

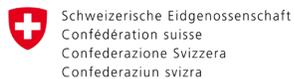


# IMPACT OF COVID19 ON THE GLOBAL MARKET AND LOCAL INDUSTRY OF TEXTILE & CLOTHING

Final REPORT - December 2020

## About the report

This report is done by Gherzi Egypt for the ITC GTEX/ MENATEX project. The GTEX MENATEX project in Egypt is the result of a successful partnership between the Egyptian Government represented by the Ministry of Trade and Industry (MoTI), the Swiss and Swedish governments as donors, who have made available the funds necessary for its implementation, and ITC the joint trade organization of the United Nations (UN) and the World Trade Organization (WTO), as the implementing agency for the project. The “Boosting Textile and Clothing Sector Competitiveness in Egypt” project was signed on 22nd of September 2019. Since then, an enterprise call for applications was launched with the objective of selecting a total target of 35 enterprises. A call for application for relatively large scale companies “Champion enterprises” has been launched as well with the aim of following a mentoring approach between the champions and selected SMEs. In parallel, work at the institutional level is being carried out. At present, with the global crisis of the COVID19 pandemic, it is essential to be flexible in project planning and implementation. For that reason, communication with the different stakeholders was initiated with the objective to offer support on critical interventions needed to overcome the recently generated challenges. It was concluded to work on an impact study to allow the stakeholders to have updated information on the crisis impact on the textile and clothing sector especially in terms of employment, affected SMEs number and type of products, lost markets and new opportunities in unconventional markets/product range.



Swiss Confederation

Federal Department of Economic Affairs FDEA  
State Secretariat for Economic Affairs SECO

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## Acronyms and abbreviations

B2C	Business to consumer
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
CBE	Central Bank of Egypt
FDI	Foreign Direct Invest
GTEX	Global Textile & Clothing programme
HDE	Central Association of German Retail Trade
ITC	International Trade Center
MMF	Man-made fibers
MENA	Middle East and North Africa
MOTI	Ministry of Trade and Industry
SECO	Swiss State Secretariat of Economic Affairs
SIDA	Swedish International Development Cooperation
SME	Small and Medium Enterprises
TBD	To Be Determined
T&C	Textile and Clothing
UN	United Nations
VAT	Value Added Tax
WTO	World Trade Organization

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## Executive Summary

COVID19 had a significant impact on the global Textile and Apparel Sector. The impact has been on several levels as described by 35 reports reviewed:

### **Global consumer demand**

Retail sales will be down by around 11% in 2020 compared to 2019; with Fashion, Apparel and Luxury goods projected to see 15-20% decrease in a best-case scenario and up to 30% decrease in a downturn scenario. In addition to the lower demand, consumers are also changing their buying habits, with a significant shift to online retail, basic product as opposed to fashion. Moreover, the Work From Home (WFH) culture is changing the type of products that are consumers are buying, with more focus on home-wear, lounge-wear and active-wear at the expense of formal-wear. The WFH is expected to continue with some sources projecting that 25-30% of the US workforce by the end of 2021 would be working several days per week from home, up from 3.6% pre-COVID19. This change in product mix as well as selling channels will have an impact on choices of fabrics, inventory and purchasing cycles. Consumers are also becoming more responsible and look for sustainably produced goods.

### **Impact on and responses from brands and retailers**

The sudden drop in demand has led retailers to cancel orders, including ones that were already shipped. Moreover, several large US and EU retailers filed for bankruptcy in the previous months and more are expected to follow in the coming year. Many retailers have reported a shift towards basic items and unprecedented growth in online retail.

### **Impact on the manufacturing level**

The fall in demand has led to orders being cancelled by brands and retailers, leading to several manufacturers having to reduce their labor (Bangladesh reported over 1 Million jobs lost in the first half of 2020). Cancellations have resulted in cotton prices dropping in the first half of the year but have since recovered to pre-COVID levels, projections are for an increase in production for 2021, although demand is expected to be lower. On the other hand, polyester prices were expected to increase due to shortage in production following China's lockdown, however, a faster recovery by Chinese MMF manufacturers has resulted in a small drop in price. Textile machinery manufacturers globally have reported major drops in sales, with the Italian Textile Machinery Manufacturers Association reporting a 44% decrease in sales of machinery overseas and 62% locally.

### **Egypt**

Was hard hit by the crisis seeing export figures decline by up to 30% in the period of March – August compared to the same period in 2019. However, Egypt as well as other MENA countries have a chance to attract some of the relocating sourcing business as well as some of the investments fleeing the traditional markets in the Far East and South East Asia. Egypt is expected to close the year with around 25-30% lower exports (\$1.20 – 1.28 Bn compared to \$1.7 in 2019) and a partial recovery is projected in 2021 bringing Egypt's exports back up to around \$1.45 – 1.55 Bn (80-90% of 2019 export levels).

A field survey and interviews conducted in the months of July and August and September 2020 with Egyptian garment exporters revealed the following:

- 50% of manufacturers have made salary cuts. The majority (80%) of the companies who made salary cuts reduced wages by 25%
- 65% of the companies had to reduce the number of production shifts due to decreased demand
- 56% of the companies have seen more than half of their orders cancelled with around 60% of the companies experiencing delays in receiving their payments up to 60 days
- The majority of companies (60%) have seen their customers come back to place new orders although smaller in size
- 40% of companies will shift part of their focus to the domestic market
- Most companies (76%) project that they will go back to pre COVID19 levels within 1 year

Although both the field and desk researches have collected varying opinions, there are 4 key conclusions that have been consistent throughout the project:

1. **The industry is operating in a time of uncertainty:** in absence of a clear end to the pandemic and with countries taking differing measures, it will be nearly impossible to have any visibility into the future. Companies and countries have to be prepared for a time of uncertainty.
2. **Demand is down and will stay down:** the best-case scenarios project a return to 2019 levels by – at the least - the end of 2021. Companies have to plan their finances accordingly.
3. **Consumers are changing and manufacturers and retailers alike need to do the same:** buying habits are changing, consumers are switching more to online retail and are choosing more basic products. This will require Egyptian garments manufacturers to establish innovative models and reorganize their supply chains.
4. **Shorter lead times are taking over:** in the absence of reliable projections, shorter lead times, flexible manufacturing and lower stocks are becoming the norm. Retailers will shift their production to suppliers that are closer to the market and are capable of meeting faster development cycles.

In order to support the industry through this crisis as well as provide opportunities for growth, several recommendations have been made to provide some immediate relief, improve the competitiveness of Egyptian manufacturers as well as address some structural changes to create a more competitive environment. The initial list of recommendations includes:

#### **Government and policy makers**

1. Payment of outstanding export incentives
2. Increasing export incentives
3. Provision of soft loans to the industry for short- and long-term financing needs
4. Bringing utility costs at par with global prices
5. Defer payments of some government dues
6. Release of delayed VAT rebates on export orders
7. Reconsider temporary admission / drawback system requirements to ease the process and financial burdens

#### **Business Support organizations**

8. Provide technical support and training to enterprises
9. Support enterprises for online readiness / integration
10. Facilitate online selling portal and marketing support
11. Provide capacity building and partial equipment funding for existing testing facilities

#### **Manufacturers**

12. Implementation of digital prototyping as part of digitalization efforts
13. Focus on domestic market
14. Utilize opportunities in Medical textiles
15. Invest in lean manufacturing

## Introduction

The COVID19 crisis has taken the world by surprise. All industries and businesses around the world have been affected by the pandemic in one way or another. The textile industry was one of the hardest hit industries following travel, with lockdowns and changes in consumer habits, retail sales have gone down. More importantly, selling channels have shifted and buying patterns have changed. These changes have impacted not only volumes of products but types of products as well as distribution channels. With those changes, the impact on the industry is not limited to a change in capacity but extends to cover the manufacturing models and will disrupt value chains permanently in the medium and long terms.

The need for flexible manufacturing, shorter lead times and quicker response will dominate the next phase of the development of the industry. Retailers are opting for a faster and leaner value chain over a cheaper product as they have done for decades prior. The market will favor companies with low stocks and the ability to respond faster to the changing consumer behavior especially with the risk of a second wave of COVID19 looming the horizon and no clear ending of the crisis in sight. Moreover, the full economic impact of the lockdown and the disruption to businesses around the world has not yet unfolded and speculations remain high on how fast the global economy will recover.

The immediate impact on the Textile and Apparel Sector has been significant with order cancellations around the globe and major retailers in the US and Europe going out of business. The results are that thousands of manufacturers around the world have had to let go some or all of their workers and are struggling to pay their suppliers. Some countries have taken actions and provided different forms of relief to their manufacturers. In May, Egypt started paying 500 LE/ month for non-committed workers who are mainly in the construction sector; on the other hand, the Central Bank of Egypt postponed the payment of all banks loan installments for 6 months while keeping the interest.

Egypt - as will be seen throughout this report - has also suffered from the crisis, manufacturers have seen order cancellations, delayed payments and had to give wage cuts to their workers in order to stay afloat. However, for Egypt, there could be good news in the horizon with the structural changes happening to the industry. The country could see an influx of investments in the industry from relocating Asian manufacturers as well as an increased demand from European and American buyers looking for shorter lead times. This will require Egypt to take proactive actions to alleviate the pressures being faced by the industry as well as provide additional incentives for investments in the sector, in order to capture the full breadth of the opportunity.

The study aims to provide insights and guidance to businesses searching for ways to cope with the operational stress generated by COVID-19 and the new emerged global developments. It will also provide guidance on direct indispensable actions that can be implemented by GTEX MENATEX project in Egypt to help the T&C industry to overcome the current challenges. This will also serve as a useful resource for business support organizations and policymakers assisting SMEs in their efforts to advocate for what the industry needs the most as well as providing recommendations to the government of Egypt on how best to support this imperative sector. The recommendations will cover an immediate economic stimulus package to help the sector recover from the C19 crisis impact in the short, medium and long terms. It will also address recommendations towards Business Support Organization on how they can help manufacturers. Finally, the report will also address aspects that manufacturers need to address to smoothen their situation. Development partners are invited to consider supporting the sector by taking up some of the outlined recommendations in their technical assistance planning for 2021 and beyond.

The following chapters will look at the global impact of the COVID19 on the Textile & Clothing Industry as well as the specific impact for Egyptian Apparel and Textile manufacturers. The report will end with a tentative list of recommendations for actions to be taken by the government and policy makers, business support organizations as well as manufacturers.

## CHAPTER 1 GLOBAL LITERATURE REVIEW

### Introduction

The collected researches, reports, surveys and articles from multiple different sources and consulting firms represent more or less the global T&C trade dynamics. The literature has been reviewed and summarized in the following section with a longer summary attached in the annex to this report.

The information found in the literature looks at the immediate impact of the COVID-19 crisis on the global industry as well as the projected short, medium- and long-term implications of those changes. The projections covered not only the expected impact in terms of figures (trade, employment, retail, etc.) but also expanded to highlight changes to the consumption patterns, retail models, manufacturing trends and international trade, thus building a comprehensive image of the future of the sector. The medium-term structural changes to the industry will have implications that are far and beyond the immediate impact on sales / export figures. In some cases, such changes could offer opportunities for countries like Egypt which can capitalize on the relocation of the industry to attract both foreign and domestic investments in the sector. Based on the literature review, the potential impact of COVID-19 on Egypt could be globally assessed.

### Reports summary

#### Global Apparel Market

#	Title	Type	Author	Conclusion/ comments
1	Corona virus executive briefing	Report	Global Data	The growth in online sales will need very fast fashion. Countries will try to relocate T&C sector workers in other industries.
2	Are we witnessing the awakening of new world order	Article	Forbes	Relocation of entire value chains. Brands and retailers will move away from depending on China. helping small retailers go online. development of digital technologies for prototyping, sampling and product development.
3	Virus impact on fashion and luxury	Article	Financial Times	The drop in retail sales is creating a wave of bankruptcies for major retailers in the EU and US markets. Factories and retailers should work in collaboration to create an online system for selecting designs and placing orders
4	COVID-19 recovery scenarios for fashion and luxury brands	Article	Boston Consulting Group	A fear of a second wave will have a more deep and dramatic effect on the industry. it is expected that consumer demand for apparel and home textiles will decline. The industry will witness a wave of consolidation across both the supply and the demand with many companies going out of business both in the manufacturing and the retail sectors.
5	The state of the fashion-corona virus update	Report	McKinsey & Company	According to a McKinsey survey, 15% of consumers in Europe and the US will buy more ecologically and socially sustainable clothing. The overstocked warehouses will lead to a slow sourcing of 2021 spring seasonal items.
6	The world economy on a tight rope	Report	OECD	It is expected that debt levels will increase worldwide for both the private and public sectors. Governments should also maintain liquidity

				support and be prepared for renewed financial turmoil
7	COVID-19 plunges Europe textile industry into deep crisis	Article	Textile Network	Companies all along the supply chain of clothing in Europe can overcome the COVID-19 crisis provided that the governments can take some crucial decisions of support in a timely manner.
8	June e-commerce growth	Article	Business Insider	The pandemic to create long-term online shopping habit changes. This shift is not expected to reverse, and retailers will have to embrace the fact that e-commerce is here to stay.
9	After COVID..., will china apparel industry be able to fuel the next wave of business	Article	Fiber to Fashion	China's local market will play a significant role in the rebound of the garment industry as exports will struggle to go back to their pre-pandemic levels. Although China was the first country to return to work lifting the lockdown, still there are no signs of a V shaped economic curve.
10	Kohl's ... active wear sales jump 70% online	Article	Business Insider	The textile machinery manufacturing sector will be the most branch to suffer in the sector as investments for new machinery would be the least considered in the short term., it is expected that a sizeable stock of relatively young second-hand machinery will be available in the market leading a slower come back for machine manufacturers
11	Indian textile machinery orders intake drops	Article	Fiber to Fashion	The textile machinery manufacturing sector will be the most branch to suffer in the sector as investments for new machinery would be the least considered in the short term., it is expected that a sizeable stock of relatively young second-hand machinery will be available in the market leading a slower come back for machine manufacturers
12/13	DW sports falls into administration/ tailored brands files for bankruptcy as pandemic hammers series	Articles	Sky News/ Reuters	Sports stores and fitness clubs are among the main businesses that suffered from the prolonged closures and social distancing measures. The oldest US department store chain Lord & Taylor also filed for bankruptcy in mid-August adding the scary list
14	The state of the fashion 2021	Report	McKinsey and company	If you don't have your supply chain, e-commerce, etc. up and running in all markets, then you're a weakened player. Without the infrastructure, mid-sized brands are better off being consumed by a group.
15	Assessing and monitoring the	Article	Euromonitor	

	impact of COVID-19			
<b>Apparel supply from developing countries</b>				
16	COVID-19 potential impact on the Indian economy	Report	KPMG	Import of Apparel and textless will become more expensive. Government relief packages have to take into consideration the long-term impacts of the economic slow-down and not focus on only short –term assistance
17	Supporting apparel exporters in a time of change	Report	Euromonitor	Build a local supply chain gradually to minimize importing. Activation of regional trade agreements to benefit from cumulative rules of origin will accelerate the relocation of value chains
18	How will consumer markets evolve after corona virus	Report	Euromonitor	Factories should invest quickly in e-commerce and diversify their sales channels. The definition of sustainability has moved from strictly focusing on the environment to include social responsibility towards workers across the value chains.
19	Impact of the corona virus pandemic	Article	Gherzi	Online channels recorded double digit growth even during the lockdowns. The trend for automation and digitalization will be spurred by the need for flexible manufacturing and smaller orders.
20	The big read supply chains	Article	Financial Times	Factories that have been relying on a limited number of large retailers are faced with defaulting clients both on payments (already shipped goods) and on orders in production leading to some manufacturers going out of business
21	Impact of COVID-19 on small textile units	Article	Fiber to Fashion	The crunch in the supply of fibers and especially Man-Made Fibers (MMF) will impact the growing trends for purchasing lounge and sportswear which are predominantly made of synthetic fibers. The small textile units are way more vulnerable and likely to close due to the hard disruption in their fragile cash flows.
22	Leicester factory put lives at risk during lockdown	Article	The Guardian	Responsible sourcing emerges again as one of the key buying criterial for retail consumers.
23	What will it take to achieve COVID-19 containment and economic revival?	Blog	World Bank Blog	The crisis presents an opportunity to improve the quality and reach of critical services. The governmental intervention by enforcing strict measures to contain the virus resulted in a quicker comeback to work; thus, less negative effect on the economy; Vietnam is a good example

24	Thousands of jobless Bangladeshi garment workers fear for future	Article	Reuters	Although the industry has staged a recovery lately - with exports reaching \$2.9 billion in August after falling to \$520 million in April - factory owners said expected orders were down by two-thirds and that brands were demanding 10-15% price cuts.
25	Fashion companies have cancelled or refused to pay	Article	Business Insider	<b>“This led to about \$1.6 billion in lost wages for factory workers, the report found.”</b>

### Egypt – Specific Papers and Articles

26	India launches several initiatives for contactless customs	Article	Fiber to Fashion	Digitalizing of governmental authorities and payments through online channels is trending to ensure fast clearance and procedures while exercising safe pandemic practices; contactless customs. There is a lot for Egypt to learn from this experience in order to reduce bureaucracy.
27	Textile and garment supply chain in times of COVID-19	Article	UNCTAD	Production of fashion goods could be moved away to other sourcing countries that are resuming activities faster than the Asian region or that are closer to retailers to diversify their supply chain risk. Sustainability and responsible sourcing continue to be at the forefront of consumers 'buying decision.
28	The global economy in crisis	Report	World Bank Group	The government in Egypt should attract foreign investors with attractive incentive packages to fill the gap in the local value chain, especially in the areas of primary textiles and accessories. Consumer behavior is expected to shift in several ways
29	Minister reveals status of industrial sector amid COVID-19 crisis	Article	Egypt Today	The government should consider the longer-term impacts of the COVID-19 on the global economy and project not only the immediate but also the future impact on the Egyptian manufacturing sector. Many opportunities to attract relocating investments and sourcing opportunities will arise and it will be up to the government to make available the right incentives and investment environment to attract those businesses.
30	Turkey and Egypt garment manufacturers squeezed by global brands	Article	The Middle East Eye	Sustainability and corporate social responsibility (CSR) policies have been put aside for now. some buyers will push more for new compliance rules in light of the COVID-19 crisis
31	COVID-19 and textiles, clothing, leather and	Article	ILO Sector Brief	“In the longer-term, the pandemic could affect the composition of global textile, clothing, leather and footwear supply chains and trade,

	footwear industries			and accelerate the re- or nearshoring of production.” –
32	Sector spotlight	Article	Business Forward	“In 2019, the combined value of these two sector’s exports was \$3.3 billion, amounting to 13 percent of all of Egypt’s exports from the manufacturing sector.”
33	Turning hope into reality	Article	OECD	“Delays to vaccination deployment, difficulties controlling new virus outbreaks and failure to learn lessons from the first wave would weaken the outlook.”
34	Egypt’s Clothing sector suffers...	Article	Just Style	Although factories in general stayed open, Egypt clothing sector is hit hard by the pandemic.
35		Article	DW	German economy can’t count on bouncing back fast which will threaten the business of many Egyptian exporters of ready-made-garments to Germany and more generally to EU and USA. If a second wave hits, insolvencies will be fateful for many clothing retailers in Germany

# CHAPTER 2 SUMMARY OF MAJOR FINDINGS FROM THE LITERATURE REVIEW

## Global Consumer Demand

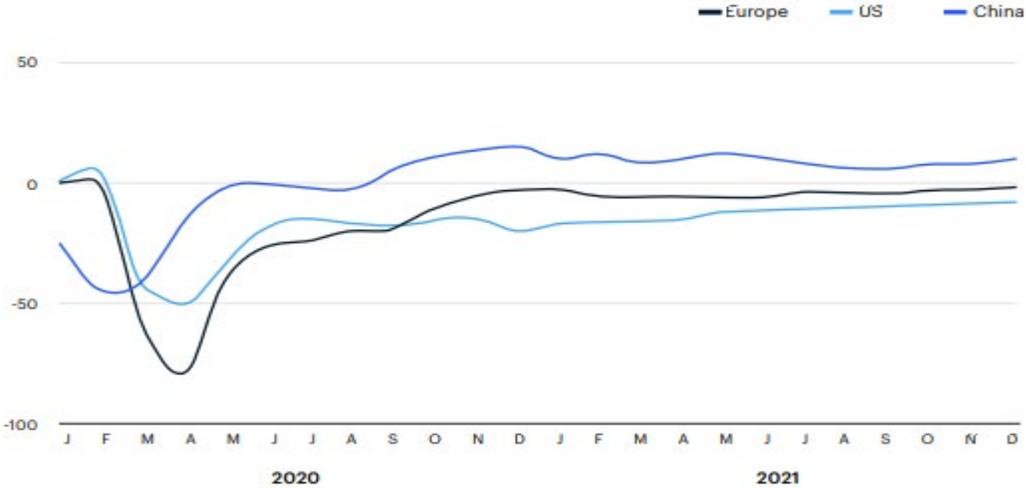
- Apparel is the second heaviest impacted industry (next to Travel).
- Euromonitor’s best case scenario shows 11% drop in demand for general apparel in 2020 compared to 2019.<sup>1</sup>
- Projections made by McKinsey<sup>2</sup> for 2021 have included two models for a first “Earlier recovery” scenario and a second “Later Recovery” scenario, projecting tough trading conditions to persist through out next year.
  - In the earlier recovery scenario, McKinsey foresees the industry would return to 2019 levels of activity by the third quarter of 2022.
  - In the later recovery scenario, McKinsey projects fashion sales would only revert to 2019 levels in the fourth quarter of 2023.

*“Now, when consumers do spend money on fashion, their choices have become disproportionately influenced by product quality, practicality, comfort and value for money, with trendiness and style falling lower in priority, resulting in a marked shift towards basic and casual-wear items.”*

McKinsey - State of the fashion report 2020

### Fashion sales in China are expected to recover in 2020, while recovery in the US and Europe lags

FASHION SALES IN THE EARLIER RECOVERY SCENARIO, COMPARED TO 2019, %



<sup>1</sup> Euromonitor – Supporting apparel exporters in a time of change – April 2020  
<sup>2</sup> State of fashion 2021, McKinsey

- Demand for more durable and sustainable goods will increase.<sup>3</sup>
- A growing trend towards casual, home wear and sportswear emerges, especially with online sales where consumers usually focus on basic products as opposed to fashion and luxury items.
- Today, more consumers are working from home, adopting flexible work schedules, and are dressing more comfortably and casually. These trends are likely to carry on beyond COVID-19.<sup>4</sup> Some sources are projecting that up to 25-30% of the workforce in the US could be working multiple days a week from home by the end of 2021<sup>5</sup> up from 3.6% before COVID-19.
- Responsible sourcing emerges again as one of the key buying criteria for retail consumers.<sup>6</sup>
- Online stores are reporting that consumers are hesitant to buy fashion and clothing during the first quarter of 2020.<sup>4</sup>
- The consumers embracement of digital shopping directed brands not only to enhance their digital channels but to become digital frontrunners<sup>7</sup>
- The pandemic made consumers re-evaluate their life priorities, giving rise to new values and spending criteria.<sup>4</sup>
- Increased confidence in technology, technical performance, and online payment sectors are causing a change in consumer behavior, away from traditional methods.<sup>4</sup>
- In addition to the immediate drop in demand, consumer behavior has and continues to change almost dramatically. The switch to online models (buying, education, doing business) has shifted consumer demand from physical stores to online retail, a trend that existed before COVID-19 but was expedited in a precedent manner during the crisis. This shift to online retail had also an impact on the type of products being purchased, with consumers focusing more on basic wear at the expense of fashion apparel and luxury goods.
- The Work from Home model has also impacted consumer behavior with more people buying home wear and casual apparel instead of formal and work wear. Moreover, the crisis has also made consumers more aware and are demanding goods that have been produced responsibly and ethically, driving the need for traceability and transparency in value chains.

*“The casualization trend that was already in motion before the pandemic and that accelerated throughout 2020 is likely to emerge as a dominant force across many fashion categories in 2021.”*

*“It’s a long-term play for e-commerce. It’s not a two-year stint and you march on to profitability.”*

*McKinsey - State of the fashion report 2021*

## Impact on and Responses from Brands and retailers

- The drop in retail sales is creating a wave of bankruptcies for major retailers in the EU and US markets.<sup>8</sup> With some of the key importers defaulting on payments and on orders. Some of the major brands and retailers facing bankruptcies include: Lane Bryant, Anne Taylor, Brooks Brothers, Century 21 stores, J.C. Penny, J. Crew, Lord and Taylor, Neiman Marcus, Men’s Warehouse and Jos. A. Bank.

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<sup>3</sup> Euromonitor – How will consumer markets evolve after corona virus

<sup>4</sup> The state of the fashion 2020 – McKinsey and Co.

<sup>5</sup> <https://globalworkplaceanalytics.com/work-at-home-after-covid-19-our-forecast>

<sup>6</sup> The Guardian – Leicester factory put lives at risk during lockdown

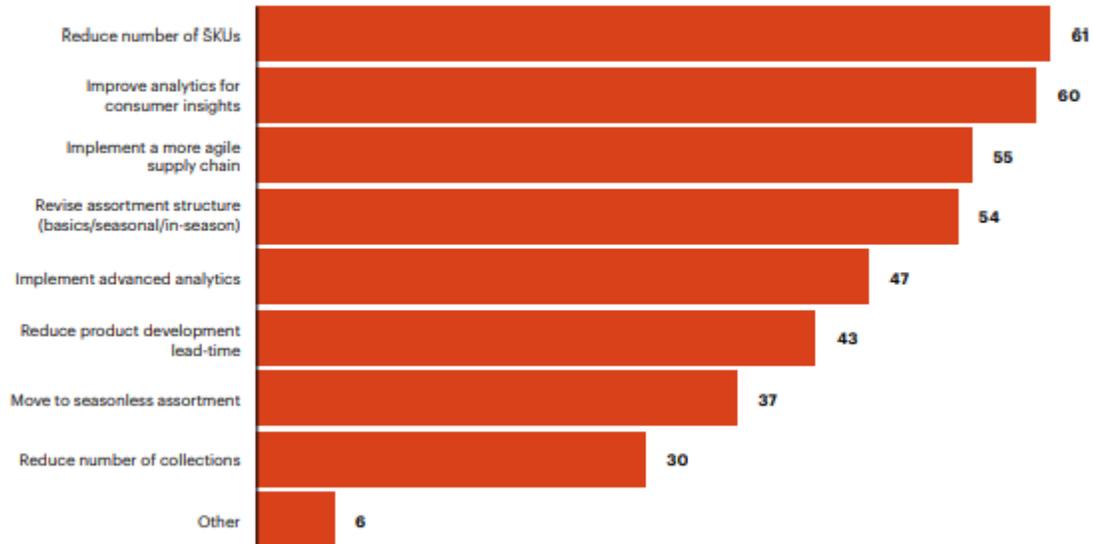
<sup>7</sup> Business insider- June e-commerce growth

<sup>8</sup> Virus impact on fashion and luxury – Financial Times

- The fall in demand and financial distress faced by the buyers has directly resulted in cancellation of orders. BGMEA has reported cancellation of orders worth US\$ 3.17 billion as a result of the crisis.<sup>9</sup>
- Although many retailers managed to survive the lockdown and pandemic months, the uncertainty of being able to sustain even for a term as short as the end of 2020 is still questionable
- HDE (Central association of German retail Trade) forecasts predict that the coronavirus and the response to it will cause a loss of €40 billion (\$47 billion) in sales for non-food retailers in Germany till the end of 2020. Up to 50,000 retail jobs could be lost as a result. This will be due to a reduced demand but such levels of unemployment will further reduce demand.<sup>10</sup>

## Fashion executives plan to employ several strategies to avoid overstock in the future

% OF RESPONDENTS



SOURCE: BOF-MCKINSEY STATE OF FASHION 2021 SURVEY

<sup>9</sup> Gherzi article - Impact of the corona virus pandemic on the global textile and clothing industry – ITMF Publication

<sup>10</sup> DW – German trade body says second wave could be deadly to struggling retailers

## Impact on the manufacturing level

### Textiles and apparel

- The fall in demand and financial distress faced by the buyers has directly resulted in cancellation of orders during the period from April to July 2020. BGMEA has reported cancellation of orders worth US\$ 3.17 billion as a result of the crisis<sup>11</sup>
- Factories that have been relying on a limited number of large retailers are faced with defaulting clients both on payments (already shipped goods) and on orders in production leading to some manufacturers going out of business.
- Projections on the production and prices of fibers at the start of the crisis have not been able to capture the full spectrum of factors that are affecting both the supply and demand for goods. The result is that projections have been inaccurate and further projections are proving difficult. However, it is projected that a second wave of lockdowns would trigger a similar cycle to the one witnessed between March and October of 2020, although a second wave could last longer, it is expected that a drop could be mitigated with a faster recovery due to the fact that most companies have started to adapt to the new patterns in supply and demand.
- Manufacturers have had an immediate impact with orders being cancelled including already delivered goods, especially with the wave of bankruptcies that has swept through the US retail market and with a lesser extent across the European retail market.
- Manufacturers in the Far East are likely to witness a migration of orders to suppliers that are closer to importing markets. This could not only impact manufacturers of finished goods but the entire supply chains, including intermediary textiles such as yarns, fabrics and accessories as they might also migrate closer to the new manufacturing base.
- While buyers are demanding ever lower prices, manufacturers will be stuck between a rock and a hard place. It can already be witnessed that manufacturers are operating on lower capacities and lower prices in order to survive this period.

*In the first few weeks of the crisis, more than 1 million workers were impacted, many workers sent home from work without severance or furlough pay.*

*Business Insider - Fashion companies have canceled or refused to pay for \$16.2 billion of orders during the pandemic, costing textile workers in Bangladesh \$1.6 billion in wages, a report found – October 2020*

### Fibres

- The cancellation of orders initially cut almost a third off benchmark cotton prices at the peak of the pandemic in the second quarter of 2020.<sup>12</sup>
- Due to the pandemic, agriculture has also suffered. With more emphasis on food crops, cash crops are being sidelined due to decreasing demand.
- A shrinkage in the supply due to some companies going out of business will offset some of the decrease in demand, this has been witnessed by the rebound in cotton prices despite projections foreseeing a sharp decline (please see chart below).

*“With Chinese production lockdown, the imports of MMF fiber would be impacted, prices of imported MMF used for high value products is expected to rise by 25-30% over the next two quarters (Apr to Sep 2020)”*

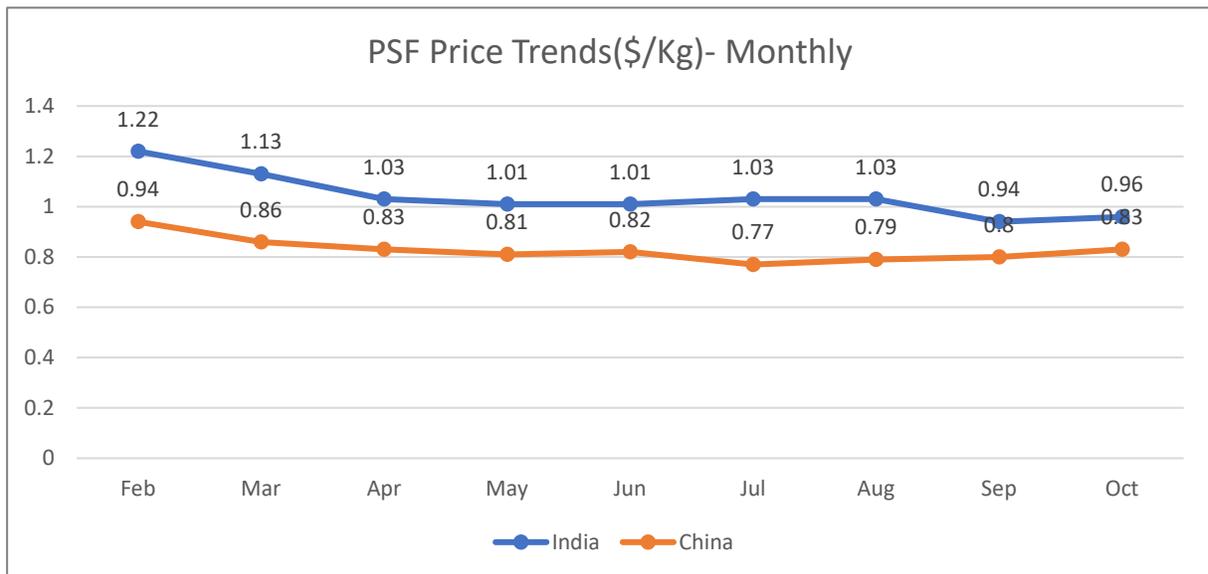
*“Potential impact of COVID 19 on the Indian economy” KPMG – April 2020 – Page 16*

<sup>11</sup> Gherzi article - Impact of the corona virus pandemic on the global textile and clothing industry – ITMF Publication

- Projections in the second quarter of 2020 saw that cotton prices were expected to take a hit, yarn production was expected to contract by 12-15 percent over the next two quarters. The drop - as projected - happened in the second quarter of 2020, however, prices have since climbed back up to pre-COVID19 levels as can be seen in the opposite chart monitoring cotton prices from January to October 2020.<sup>12</sup>



- The projection in April 2020 by KPMG was that price of man-made fiber would rise significantly<sup>13</sup>. An increase in MMF prices would have had an impact on nearly all product categories (loungewear, sportswear, home textiles, technical textiles, etc.). This projection was based on the increased demand for Medical textiles (masks, gowns, etc.) as well as the general shift towards loungewear and active-wear, which predominantly use MMF and blends, coupled with a decrease in production by China due to lockdowns. However, a quicker resumption of production by China has brought back MMF production to pre-COVID-19 levels resulting in lower prices of MMF. Similar to cotton, projections made back in April have not succeeded in capturing the full breadth of the evolving situation and therefore such projections have not proven accurate. The below chart illustrates the progression of PSF prices over the period:



<sup>12</sup> Macrotrends.net

<sup>13</sup> "Potential impact of COVID 19 on the Indian economy" KPMG – April 2020 – Page 16

The International Cotton Advisory Committee (ICAC) is projecting the following<sup>14</sup>:

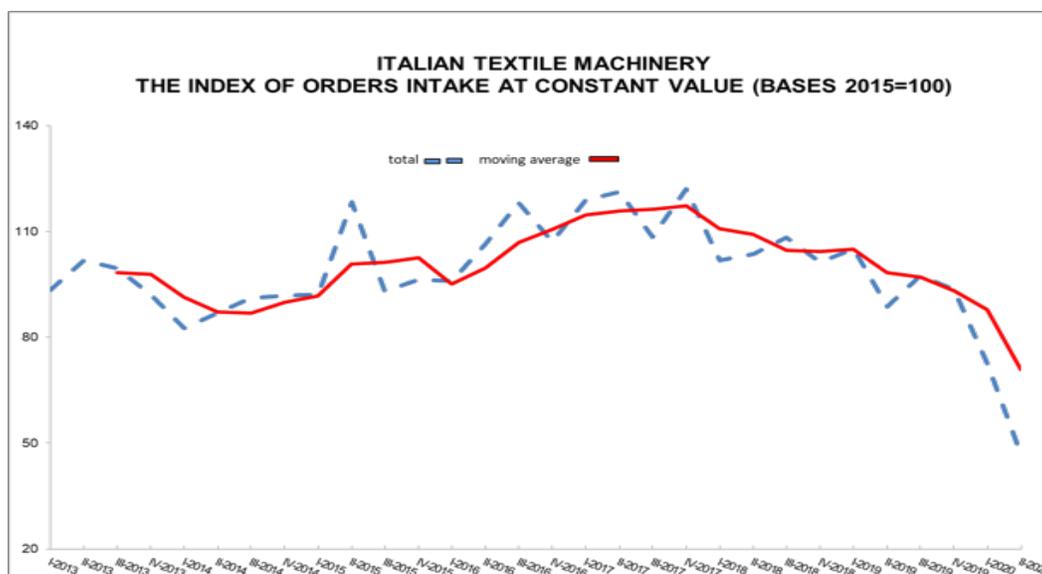
- Global consumption is estimated at 24.4 million tons in 2020/21
- Global production is anticipated to increase to 24.9 million tons in 2020/21
- Production in the United States, Pakistan and West Africa is expected to decrease in 2020/21, while production in India and China is expected to increase in 2020/21
- Production in 2020/21 (24.9 million tons) is projected to outpace consumption by 500,000 tons, and many major producers are expected to see their totals drop in the coming year, including the USA, Brazil, Pakistan and West Africa.
- But as with most dark clouds, there is a silver lining too. Brazil, for example, might be projected to have a 6% decrease in production, but its total production should reach 2.8 million tons—roughly double the size of the crop it was producing only five years ago. India and China, the world’s top two producers, also are expected to increase their totals in the coming season

### Textile Machinery

- The drop in retail sales and consequently buyers’ orders, is driving a lot of manufacturers out of business resulting in an influx of second-hand machinery in the market impacting sales of new machinery, the below chart is extracted from the Italian Textile Machinery Manufacturers Association – ACIMIT – July 2020 which records a decrease of 44% in sales of new machinery overseas and 62% locally.
- In the first nine months of 2020, the Rieter Group achieved a cumulative order intake of CHF 425.1 million (2019: CHF 524.5 million). Compared to the previous year period, this represents a decline of 19%.<sup>15</sup>
- In terms of sales and profitability Rieter expects a stronger second half of the year compared to the first half of 2020. Nevertheless, due to the deferral of deliveries by customers, Rieter will also conclude the second half of the year – and thus the full year 2020 – with a net loss.<sup>15</sup>

*“The government will soon restrict import of used plant and machinery, a move aimed at safeguarding the productivity and competitiveness of Indian manufacturers.”*

*Foundry Informatics Centre – “India set to ban imports of used plant and machinery” – Article October 2020*



<sup>14</sup> ICAC report and date

<sup>15</sup> Reiter website

## Specific Impact on Egypt

Egypt has witnessed a sharp decline in its exports of Textiles and Apparel between January and August 2020 compared to the same period in 2019 as can be seen in the table below. The industry lost 23% of its export volume in value in the first 8 months of 2020. The decrease between March (when the major drops started happening) and August has been around 30%, a figure that is largely consistent with the results of the survey (average loss of sales amounted to around 40% according to survey results).

EGYPT EXPORTS OF APPAREL PRODUCTS in Mn. US\$											
January – October 2020 <sup>16</sup>											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Total
<b>2019</b>	145	131	130	139	135	126	172	136	150	145	<b>1409</b>
<b>2020</b>	144	128	105	51	59	128	135	122	146	127	<b>1145</b>
<b>Change %</b>	-1%	-2%	-19%	-64%	-56%	+2%	-22%	-17%	-3%	-12%	<b>-19%</b>

Recent released figures have shown increases of garments exports figures to both the US and EU markets in September and October; thus, minimizing the negative 23% change to approximately -19% for the same period of 2019.

Europe's imports of Egyptian Textiles and Apparel have been affected more than those of the United States. As a matter of fact – as will be seen later in the report – some US buyers have shifted some of their orders from the Far East to Egypt to diversify their sourcing risks:

EGYPT EXPORTS OF APPAREL PRODUCTS in Mn. US\$			
January – August 2020 <sup>17</sup>			
	Jan to Aug 2019	Jan to Aug 2020	%
USA	795	649	-19%
EU	423	322	-24%
Arab	66	70	6%
Africa	1.6	1.0	-38%
Rest of the World	124	103	-17%
<b>Total</b>	<b>1409</b>	<b>1145</b>	<b>-19%</b>

The impact on Egypt will be measured in more details in the following section of the report. However, the implications of the above changes on Egyptian manufacturers has been similar in terms of decrease in revenues and job losses. However, the changes that are happening to the industry provide Egypt with a significant opportunity to become a short lead time supplier to Europe and to some degree to the US, capitalizing on its geographic location and an existing manufacturing base. The next few years will present Egypt with the possibility of attracting fleeing FDI from Asian countries to nearer sourcing destinations.

*"Supply chains will be different in the future", Mr. Berg believes. His clients are already trying to shorten the time it takes for an ordered shirt to arrive in shops, boosting their flexibility in the face of demand shocks. "The last couple of weeks have shown the vulnerability of the supply chain . . . and accelerated the realization that you need to be closer to the source," he says"*

*The big read – "Can fast fashion \$2.5tn supply chain be stitched back together?" The big read supply chains – The Financial Times*

<sup>16</sup> Export figures as reported by the 2 Export Councils (Apparel and Textiles & Home-textiles)

<sup>17</sup> Export figures as reported by the 2 Export Councils (Apparel and Textiles & Home-textiles)

US garment Imports from Egypt and key competitors in thousand US\$ <sup>18</sup>							
January – October 2019 vs 2020 – HS 61 &62							
Egypt		Vietnam		Jordan		Turkey	
2019	2020	2019	2020	2019	2020	2019	2020
866,611	685,872	11,946,416	11,240,493	1,595,347	1,382,369	556,465	656,873
	-20.85%		-5.90%		-13.34		+18.04%

Egypt, Vietnam and Jordan saw a dip in their exports to the US in the first 10 months of 2020 compared to 2019 while Turkey saw its exports grow by 18%. Those figures are according to the ITC Trade Map Tool which are different from figures published on OTEXA website, which shows Turkey's exports to the USA declined by 17%.<sup>19</sup>This suggests that manufacturers who are closer to the market and able to meet quick development and production cycles (as is the case with Turkey from US buyers) could see an increase in their exports, drawing business from Asian suppliers.

Of all 4 countries, Egypt was the hardest hit and this is – most likely – due to Egypt being traditionally positioned as a supplier of longer lead times offering lower prices over flexibility.

Germany, Spain, Italy, France and UK garment Imports from Egypt and key competitors in thousand US\$ <sup>20</sup>						
February - July 2019 vs 2020 – HS 61 &62						
	Egypt		Turkey		Vietnam	
	2019	2020	2019	2020	2019	2020
Germany	68,142	55,330	1,771,520	1,602,578	657,203	657,864
Italy	30,928	19,815	261,977	221,223	141,293	105,149
France	33,652	34,392	697,721	523,470	483,222	399,819
Spain	74,628	36,039	1,285,668	773,996	159,772	109,283
UK	36,368	23,607	753,131	574,734	282,207	197,621
Total	243,718	169,183	4,770,017	3,696,001	1,723,697	1,469,736
		-30.5%		-22.51%		-14.73%

During the height of wave 1 from February to July 2020 Turkey, a major supplier to the EU, has seen its figures drop by 22.51%, while Egypt has been consistent with about 30% drop in exports to the EU and 21% to the USA.

### Export projections for Egypt 2020 – 2021 and beyond

In 2019 Egypt exports of HS codes 61 and 62 to the world were \$1.703 Bn<sup>21</sup>. Based on estimates provided by the industry and various reports, Egypt is projected to end 2020 with exports down between 25-30% or around \$ 1.20 – 1.28 Bn.

For 2021, Egypt could be looking at maintaining the same level of exports of 2020 (i.e. \$1.20 – 1.28 Bn) or a slight increase to reach around 80-90% of its pre-COVID-19 numbers putting exports projections for 2021 at around: \$1.45 – 1.55 Bn.

<sup>18</sup> ITC Trade Map tool

<sup>19</sup> OTEXA [Major Shippers Country: TURKEY \(trade.gov\)](https://otexa.trade.gov/msrcty/v4890.htm) https://otexa.trade.gov/msrcty/v4890.htm

<sup>20</sup> ITC Trade Map tool

<sup>21</sup> Comtrade

Depending on Egypt's ability to resolve some of its export and investment challenges as well as improve its ability to offer shorter lead times, exports in 2022 and beyond could see an increase (following Turkey's experience with regard to the US market), while attracting some of the relocating business from Asia.

## CHAPTER 3 FINDINGS FROM FIELD RESEARCH IN EGYPT

### Introduction

The main objectives of the survey were to collect various information about how the COVID-19 crisis affected the garments manufacturers. The questions covered many fields from the general information to orders and supply chain to customers and financials ending with number of COVID-19 cases and closure times. The survey also covered the future forecast, markets and products to what was expected from companies in terms of government's support to stimulate the slowing garments export industry.

### Research Key Findings

#### Findings in Numbers

<p><b>51%</b> Have made a salary cut</p>	<p>of the companies surveyed have applied a certain salary cut for a period of time. 28% of those companies are still applying the salary cut till now.</p>
<p><b>25%</b> Reduction in salaries</p>	<p>80% of companies who made a salary cut have reduced wages by 25%</p>
<p><b>65%</b> Reduction in shifts</p>	<p>Of the companies have had to reduce the number of working shifts</p>
<p><b>56%</b> Order cancellations</p>	<p>Around half of all companies have had at least 50% of their orders cancelled</p>
<p><b>60</b> Days delays in payments</p>	<p>Most companies have had to postpone deliveries and have suffered from up to 60 days delays in receiving their payments from their clients</p>

<p><b>60%</b> Back to business</p>	<p>Almost 60% of companies confirmed that their customers are back on placing new orders but of less magnitude while 13% of the factories confirm there are receiving more orders than they used to.</p>
<p><b>34%</b> Raw materials cancelled</p>	<p>34% of the factories confirmed that they have cancelled orders on their raw materials suppliers.</p>
<p><b>58%</b> Raw material delays</p>	<p>58% of factories say that raw materials supply lead time is now longer.</p>
<p><b>81%</b> Sourcing accessories locally</p>	<p>81% of companies surveyed are sourcing accessories locally.</p>
<p><b>40%</b> Will focus on domestic market</p>	<p>40% of factories will focus more on the local market as a result of COVID-19</p>
<p><b>50%</b> Switch to medical textiles</p>	<p>At least half of the companies have switched to medical textile products</p>
<p><b>50%</b> Move towards online</p>	<p>Half the companies have indicated that they are interested to sell their products online</p>
<p><b>0%</b> Took loans</p>	<p>While 70% of the companies confirmed having liquidity problems, ZERO % took loans due to COVID-19</p>

<h1 style="margin: 0;">42%</h1> <p style="margin: 0;">Downsizing possibility</p>	<p>42% of companies think that downsizing can save their business.</p>
<h1 style="margin: 0;">50%</h1> <p style="margin: 0;">Temporary shut-down</p>	<p>Half the factories had to shut down for a period of time during the pandemic</p>
<h1 style="margin: 0;">1</h1> <p style="margin: 0;">Year to go back to normality</p>	<p>Majority of the factories (76%) believe it will take more than 1 year to return to normal orders wise; not before July 2021</p>
<h1 style="margin: 0;">40%</h1> <p style="margin: 0;">Average loss in revenues due to C 19</p>	<p>Survey findings that are consistent with recorded export figures (29% January to August 2020)</p>
<h1 style="margin: 0;">30%</h1> <p style="margin: 0;">Loss of orders till end of 2020</p>	<p>76% of the survey respondents foresee this loss.</p>

## Key Findings from the One on One Interviews

Discussions with factory owners, buying offices and other stakeholders have provided additional clarifications to the figures collected above. Some messages have been recurring throughout the interviews and are summarized below:

Large companies that have responded to the survey and interviews have retained nearly all their workers with very limited numbers of workers released. Small and Medium companies were forced to let go of larger percentages of their workers in varying degrees. Although official figures are not available for the job losses in the industry, Gherzi estimates that a total of about 10% of all workers in the apparel export industry have lost their jobs as a result of COVID-19.

- **Small companies:** 25% of the companies surveyed closed down for 3 weeks as their orders were cancelled or at best forced to delay delivery. They had to apply salary cuts of 20 - 25 % for at least 2 months. We recently contacted a surveyed factory that had let off 50% of its workers in April and they confirmed that since the beginning of October they are re-hiring in full force.
- **Medium size companies:** 40% of the companies surveyed had to close down for 30 days cutting salaries during this period by at least 25%.

- **Large companies:** 50% of the surveyed companies had to close down for a period ranging from 10 to 45 days and had to cut salaries during that time from 10 - 25%.
- The uncertainty of the future (2021) situation makes the common thought among big players is how to stay afloat for the year to come. Attempts to cut costs and maintain positive balance sheets, include cutting salaries, reducing shifts, reducing workforce and putting their expansion plans on hold.
- Several factories have indicated an interest in developing their online sales either directly to consumers or on wholesale portals such as Ali Baba.
- COVID-19 had impacted almost all of the factories, either through a reduction in their orders, a disruption to their supply chains or - in most cases – both.
- Some had to shut down parts of their vertically integrated facilities (circular knitting and dye houses).
- Many of the interviewed companies can see the opportunity of replacing Far Eastern suppliers and are trying to prepare for it.
- The domestic market skipped a season but now remains very strong with high demand. Although the local market cannot absorb the capacities of large export factories, it will certainly can help mitigate some of the COVID-19 impacts. However, this additional capacity directed to the local market will impact negatively manufacturers that are only for local market with discounted goods in abundance.
- Although the government supported the factories by starting to pay the delayed export incentives, there is still a large outstanding amount which is owed to the factories and would provide a significant relief.
- The move towards producing masks is seen to be a temporary solution while more sophisticated medical garments are considered a better and reliable alternative that is being considered by a number of factories.

### Quotes from Interviews

Some of the important quotes collected during one-on-one interviews have strong messages and best capture the feedback from the industry:

Shirt and Denim	"The government needs to incentivize the upstream export supply chain to facilitate more local purchases from exporters to increase the exporters competitiveness."
	"Just to keep afloat during 2021. No plans for capital investments."
Medical Textiles	"According to the law we forced 40% of the personnel to stay home during the crisis for 2 months at 50% of their salaries."
	"Customers disappeared for 2 months."
	"We developed special fabrics for masks and have tremendous amounts of orders since June."
	"It's impossible to resort to local suppliers instead of foreign"
	"Walmart changed the payment terms on special fabric from 1 week to 45 day"
	"The government should support special links in the local supply chain that will enhance export competitiveness."

	<p>"I believe 2021 for garments in Egypt will be a bad year with very weak buying power. For the export of garments business there is a 50 50 chance for 2021"</p>
Knitted and Woven Garments	<p>"April and May sales barely covered wages; i.e.: real loss took place already. We are hopeful to finish the year as with the current rate without losing further sales"</p>
	<p>"We don't have a branded product produced all the time to focus on B2C now"</p>
	<p>"We have always considered new and different markets but now we don't need to try someone new we rather try higher level customers in the same market"</p>
Dyehouse	<p>"We encouraged personnel to use their annual leaves to decrease the number of employees coming to work to the minimum"</p>
	<p>"Banks are not co-operative; they are in another dimension"</p>
Home Wear	<p>"Export councils should coordinate more between big exporters and small factories to utilize their capacity and help them leverage their quality standards and SOPs"</p>
Knitted and Woven Garments	<p>"Eliminating government bureaucracy specially in customs and ports (sea and air) to speed up procedures to serve exports"</p>
	<p>"We only want utilities at international rate not less not more "</p>
	<p>"Some parents of workers were worried about their sons and daughters and forced them to quit their jobs"</p>
	<p>"Educating people specially workers and increasing their awareness about the importance of exports"</p>
	<p>"We had to close the in factory technical school as per the government orders"</p>
Versatile Factory	<p>"One of our customers went chapter 11 (Nyguard)"</p>
	<p>"50% loss of orders by the end of 2020"</p>
Sourcing Office	<p>"The EU and USA represent 75% of the global garments market; they are our first option"</p>
	<p>"Globally, Japan is a good market but is not reachable for us"</p>
	<p>"China's policy to reallocate its resources to more advanced (technology) industries will leave a gap in its internal local market needs of garments. This gap will be filled by neighboring garments producing countries; same with India"</p>
	<p>"Africa is still not a viable market for Egyptian garments manufacturers as they are still importing used garments from EU and USA but it's still good for individual opportunities"</p>
	<p>"The Arab countries are also good for individual opportunities"</p>

	<p>“In general, Producers should be upgrading their product range all the time towards higher value products. Now there is a good opportunity for Egyptian garment manufacturers to use PPE from masks to gowns etc.”</p>
	<p>“Simply the government should pay its dues immediately and postpone what is owed by manufacturers”</p>
	<p>“The 2008 crisis took 3-4 years for the economies to recover and its was nothing compared to what the world is passing through now. The unemployment rate in the USA rose to 32% in Q2 of 2020 with an average growth rate of 2%, the USA shall take years to recover”</p>
	<p>“The interest policy needs to be changed completely. Interest rate for the industry should not exceed 3-4% max.”</p>
	<p>“The fiscal policy needs restructuring. The CBE should use its tools to force banks to finance industrial projects and start-ups. For example each bank portfolio should have a minimum percentage of industrial corporate finance”</p>
	<p>“No orders placed were cancelled to any factory”</p>
Brand Sourcing Office	<p>“Woven items that were planned for placement in Egypt were cancelled/postponed indefinitely”</p>
	<p>“40% of orders were deferred delivery”</p>
	<p>“They are placing new orders but of a much less magnitude; i.e.: some factories with 80% reduction and some with 30% reduction”</p>
	<p>“Year on Year 2020/2019 is going to finish with 40% less orders”</p>
	<p>“They still place new orders based on season plans”</p>
	<p>“The customer is Italian so they were hard hit in their home land which justifies the drops in orders”</p>
	<p>“We plan to move more orders to Egypt out of other countries”</p>
	<p>“They recruited an Italian full-time manager for the Egypt office settled with family (good sign)”</p>
	<p>“Tunisia is the primary competition as the brand owns part of the supplying factory in Tunisia”</p>
International Buying Office	<p>“The traders are surviving because they have a portfolio of customers. The retailers and the brands are the ones really suffering”</p>
	<p>“Our company’s divisions sourcing for Costco and Walmart are doing well in Egypt, but other divisions for brands are not doing well (such as Hugo Boss)”</p>
	<p>“I believe that factories in Egypt have lost 30 to 40% of their business and in some cases more.”</p>
	<p>“I believe that Europe started picking up, but expected that the US will suffer very badly in 2021 as they have spent a lot on COVID-19 and this spending will show its effect on the economy in 2021”</p>

“A lot of companies have turned to Chapter 11 (the ones that are in the stock market) as a way to maneuver the crisis. Fong’s having stocks also decided to turn private in the beginning of the Corona.”

## Government decrees and their effect on the T&C sector

The Prime Minister issued Decree No. 719 of 2020, including inter alia:

- Pregnant women or those looking after one child or more of less than 12 years shall be granted an exceptional leave for as long as the decree remains in force; allowing all working mothers to be able to do their family duties without losing their jobs. Effect: This article did not affect the private sector as if female workers would resort to it, they will be paid on their fixed salaries only.
- Women employees looking after their children with disabilities shall be granted a leave pursuant to a circular; allowing mothers of children with disabilities to be able to take care of their children without losing their jobs. Effect: This article did not affect the private sector as if female workers would resort to it, they will be paid on their fixed salaries only.
- The President announced the disbursement of exceptional bonuses (500 LE) from “Tahya Misr” Fund for all the workers in quarantine. Effect: minimal effect on the T&C sector as most of the non-committed workers are from the construction sector.
- The Financial Regulatory Authority (FRA) issued a set of resolutions on the activity of microfinance for the benefit of 3.1 million citizens, including:
  - Reduce or postpone the installments due from the clients by 50% of the value of each installment for microfinance clients. Effect: minimal on the T&C sector.
  - Exempt microfinance clients who make timely payments from the commission of the prepayment of indebtedness or reducing the administrative fees to renew the existing funding; economic opportunities benefiting women in microfinance. Effect: minimal on the T&C sector.
- Micro, Small and Medium Enterprise Development Agency (MSMEDA) announced the launch of an exceptional loan for a limited period to help small projects survive the crisis & support needed liquid money to finance running & production costs. Loan maximum amount is 1 million EGP & it shall be granted to small businesses with specific conditions & an exceptional interest rate, according to the nature of each project. Effect: minimal on the T&C sector as maximum amount is relatively small.
- CBE decision to allocate LE 100 billion through banks, at an interest rate of 8%, to finance the private sector. Effect: minimum effect on the T&C sector as although 8% is much less than the normal interest rate yet it is still high for what is needed in the industry.
- Reducing interest rates by 3%, setting maximum limit for daily withdrawals and deposits, and cancelling blacklists for institutional clients and negative lists for clients who already obtain loans. Effect: should be good as many companies couldn’t apply for loans as they were previously enlisted in the negative lists.
- Allocate LE 1 billion for exporters dues before June 2020 in the framework of the Export Rebate Program. Effect: good effect but still there is a back log in the export rebate program.
- Lifting administrative penalties on all taxpayers who have payable tax. Effect: minimal as the dues are still to be paid as only the administrative penalties were lifted
- Issuing a decree to extend work permits of expired industrial licenses. Effect: minimal as this will only postpone the fees of issuance of the license.

- Reducing the price of natural gas to USD 4.5 per million thermal units. Effect: very good effect on the supply chain of the T&C sector as it represents around 10% reduction in the price but still far from the international price bearing in mind that the price of natural gas increased at least 5 folds since 2014.
- Reducing electricity prices by 10 piasters for electricity intensive industries and fixing electricity prices for the rest of industries for a period of 3-5 years. Effect: moderate effect as the prices of electricity for industry also had been increased several times in the past few years.

## CHAPTER 4 CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

#### On a global level

The impact of COVID-19 on the international Textiles and Apparel Sector has affected both supply and demand in various ways. The extent of the impact remains to be seen as the situation continues to evolve with the possibility of a second wave of lockdowns and a lack of visibility for when or how the world will return to normality. Going through the various reports, articles as well as interviews have shown distinct opinions and varying projections. Despite the chaos, there are four key global conclusions that have emerged over the period summarized below:

#### *1/ This will remain a time of uncertainty for the foreseeable future*

Most of the projections made in the early days of the pandemic have proven to be either wrong, inaccurate or lacking in detail. It is almost impossible to grasp the entire spectrum of factors and variables that are affecting the world in general and the Textile and Apparel Sector in particular. There are two major factors that are hindering this ability to project:

- **Difficulty to predict the development of COVID-19 pandemic**  
The behavior of the pandemic has been – to say the least – erratic with individual states experiencing different trajectories for the development of the disease. A second and potentially more waves of spread and unknown extent of the seriousness of such a wave has made it impossible to predict how markets will react. The absence of visibility for a vaccine and therefore an end to the crisis continues to make it difficult to foresee when a return to normality can be expected.
- **Countries have reacted and continue to react differently**  
In response to the disease countries have taken differing approaches on the medical, social and economic levels. To complicate things further, the measures taken by different states continue to change until today, making it difficult to predict how markets and consumers will react as well as how manufacturing countries will be able to meet their production commitments.

Those two factors combined have made it nearly impossible to predict neither the supply nor the demand for apparel and textiles. Moreover, with no similar global crisis in recent history, there is little to learn from the past; this is forcing decision makers to take shots in the dark with no reliable projections to count on. The result is a multitude of policies and approaches that are poorly orchestrated between nations further complicating the situation.

#### **Implications for the sector**

Those levels of uncertainty will continue to dominate the industry in the foreseeable future. Both retailers and suppliers will have to re-organize their businesses to work with limited visibility. This will require leaner and faster business models that can react in a short time to global, regional and national developments.

#### *2/ Demand is down and will stay down*

Different markets have reported varying degrees of decrease in consumption of textile and apparel goods. Nevertheless, the fact remains that all countries have witnessed a shrinkage in consumption during the peak of the pandemic. With a second and potentially more waves to come, consumption will continue to be lower than its 2019 levels especially as the full extent of the impact on employment and purchasing power reveal their full extent. In the best-case scenario, consumption will remain at the levels witnessed after the

peak of the pandemic and will start to climb back gradually to reach pre-COVID-19 levels by end of 2021 at best. However, additional waves of the disease could trigger other cycles of sudden reduced demand. McKinsey's best-case scenario projects lower volumes by 0-5% in 2021 compared to 2019 while a downside scenario could see up to 15% lower sales.

Moreover, the wave of bankruptcies sweeping through the retail market will lead to a consolidation in the sector at least in the near future. Traditional "large" clients for many textile and apparel manufacturers are disappearing leaving producers with a smaller pool of clients.

### **Implications for the sector**

Retailers are forced to reduce their stocks and focus on enhancing their online sales capabilities to recover from the lockdown sales figures drop. This reduction of stocks shall put pressure on prices as retailers will resort to selling with discounts. This price pressure will ripple back to manufacturers.

Less volumes of orders offered, and with lower prices requested from buyers, manufacturers might be forced to continue applying salary cuts and stop hiring to help keep their cash flows healthy.

### *3/ Consumers are changing and companies need to do the same*

The crisis has also resulted in major changes to consumption models. In addition to the financial pressure and uncertainty which impacted consumers' willingness and ability to buy textile and apparel, the crisis has also changed how consumers buy goods as well as their choice of products. Retailers have reported a significant jump in their online sales and a shift towards basic products at the expense of fashion products. Work from home has led to an increase in sales of fashion items and a decrease in formal wear. Walmart has reported an increase in sales of tops at the expense of bottoms, attributing this shift to the need for upper wear in video calls as opposed to bottom wear.<sup>22</sup>

*"The European fashion industry registered the equivalent of six years' growth in online shopping penetration, rising from 16 percent of total sales in January to 29 percent in August."*

*McKinsey – Business of Fashion*

### **Implications for the sector**

The outlined changing consumer behaviour will require more agile business models that are able to respond swiftly to market demands. Manufacturers might have to take on some additional roles typically handled by the retailer, such as maintaining stocks of products, shipping and logistics directly to consumers or to distribution centers, which in turn will mean higher connectivity and a stronger digital infrastructure. Manufacturers who were relying exclusively on price competition, will find it more and more difficult to compete in a service driven value chain. Moreover, the shift in product categories will have implications on the choices of materials, accessories, packaging and the labor content in a product (basic requires less labor than fashion items).

### *4/ Shorter lead times are taking over*

The need for shorter lead times and more flexible value chains will see retailers favor suppliers that are closer to the market even at the expense of a premium in price. The move to supply destinations closer to markets has been a growing trend in the past 5 – 10 years that has been further expedited by the COVID-19 crisis. For instance, some Egyptian factories have reported an increased volume by some of their clients (such as: Walmart and Cotsco) - at the height of the pandemic - who were relocating some of their sourcing outside of China.

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<sup>22</sup> NPR – "Walmart reports increased sales in tops, not bottoms, as more people telework" – article - March 2020

## Impact for Egypt

The apparel and textile industries in Egypt have gone through a similar experience to that of the rest of the world. Although some clients have increased their sourcing out of Egypt, the industry has still suffered a decrease in overall demand. Orders were cancelled including already shipped products leading factories to adopt austerity measures including dismissing labor, cutting wages and shutting down production lines. On average companies reported around 40% decrease in volumes (official export figures put the number at 30%) with projections to close the year with about 30% lower volumes than in 2019. This decrease in demand has also led to pressure on prices and lead times, a disruption of production and a halt on expansion plans. Although the short-term future will carry some challenges for Egyptian exporters, the medium-term will offer some growth opportunities as European and American retailers look closer to home for their sourcing.

### *1/ Short term (1 – 2 years)*

In the short-term Egypt can expect the following:

- A continuation of the lower levels of demand for export products during 2021 with a potential return to 2019 levels by the end of the year,
- Increased pressure on prices (up to 15% as reported by Bangladeshi producers) and lead times by importers,
- The loss of some US and European buyers who are going out of business,
- Some increased volumes from clients already importing out of Egypt,
- Disruptions to deliveries of raw materials and accessories.

### *2/ Medium term (2 – 5 years)*

The medium term carries brighter prospects for Egypt. As markets stabilize past the peak of the pandemic, demand will start climbing back gradually to pre-COVID-19 levels. Moreover, European and American buyers will start shifting more of their sourcing from Asia to closer manufacturing destinations, with Egypt being in a unique position to capture some of that relocating business. Additionally, Asian manufacturers will start looking to relocate their factories closer to consuming markets, again putting Egypt as one of the leading potentials for attracting FDI in the sector. If Egypt is able to make available the proper infrastructure, investment incentives and to create a conducive environment for FDI (such as: cutting red tape, making available industrial land, training labor, short- and long-term financing, etc.), the country can see its exports of textile and apparel products increase substantially.

## Recommendations

Based on the outputs from the field research, interviews, group discussions as well as the review of existing literature, 15 key recommendations have been developed. The recommendations are designed to achieve the following:

### Provide short-term relief to factories in order to maintain their operations

Through repayment of outstanding export incentives (currently taking place covering exports till June 2020) and VAT rebates, the government can relief some of the financial burdens challenging companies and without any extra cost to the government as these amounts were already due.

### Improve the short and medium-term competitiveness of the sector in Egypt

By improving some of the existing dues and reducing some of the key costs facing Egyptian manufacturers, the government can, at little additional cost, improve the competitiveness of the industry and providing local manufacturers with cost advantages to compete in global markets.

### Improve the competitiveness of Egyptian exporters

Supporting Egyptian enterprise in the sector in adopting new technologies to meet the evolving demands of the sector in the area of digital transformation. The interventions through financing technology transfer, training and acquisition of software and hardware.

### Provide growth opportunities to attract domestic and foreign investments in the industry

By fixing some of the structural issues in import and export operations, the sector will be attractive for investments targeting short lead times and flexible manufacturing.

## Recommendations for government and policy makers

Recommendation 1: Export Incentive Payment (short term)			
<b>Description</b>	The government owes many exporting factories their export incentive Back logged for 6 months now		
<b>Rational (background)</b>	Manufacturers incorporate the incentive value in their pricing to be competitive; without it they lose their margin.		
<b>Objective</b>	Buffer the cash flow problem factories facing		
<b>Responsible</b>	Ministry of finance in coordination with the Export Council.	<b>KPI/ Short term</b>	No back log by end of 2020 and maintain the “no back log” state.

Recommendation 2: Export Incentive Increase (medium term)			
Description	Increase export incentive percentage to reach 15% at least until the end of 2021		
Rational (background)	This raise will increase the competitiveness of exporters at a considerably low cost to the government, thus securing employment in export companies		
Objective	Support manufacturers and increase exports as well as attract FDI		
Responsible	Ministry of finance in coordination with the Export Council.	KPI	Return sector exports to pre COVID-19 levels by end of 2022
Recommendation 3: Soft Loans for Investments in the Industry (short, medium and long term)			
Description	Provide soft loans to the industry for both short term and long-term financing needs with a maximum interest rate of 4%		
Rational (background)	Current interest rates are prohibitive for investments in the industry. Providing soft loans would support growth in the sector, increase employment and attract FDI and increase exports		
Objective	Grow the industry and attract investments		
Responsible	CBE (Central Bank of Egypt)	KPI	Provide at least USD 2 Billion over 5 years in soft loans dedicated to the sector
Recommendation 4: Bring Utility Costs to International Rates (long term)			
Description	Decrease utility costs to international rates (at cost)		
Rational (background)	Natural gas and water costs are main burdens to the industry and currently are priced at above international rates		
Objective	Increase the competitiveness of the industry and the attractiveness to domestic and international investors		
Responsible	Cabinet	KPI	Price natural gas and water at international rates

Recommendation 5: Defer Payment of Dues (short term)			
Description	Forgive or defer taxes and other government dues (such as license renewals and other administrative fees) until the end of 2022		
Rational (background)	Some government dues are the obligation of factories even if they are incurring losses		
Objective	Alleviate some of the financial burdens		
Responsible	Cabinet	KPI	Defer taxes and government dues for the whole of 2020 and not just 3 months.

Recommendation 6: Reimbursement of Delayed VAT Rebates (medium term)			
Description	Government to expedite the repayment of delayed VAT rebates to companies on exported goods		
Rational (background)	These payments have been long due (along with export incentives) and have been a burden on companies' cashflows		
Objective	Provide needed liquidity		
Responsible	Cabinet	KPI	Finalize all payments of delayed VAT rebates by end of fiscal year 2020-2021 and maintain "no back log" state.

Recommendation 7: Reconsider Temporary Admission / Drawback System (long term)			
Description	Government to reconsider / simplify the existing laws for temporary admission of imported raw materials for export purposes		
Rational (background)	Allow easier access to imported raw materials necessary for shorter lead times and more competitive goods for exports		
Objective	Improve competitiveness of Egyptian exporters		
Responsible	Cabinet	KPI	TBD

## Recommendations for business support organizations

Recommendation 8: Technical support and training (medium term)			
<b>Description</b>	Make available training on key skills necessary to move from a subcontracting model to a full package model such as merchandising, digital sampling, logistics, design, etc.		
<b>Rational (background)</b>	Most Egyptian exporters work on a CMT or subcontracting basis, where buyers are responsible for sourcing fabrics and accessories and manufacturers are only selling sewing capacity. With increased demand for flexibility and shorter lead times, manufacturers will need to take on board new functions such as design, sourcing of fabrics and accessories as well sampling and prototyping.		
<b>Objective</b>	Companies' to provide a higher value-added service		
<b>Responsible</b>	T&C manufacturers Business Support Organizations	<b>KPI</b>	TBD

Recommendation 9: Online readiness / integration (long term)			
<b>Description</b>	Support companies in developing their online selling and marketing tools to replace face to face meetings and exhibitions through the acquisition of digital technologies and training middle management on the use of such tools.		
<b>Rational (background)</b>	With travel becoming increasingly difficult and retailers requiring shorter lead times, companies need to be able to shift more towards online selling models (virtual showrooms, virtual sampling, integration with retailers' ERP's, etc.). Such tools allow factories to offer their products to buyers using digital solutions.		
<b>Objective</b>	Companies' to provide a higher value-added service		
<b>Responsible</b>	T&C manufacturers Business Support Organizations	<b>KPI</b>	TBD

Recommendation 10: Online selling portal (medium term)			
<b>Description</b>	Through cooperating with an existing B2B portal for textile manufacturers develop a tailor-made solution for Egyptian exporters to be present online.		
<b>Rational (background)</b>	Egyptian manufacturers are still relying on traditional selling models, depending on sourcing offices and exhibitions to meet new clients. An online presence could provide selling opportunities for small and medium companies.		
<b>Objective</b>	Create an online selling solution for small and medium textile companies		
<b>Responsible</b>	Business Support Organizations	<b>KPI</b>	TBD

Recommendation 11: Capacity building for existing testing facilities (long term)			
<b>Description</b>	Capacity building and partial funding of laboratory equipment for existing testing facilities (including inhouse testing facilities in factories).		
<b>Rational (background)</b>	Testing is one of the steps that could reduce the development and approval cycle for products during prototyping, sampling and production. Currently most factories rely on outside laboratories and in many cases these facilities are out of the country (Shrinkage, dimensional stability, color fastness to various factors etc..). This increases the approval cycle by several days. Having approved / accredited inhouse testing for some basic tests and additional tests available in domestic laboratories would reduce development cycles by several days.		
<b>Objective</b>	Make available accredited testing facilities		
<b>Responsible</b>	Business support organizations Textile manufacturers	<b>KPI</b>	TBD

<b>Recommendation 12: Research on new markets emerging for Egypt (short term)</b>			
<b>Description</b>	Detailed in depth research with trade analysis on the potential emerging markets for Egypt's garments exports.		
<b>Rational (background)</b>	The COVID-19 pandemic had led to changes in the garments supply chain; near shoring and relocating orders to avoid major disruptions that took place due to the China/ Asia lockdowns have created opportunities for Egypt to step in as an eligible supplying country.		
<b>Objective</b>	Highlight the opportunities that became available in the EU and US markets and opened to the Egyptian garments manufacturers.		
<b>Responsible</b>	Business support organizations	<b>KPI</b>	TBD

<b>Recommendation 13: Study on the factors hindering Egypt's quick response (short term)</b>			
<b>Description</b>	Detailed in depth study with trade analysis focusing on the factors hindering Egypt's quick response to complex products from international buyers.		
<b>Rational (background)</b>	Flexibility, speed and agility in responding to inquiries are now key in the buyers' decision of where to place the orders. Egypt needs to identify, study and highlight resolutions to the obstacles that holds the Egyptian manufacturers from moving into the category of fast responding supplying countries.		
<b>Objective</b>	Identifying the main factors that are hindering Egypt from providing shorter lead times and higher value product packages		
<b>Responsible</b>	Business support organizations	<b>KPI</b>	TBD

## Recommendations for manufacturers

Recommendation 14: Implementation of digital prototyping (medium term)			
Description	Facilitate the acquisition of digital prototyping software and hardware as well as training middle management on the use of those technologies		
Rational (background)	One of the key tools to reduce development times is to rely on digital prototyping for garments and fabrics. Such technologies are being used increasingly by buyers and factories alike to cut down on lead times.		
Objective	Reduce lead times		
Responsible	T&C manufacturers	KPI	Implementation of such systems in at least 5 companies as a pilot project

Recommendation 15: Focus on domestic market (short term)			
Description	Export companies to refocus some of its capacity to the local market		
Rational (background)	Demand from international markets will remain relatively low throughout the next year and possibly up until 2022. Although Egypt should see an increased interest from European and US buyers relocating their sourcing away from Asia, the shift will happen over an extended period. In the short-term a focus on the domestic market could fill some of the idle production capacity, provide shorter capital cycles and diversify exporters' risk in the medium term.		
Objective	<ul style="list-style-type: none"> <li>• Provide immediate orders to fill some of the idle capacity</li> <li>• Provide long term diversification of risk for exporters</li> </ul>		
Responsible	Textile manufacturers	KPI	None

Recommendation 16: Medical textiles (short term)			
Description	Refocus some of the idle capacity towards medical textiles		
Rational (background)	Local and international demand for medical textiles (masks for consumers and nonwoven PPE for workers in the healthcare sector) have surged due to the pandemic, creating an opportunity for textile manufacturers to switch some of their capacity to the production of medical textiles. This demand is expected to continue in the short term and medium term. Even after the discovery and roll-out of a vaccine, the habit of wearing face coverings is expected to continue, at least partially.		
Objective	<ul style="list-style-type: none"> <li>• Provide immediate orders to fill some of the idle capacity</li> <li>• Provide long term diversification of risk for exporters</li> </ul>		
Responsible	Textile manufacturers	KPI	None

Recommendation 17: invest in lean manufacturing (medium term)			
Description	Engage experts for the development of lean manufacturing		
Rational (background)	Due to the pandemic, EU and US buyers are looking for manufacturers able to provide smaller quantities in shorter lead times. This will give countries closer to the consuming markets (such as Egypt) an opportunity to attract a significant share of the textile business. Manufacturers should be ready to meet faster development and production deadlines. Companies need to invest in developing their quick response mechanisms and to build leaner operations.		
Objective	<ul style="list-style-type: none"> <li>• Be able to meet faster development and production cycles</li> </ul>		
Responsible	T&C manufacturers/ Business support organizations	KPI	None

## APPENDICES

### Appendix I. Project Background

The Global Textiles and Clothing Programme (GTEX) and its related work in the Middle East and North Africa (MENATEX) promote textile and clothing exports from countries in Central Asia, the Middle East and North Africa. The aim is to stimulate employment and income generation along the value chain. The programme will run until December 2021. The GTEX programme is funded by the Government of Switzerland in the Textile & Clothing sector in five selected countries; these are Egypt, Morocco and Tunisia in North Africa and Kyrgyzstan and Tajikistan in Central Asia; as well as by the Government of Sweden within the framework of the Middle East and North Africa region Textiles program (MENATEX) in Jordan, Morocco and Tunisia. The International Trade Centre (ITC), in close collaboration with the Swiss State Secretariat of Economics Affairs (SECO) and the Swedish International Development Cooperation Agency (Sida), is implementing the programme.

At present, with the global crisis of the COVID19 pandemic, it is essential to be flexible in project planning and implementation. For that reason, communication with the different stakeholders was initiated with the objective to offer support on critical interventions needed to overcome the recently generated challenges. It was concluded to work on an impact study to allow the stakeholders to have updated information on the crisis impact on the textile and clothing sector.

As the only international organization fully dedicated to supporting the competitiveness of small and medium-sized enterprises (SMEs), the International Trade Centre (ITC) is closely following how the pandemic is affecting SMEs with a particular focus on businesses in developing countries. Furthermore, within the framework of the Global Textiles and Clothing Programme (GTEX) and its related work in the Middle East and North Africa (MENATEX), ITC is conducting an impact assessment study on the global market and local industry of Textile & Clothing in Egypt.

### Appendix II. Methodology

#### Background – STUDY TORs

The study has 6 key deliverables:

1. Survey and field research where a detailed assessment of the socio-economic impact of the COVID-19 will be done. A quantitative survey was sent online to numerous companies in order to formulate an understanding of the COVID-19 effect on the various fields of business within those companies. Qualitative interviews with key stakeholders in the T&C sector from champion companies to buyers' representatives to ready for export small facilities took place in order to further enhance the understanding of the COVID-19 impact.
2. Review of existing literature where a report on recent surveys & articles written on the impact of COVID-19 crisis on sourcing decisions of major brands & retailers will be presented
3. Report on preliminary recommendations for a sector response on the short, medium and long terms
4. Workshop with T&C stakeholders to present the findings and recommendations for a response.
5. Report on recommendations: short, medium & long-term recommendations at enterprise, institutional & government levels to address the impact of COVID-19
6. Final report including the findings of the research and the recommendations on different levels and how the GTEX/MENATEX could support the sector

## Implementation steps

### 1. Survey and Field Research

Gherzi has conducted over 40 interactions with factory owners in Egypt. Considering that there are around 100 exporting factories in Egypt representing 90% of all exports, the sample represents 36% of the total population of Egyptian exporters. The interactions took the forms of:

a) One-on-one interviews:

A total of 11 one-on-one interviews were conducted with exporters in addition to 3 interviews with buyers/buying offices in Egypt. The discussions although open ended in nature covered the following areas:

- Orders and demand
- 2021 forecast
- Financial needs

b) Online questionnaires:

A questionnaire was circulated with the help of the 2 export councils to a number of exporting factories. In total, Gherzi received 32 completed questionnaires. The topics covered included:

- Workers and salaries
- Government stimuli
- Opportunities at hand

c) A group call organized by the export councils was attended by 19 participants where an open group discussion was held covering the following topics:

- Management consultancy and training
- Orders cancellations
- Most pressing needs

### 2. Desk Research

Gherzi has collected 35 different documents (listed in the detailed bibliography) The collected literature provided a comprehensive overview of the following important topics:

- Impact of COVID-19 on the global textile, apparel and retail industries
- Impact of COVID-19 on the Egyptian industrial sector
- Actions taken by various governments to support their industries
- Projections of the changes in consumer and manufacturing models to impact the industry in short, medium and long terms

### 3. Recommendations

Based on the findings from both the field and desk researches, Gherzi experts have worked to elaborate a number of recommendations for the Egyptian government to support the Textile and Apparel industry during those challenging times. The recommendations have been modeled based on the input received from local manufacturers and stakeholders as well as after actions taken by other governments around the world, including recommendations from global bodies such as the World Bank and other international organizations.

## Summary of Research Tools



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