's textile and apparel industry suggests the challenges faced in Jiangsu could ripple through other key production areas, such as Shandong and Henan provinces. The survey also portends weaker demand for imported cotton on a national level, which in the first 8 months of marketing year 21/22 (August 2021 to March 2022) reached 1.07 million metric tons, a 49 percent decline from the previous year. During the same period, imports of U.S. cotton by volume declined 56 percent, to 440,000 metric tons.

Attachments:

No Attachments.