



## STRATEGIC VISION FOR RECOVERY OF MOLDOVA'S FASHION INDUSTRY AFTER COVID-19

GHEORGHITA Maria<sup>1</sup>, NISTOR Doina<sup>2</sup>

<sup>1</sup> Technical University of Moldova, Faculty of Economic Engineering and Business, Department Economics and Management, 41, Dacia bd., nr. 10 block of study, MD-2060, Chisinau, Republic of Moldova,  
E-Mail: [maria.gheorghita@emin.utm.md](mailto:maria.gheorghita@emin.utm.md)

<sup>2</sup> Technical University of Moldova, Faculty of Economic Engineering and Business, Department Economics and Management, 41, Dacia bd., nr. 10 block of study, MD-2060, Chisinau, Republic of Moldova,  
E-Mail: [doinitanistor@gmail.com](mailto:doinitanistor@gmail.com)

Corresponding author: Gheorghita Maria, E-mail: [maria.gheorghita@emin.utm.md](mailto:maria.gheorghita@emin.utm.md)

**Abstract:** *The Covid-19 pandemic situation has severely influenced both the European and Moldovan fashion industry, which is directly connected with the European one. For one year there have been essential changes in both the supply and consumption chains. Consumer preferences have changed, which has further underlined sustainable, ethical, and slow fashion. Requirements for social responsibility, accountability, and transparency, for the impact on the environment have amplified. In such conditions, it is necessary to review the vision of the industry both for the post-pandemic and in the medium- and long-term period. This paper reflects the current situation in the fashion industry of the Republic of Moldova, highlighting the impact of the pandemic on it. To overcome the situation generated by the pandemic Moldova's Light industry needs a new vision to account not only for the COVID-19 crisis but also the behavior and mindset of the new generation of consumers that place a stronger emphasis on sustainability. Moldova's Light industry needs to connect to consumer trends, such as Sustainable fashion, Slow fashion, Social fashion, Ethical fashion, for both its manufacturing services as well as the emerging domestic fashion brands. In the longer run, the industry needs to align itself to the new technologies, sustainability, digitalization, and constant innovation without harming the environment, since garment manufacturing remains one of the highest polluters in the world. Innovation, digitalization, and green economy remain key development goals for this industry.*

**Key words:** Covid-19, sustainability, innovation, digitalization, recovery plan.

### 1. INTRODUCTION

According to the International Monetary Fund, 2020 is likely to be the worst year for the global economy since the Great Depression.[1].

After travel and tourism, fashion and luxury together are the most negatively impacted of all consumer goods and services, as retail stores shutter and consumer purchasing shifts to necessities. From April to May 2020, sales decreased by 60-70% in the worldwide fashion and luxury industry – with footfall in retail and recreation stores down by 44% in the U.S., 52% in Germany, 78% in India, and 59% in Brazil [2].

The Global Fashion Index analysis provided by McKinsey showed a 90 percent decline in economic profit in 2020 for fashion companies after a 4 percent rise in 2019 [3]. Effectively all garment manufacturing companies have experienced decreased revenue, negative impacts on orders

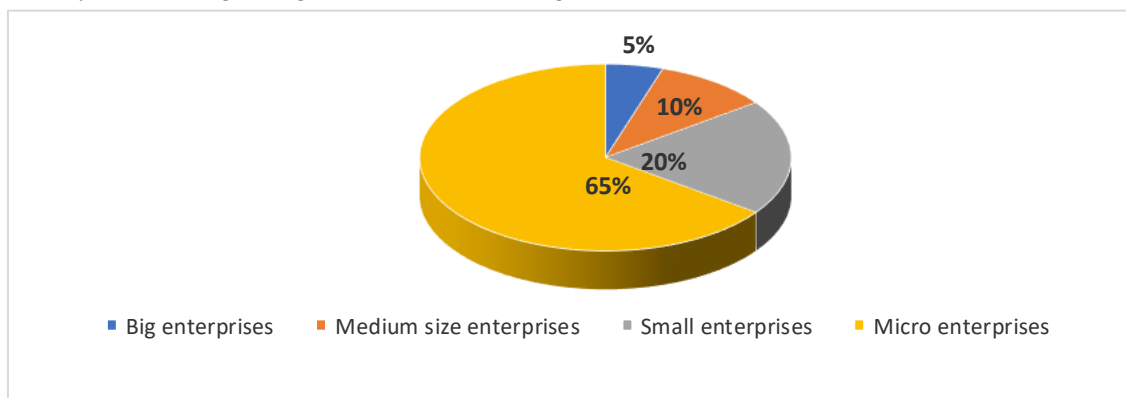
and their profit throughout the pandemic. The sector also has also been one of the hardest hit by negative unsupportive customer action, with almost a quarter of companies reported experiencing payment terms adjusted in the customer's favour and discounted prices [4].

This correlates with global and EU experiences in the garment sector, with retailers closing and millions of workers left without work and in precarious positions because of the pandemic. A similar situation is observed in the fashion industry of Moldova. The COVID-19 pandemic has disrupted the Moldovan Light industry like never, and this industry has suffered more than most from the outbreak's social and economic effects [5]. As a result of the China-driven supply chain disruption and consumer market shutdown, Moldovan apparel factories have struggled with a severe reduction of manufacturing orders from their European clients. Many factories ceased work and sent their employees on forced vacations. Although factories have survived the lockdown, but many of them encountered drastic economic setbacks through the end of 2020.

## 2. CURRENT SITUATION IN THE MOLDOVAN FASHION INDUSTRY

Advantages of the Customs Union, proximity to the European market, flexibility and speed of production organisation, availability of qualified human resources fosters Moldova as a competitive player. The Fashion Industry in the Republic of Moldova (cooled Light Industry), which includes textiles, apparel, footwear, and fashion accessories, represents a key industry of Moldova's economy, accounting for about 14% of the total exports of the country and 5% of GDP in 2019, with a constant yearly increase since 2015 of about 8% in domestic and export sales. At the beginning of 2020, the Light Industry was at the top of the three exporters with an export value of 379.2 million US dollars. The main export market for the Moldovan light industry is the European Union market, which means that it is heavily influenced by changes in this market.

Altogether, in 2019 there were approximately 680 enterprises located throughout the country. Most of the production is carried out by micro, small and medium-sized enterprises, which are very flexible regarding the size of orders (figure 1).



*Fig.1. The structure of Moldovan Light Industry enterprises [5].*

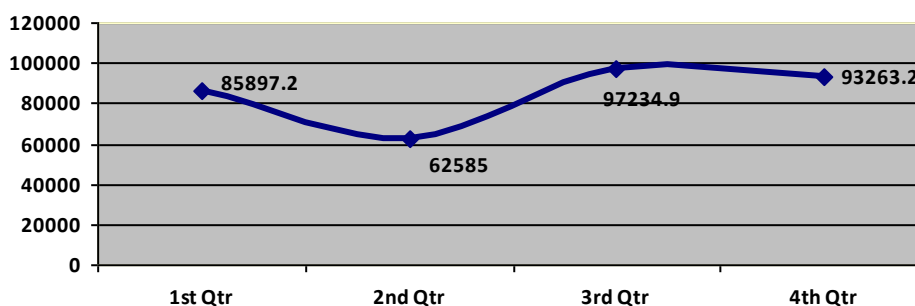
Due to the highly labor-intensive nature of the industry, it remains a large employer in Moldova employing approximately 26,620 Moldovans, the majority of whom are female and youth from rural areas.

According to the business carried out by Moldovan light industry enterprises, currently 75% of the number of enterprises provide C&M, CMT and FOB services, about 20% operate only under their own-brand and about 5% of the total number of enterprises have a model of mixed business, it

provides services for foreign clients and produces under their own-brand. During the last years, the share of enterprises that produce and sell under their own brand is increasing.

The year 2019 was an unfavorable year for service providers, a year in which for the first time in the last 5 years there was a decrease in exports by about 11%. This trend has worsened further in 2020 due to the COVID outbreak.

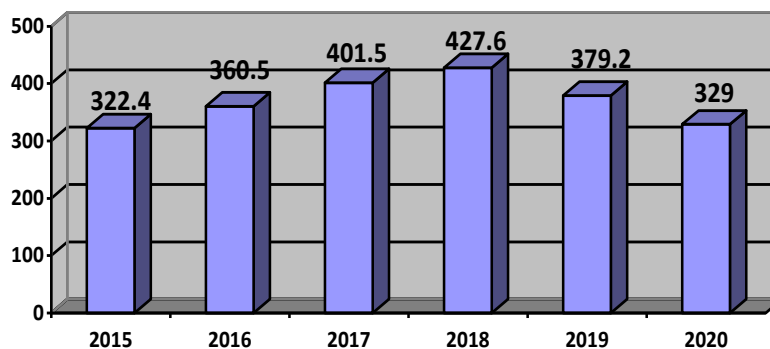
In March 2020, a state of emergency dictated by the COVID-19 pandemic was announced, which lasted until the end of May. To assess the influence of the pandemic situation on the industry, the APIUS association with the support of the Moldova Competitiveness project, financed by USAID, Sweden embassy and UK aid (MCP) conducted a survey at the end of May 2020, which showed that 70% of factories reported up to 70% drop in sales creating serious financial constraints, 25% of the companies have suspended their economic activity, of which 5% went into technical unemployment. The number of employees within the Light Industry has decreased on average by 33%. Moldova's apparel exports in the second quarter of 2020 fell from 85897,2 mil US\$ to 62585 mil US\$ or by more than 38 percent, and the outlook is gloomy, dependent on the recovery of the heavily disrupted and slashed European fashion industry and market (figure 2).



*Fig. 2. Exports in year 2020, Mil US\$ [5].*

Moldova's top business partners in Italy, Germany, France and Romania reduced manufacturing orders by 35 to 60 percent. EURATEX, the European Apparel and Textile Confederation, reports a 35% fall in its clothing sector turnover.

After the state of emergency was removed, both in Europe and in the Republic of Moldova, orders began to arrive. However, the value of exports in 2020 constituted 339 Mil. US\$ or only about 89% compared to 2019 (figure 3).



*Fig. 3. The evolution of export [5]*



As a value, the export in 2020 was approximately at the level of yer 2015. Thus, the industry was thrown away 5 years ago. To survive and maintain the staff, many companies have made, and some of them continue to make masks and protective medical equipment.

A similar situation was with the sales on the local market. These are about 77% compared to 2019. Many companies have turned to e-commerce, but the results are still modest. The beginning of the year 2021 shows that it will be a rather difficult year both for companies that provide services for international clients, as well as for companies that manufacture and distribute under their own-brand on the local market. Thus, the outlook is gloomy, dependent on the recovery of the heavily disrupted and slashed European fashion industry and market.

### **3. THE RECOVERY VISION OF MOLDOVA'S FASHION INDUSTRY IN THE POST-CORONA ERA**

As a rapid response to the COVID-19 pandemic, MCP has been supporting the Moldovan light industry to cope with the crisis, understanding impact, secure international orders, tapping into e-commerce, and define a local resilience strategy for medium-term recovery. Moldova's Light Industry should focus on capitalizing on the industry growth over the recent years (including its shift to high value-added) while re-strategizing and preparing for a changing industry after COVID such as:

- Protecting critical assets, such as safeguarding employees (and their livelihoods), value chain partnerships and international clients, while building the trust of consumers. Mitigate order cancellation from existing EU clients, and re-position/remarket to resilient EU clients/brands in competitive fashion segments.
- Integrate sustainability through the industry and business recovery strategies and make it central to post-pandemic decision making.
- Increasing the export of sustainable fashion under the own-brand in both the regional and the European market to ensure a high added value. Investments in some Moldovan brands with high potential to become well recognized both on the domestic and foreign market.
- Taking advantage of digitalization, innovative business models and automation to accelerate efficiency and competitiveness of factories, as well as international trade and e-commerce (or eCommerce). Prepare for re-investment and upgrade of factories.
- Accelerate transparency and fair trade to demonstrate positive environment and social impact by domestic fashion manufacturers and designers, while positioning Moldova as an ethical and sustainable fashion manufacturing destination.

Moldova's recovery plans need to be aligned with its key market for fashion manufacturing services, the European Union. The European Apparel and Textile Confederation EURATEX on February 2, 2021, responded with clear ideas to the roadmap for a European Textile Strategy. The EC initiative should push the textile and clothing industry to be more competitive, innovative, and sustainable [7].

Moldova's Light industry's new vision needs to account not only for the COVID-19 crisis but also the behavior and mindset of the new generation of consumers that place a stronger emphasis on sustainability. Moldova's Light industry needs to connect to consumer trends, such as Sustainable fashion, Slow fashion, Social fashion, Ethical fashion, for both its manufacturing services as well as the emerging domestic fashion brands. A few Moldovan designers have been embracing slow fashion and sustainable fashion values; however, a stronger movement needs to be created in the sector.



In the longer run, the industry needs to align itself to the new technologies, sustainability, and constant innovation without harming the environment, since garment manufacturing remains one of the highest polluters in the world.

Innovation, digitalization, and green economy remain key development goals for this industry, and although there are pilot initiatives and business champions embracing these trends in Moldova, still efforts must be made for the industry to innovate at its core and adopt these trends industry-wide [8].

During the last five years, MCP supported the industry to advance technological innovations, factory automation and digitization, incentivizing factories to upgrade via purchasing high precision equipment, CAD-CAM for automation of pattern design and cutting, printing and embroidery machines, special machines, etc. The MCP SMART factory program assisted factories to implement production engineering and Lean Management tools supporting factory efficiency and its ability to compete in terms of production costs. This direction must be continued.

Digitalisation of the Light Industry may take place in different forms, from digitalisation of the value chain to the utilisation of new technologies in manufacturing. Improving the digital transformation of the sector is crucial for the Republic of Moldova because the industry is facing a low level of productivity, and a high level of digitalization is one of the main factors for increasing productivity.

Another main challenge of the Light industry is keeping up with the quality standards required for the integration of Moldovan enterprises into the global value chains and enhancement of exports. Major large-scale European buyers set certain prerequisites on the production of suppliers, among which social compliance and environmental standards are the pioneering ones. With MCP support, more than 20 factories implemented Integrated Management Systems and social compliance certifications, ensuring better working conditions, and attracting quality conscious European buyers. To maintain the economic relations that Moldovan enterprises have, they must continue to adapt to the social and environmental conditions put forward by the main actors.

Taking into consideration that SMEs constitute the largest share of the total number of Moldovan Light Industry enterprises, there is an important challenge, to understand, and to undertake necessary transformation, to foster their adaptation to the evolving global standards, decrease their input costs and increase export capacities.

After the pandemic, factors such as quality and durability will become more important, given expected economic uncertainty and high levels of unemployment among consumers. It is also important to note that the underlying drivers for environmental transformation on the manufacturing side (namely that environmental pollution and inefficient processes are simply unsustainable in the long term) will persist throughout the current crisis. The reduction in human mobility and consumption caused by shelter-in-place and lockdowns reveals the benefits of environmental renewal as cleaner air and restored [2].

In order to address these issues in Moldova and to create and support the opportunities mentioned above for Light Industry enterprises, a special role must be played by the APIUS association. APIUS as a sectoral association must assume the role of the leading association in the sector in the transition to superior digital skills and to help SMEs adapt to the needs of global standards and to meet the European customer's requirements.

Moldova's light industry recovery strategy in the post-Corona era calls for a shared vision, underpinned by strong coordination and partnership among industry stakeholders and development partners. This document should be practical and actionable. It should be a clear and goal-oriented strategy, translating the mega-trends and EURATEX vision to Moldova's situation.



#### 4. CONCLUSIONS

The Light Industry, which includes textiles, apparel, footwear, and fashion accessories, is a key industry of Moldova's economy, being in the top three exports. COVID-19 pandemic has disrupted the Moldovan Light industry like never before. COVID outbreak negatively influenced the export trend of the Moldovan garment industry, contributing to a reduction by over 13%.

Moldova's Light industry needs to rethink its forward-looking strategy and understand where to go next after (and during) COVID-19, how to adapt, how to fit into the new reality of the EU fashion market/industry, and the global one. It needs a clear strategy to describe the position of the Moldovan Light Industry in the future to prioritize business environment improvement actions, as well as actions that would allow enrolling of the light industry of Moldova in regional and global changes in the fashion industry and supply chain, define what Moldova needs to do to maintain and increase competitiveness and preserve jobs, and form the foundation to advocate for a needed policy or regulatory changes.

Moldova's recovery plans need to be aligned with its key market for fashion manufacturing services, the European Union. The European Apparel and Textile Confederation EURATEX onboarded to develop a new strategy for recovery and long term resilience built on fair trade, sustainability and digital transformation.

In the longer run, the industry needs to align itself to the new technologies, sustainability, and constant innovation without harming the environment, since garment manufacturing remains one of the highest polluters in the world. Innovation, digitalization, including e-commerce and green economy, remain key development goals for this industry.

#### REFERENCES

- [1] The Great Lockdown: Worst Economic Downturn Since the Great Depression [Online]. Available <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>
- [2] Rebuilding a More Sustainable Fashion Industry After COVID-19. [Online]. Available: <https://apparelcoalition.org/wp-content/uploads/2020/04/Weaving-a-Better-Future-Covid-19-BCG-SAC-Higg-Co-Report.pdf>
- [3] The State of Fashion 2021, BOF McKinsey&Company [Online]. Available: <https://www.mckinsey.com/~media/McKinsey/Industries/Retail/Our%20Insights/State%20of%20Fashion/2021/The-State-of-Fashion-2021-vF.pdf>
- [4] Just-style newsletter. [Online]. Available: [https://www.just-style.com/news/garment-manufacturers-remain-hardest-hit-by-covid-19\\_id140606.aspx](https://www.just-style.com/news/garment-manufacturers-remain-hardest-hit-by-covid-19_id140606.aspx)
- [5] Statistica.md. [Online]. Available: <https://statbank.statistica.md/pxweb/pxweb/ro/40%20Statistica%20economica/?rxid=b2ff27d7-0b96-43c9-934b-42e1a2a9a774>
- [6] Roadmap for an "EU Strategy for Textiles". [Online]. Available: <https://euratex.eu/139/euratex-for-comprehensive-eu-textile-strategy/>
- [7] Trends in Apparel, [Online]. Available: <https://www.cbi.eu/market-information/apparel/trends>