

APPAREL AND ACCESSORIES

Roadblocks to the recovery of China's supply chain

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Facing the expected and unexpected challenges due to COVID-19 pandemic, China's textile suppliers say that they are in the same boat with their clients. Image credit: Acne Studio. Composite: Haitong Zheng

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When Liu Wei, a woolen textile sales manager, started receiving a wave of overseas calls and emails asking him to halt orders, he was prepared.

"We experienced the market disruption first [due to the COVID-19 outbreak]," Mr. Liu said.

"We were worried that our clients might shift their production to places like South East Asia because of the restrictions here," he said. "What's unexpected is that they ended up having to cancel on us."

Mr. Liu's employer, a woolen supplier called Shenzhou located in China's Jiangsu province, produces textiles for brands such as [Brooks Brothers](#), J. Crew and Reiss.

As the COVID-19 pandemic rips the world apart, global fashion supply chains have been beaten into the ground.

Chinese suppliers that processes natural fabric such as cotton, wool, and manmade fabrics including polyester have been hard hit twice: They were forced to close their workshops by the central government amid a lockdown and, now, by their overseas clients, which came as a surprise because Beijing has been easing restrictions on the path to recovery.

As a result, the export volume of such goods dropped almost 20 percent in the first two months of this year, according to the General Administration of Customs.

In China, the [biggest textile producer](#) and exporter in the world, geographical advantages to transportation and access to raw materials have given rise to provinces such as [Jiangsu](#), Zhejiang and Shandong, where [textile](#) production and exports serve as a pillar of the local economy.

Many conglomerates from these regions, such as [Shandong Ruyi](#), the LVMH aspirant of China that owns Swiss luxury brand [Bally](#), also began as a humble textile factory.

As a port city, Zhangjiagang has some of the biggest textile suppliers and exporters in China. It is a microcosm of

China's textile supply chain. *Jing Daily* spoke with several employees to learn the challenges and uncertainties the industry face on the road to a full **recovery**.

Facing travel restrictions and discrimination, non-local workers delay return
China is in recovery mode.

By March 28, 89.9 percent of industrial workers at large factories had returned to their jobs and 76 percent of mid- to small-sized factories had returned to work, according to the Ministry of Industry and Information Technology.

But the textile industry's recovery is far below the national average.

When the lockdown was initially lifted, factories needed to apply for certificates from local governments to reopen.

However, as the situation has evolved, the bigger issue around travel regulations of workers has continued, with a rising concern resulting from China's new measures to control the virus spread by asymptomatic cases, which has brought discrimination against non-local workers and put another strain on staffing.



With roadblocks in staffing and orders, the textile industry's recovery is far below the national average. Image credit: Xinhua Agency

The travel restrictions go both ways for Shenzhou's workers.

Before the pandemic, its local factory had about 800 workers, while a second factory had around 200. However, only one third of them returned to work as of last week.

"Our local factory is missing a lot of workers because a large part of our workforce is from the Anhui province," said Qian Yongliang, a sales manager at Shenzhou.

"On one hand, there are travel restrictions from their local provincial governments. On the other hand, our city is restricting anyone coming from outside."

For non-local workers, returning to work means an added cost and uncertainty of their living situation.

Although Jiangsu province has lowered the level of alarm, it still asks all inbound people to quarantine themselves for 14 days at appointed locations, with fees covered by themselves.

Many workers, however, do not want to waste that money, said a former managerial employee at another local textile supplier Huafang.

Last Wednesday, recognizing the potential danger of asymptomatic COVID-19 cases, China announced a focus on observing the positive cases without symptoms.

This shift of focus against the fight of **COVID-19** has unexpectedly brought discrimination toward workers from outside the province.

As a result, local landlords in Zhangjiagang feel hesitant about renting their properties to the outside population, especially people from Hubei, a former manager at Huafang Group's cotton spinning workshops said.

Suppliers are suffering different extents of impact

While all of China's textile suppliers with overseas clients are being affected, the ones that are focused on supplying for the spring/summer season are experiencing an even bleaker outlook compared to other woolen suppliers, which were mainly used in fall/winter collections.

"Given the nature of our materials, we supply to those brands' for the fall/winter season, we are doing slightly better than the cotton suppliers," Mr. Liu, the sales manager, said.

The initial halt took place at the end of February, as the COVID-19 outbreak rippled across the United States and Europe. But after two weeks, most of his clients, including Brooks Brothers, resumed their orders.

Mr. Liu said the clients were optimistic and expected that the pandemic could end by the end of summer and planned the order to be in place for the winter collections.

It would take Shenzhou two to three months to finish before shipping the textiles to clothing manufacturers in Southern China, according to Mr. Liu.

Brooks Brothers did not immediately respond to requests to confirm its production plan.

About a 15-minute drive north from Shenzhou lies the headquarters of two of the largest cotton yarn and cloth suppliers and exporters in China Huafang Group and Guotai Group.

The two groups both have core businesses in textiles, but have also ventured into investment and hospitality. Moreover, both were heavily hit by the crisis, according to former employees in the know.

Huafang's current number of staff and production is one-third of what it used to be before the crisis, the former manager said.

"Guotai's orders are mostly from Europe and the U.S.," a former employee in Guotai's export business said. "For some of Guotai's subsidiaries, as much as 80 percent of the orders have been cancelled."

Pricing of products is being disrupted

Due to the sudden drop of demand, some clients and intermediaries are asking the suppliers to discount their goods, which can be a tough decision to make.

"Some clients said they could keep their orders on the basis of a discount, but I'm not sure if our company is willing to do that," a current business assistant at Guotai said.

If the discount is within a reasonable range, both sides could mitigate their losses, but submitting to discounts might also cause disruption of the market order, which is why Shandong Textile Association sent **an open letter** to the industry players.

"We will firmly strike down irrational bargaining especially those from intermediate traders," the letter said.

The association encourages members of their service center to directly contact and supply to end-clients.

The price of textiles has already witnessed different levels of decline in the first two months.

The sales ratio of cotton yarns and cloth came to their lowest point in the last three years, while the time for stocking duration became the longest, according to the China National Cotton Information Center (CNCIC), which just published a **weekly report** with information from 1,895 surveillance centers across the country.

The pricing might affect the further outlook of raw materials such as cotton as well.

As spring should be the sowing season for the Northern hemisphere, the disrupted price might trickle down to cotton farmers, who are financially unmotivated to plant cotton, the report pointed out.

CHINA'S SUPPLY CHAIN recovery depends on the demand from the rest of the world.

Although many global brands are bootstrapped at this turbulent time, there are things they can do to mitigate the adverse relationships between themselves and their Chinese suppliers.

The most important thing is to keep open and transparent communication, so that once the COVID-19 virus situation changes, they all can bounce back quickly.

Many suppliers such as Mr. Liu have been understanding and allowed clients to pay for their orders a few months later.

"We are trying to be sympathetic, and if we switch situations, we can imagine how difficult it might be for us," Mr. Liu said. "Our strategy is to survive this together with our clients."

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