BusinessMirror

Philippine garment sector faces $600M in losses

APRIL 26, 2021

THE Philippine garment exporters may have to drop as much as $600 million worth of orders if the strict lockdown protocols that force shipment delays continue to slow down business activities.

In an interview with the BusinessMirror, Foreign Buyers Association of the Philippines (Fobap) said that the garment industry may lose 30 percent to 40 percent of $1.5 billion—which is the lower end of 2021 target industry revenues—if more shipment delays persist.

This translates to potential losses of $450 million to $600 million, or roughly P22 billion to P29 billion, this year.

“If you are talking like $1.5 billion worth of orders that we received already in place for 2021…you can say 30 percent to 40 percent [will be lost]…in case this lockdown will continue,” Fobap President Robert M. Young told this newspaper.

This year, Fobap was targeting its yearend shipments to reach $1.5 billion to $2 billion, but the consequences arising from the lockdown protocols may block the industry’s goal.

Young explained that the garment manufacturers are experiencing delays of one month, even up to 45 days in some instances, in their shipments.

The BusinessMirror previously reported the export industry has been reeling from the impact of shipment delays on its supply chain and revenues amid the shortage of vessels due to container imbalance.

“Of course, the materials that are incoming from Manila or the port are also delayed due to these lockdown protocols that they stop and inspect and all kinds of permits they require,” he explained.

Workers, Logistics

Adding fuel to the fire, he said, are the lack of factory workers and logistics amid the lockdown protocols.

Meanwhile, securing export permits and other necessary documentation is also a challenge given that the government agencies are operating with a skeletal workforce, he said, adding their systems are down in some events—all of which bring further delays to the process.

The Fobap official also expressed worries over the fulfillment of orders the country recently received from Myanmar as the latter struggles with a political turmoil.

In March, the industry group announced it has secured garment purchases amounting to $200 million from Hudson’s Bay, TJ Maxx, Walmart and Zeeman, even expecting orders to reach as much as $500 million by the end of second quarter.

“It’s already late given to us. However, due to these delays, we cannot perform regularly and efficiently,” Young lamented.

Adjustments In Pandemic

While no shop has folded up yet, the garment exporters have felt the crunch already.

Young said the manufacturers have been scaling down operations to minimize their cost. For instance, the industry group's biggest member has opted to apply work-from-home setups for its office employees.

"We are just scaling down, reengineering, restructuring to maybe about 30 percent less operation," he added.

In case buyers do not accept the delay, Young said that the manufacturers have to air freight the orders. But he said this is not a viable option in the long term, financially speaking.

"We are not willing anymore because we can't afford the air freight. It is so expensive—that's times 10 to times 15 the cost of the sea freight," he said.

Young explained that air freight costs $2 per shirt, which is higher than the selling price of the product at $1.50 per piece. Air freight is costlier because it can deliver the goods within 24 hours as opposed to boat shipments which take 20 to 26 days, he added.

Fobap members are also offering their finished products at prices lower than the negotiated terms just for the buyers to still keep and sell them for another season, he said.

Reviving Textile Industry

The garment sector's supply chain would not have been this affected if the textile industry was still up and going, Young said, adding that reviving it can mean job creations and more revenues for the country as well.

"We could have solved it [supply chain constraint] actually a long time ago if the government just listened to our suggestion that the textile industry should be revived. We do not have a textile industry.

Textile is the backbone of the garment industry," Young said, noting that the big manufacturers of cotton sheeting and commercial fabrics closed about two decades ago.

The country has to import about $500 million worth of textile every year from countries like China and Korea, he said, which takes about 30 days. Having local suppliers will help in cutting down the waiting time, he added.

"If this money is in the Philippines, can you imagine the labor generation, the revenue for the government and the economic growth engine?" he asked.

With this, Young called on the government to extend subsidies and other incentives—like Vietnam and India are doing for the sector—to revive the textile industry.

The Fobap official estimated the garment sector earned about $800 million to $900 million last year, lower than the nearly $1 billion it registered in 2019.