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Ready-made Garment Exports from Sri Lanka

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ABSTRACT *With the phasing out of the Multi-Fibre Arrangement (MFA), the Sri Lankan economy, highly dependent on ready-made garment exports, has become vulnerable to the changing global trading system affecting this industry. In such a global environment, strengthening the competitiveness of the industry has become imperative for Sri Lanka if it is to remain as one of the suppliers of choice in major markets. The paper highlights the strengths and weaknesses of the industry and shows the steps that have been taken to address the latter. Additional steps taken to select specific garment products according to past performance and global positioning for further improvement and promotion are also highlighted. The paper also suggests some strategies to cope up with the new global challenges.*

KEY WORDS: Sri Lanka, textiles, garments, export competitiveness, human resource development

The textile and garment industry of Sri Lanka has risen from its modest beginnings in the 1950s to become the country's largest industrial sector, demonstrating tremendous growth over the last three decades. The industry now constitutes a vital component of the economy, accounting for 56.4% of industrial export earnings and 43.2% of total export revenue (CBSL, 2007: 35-6).

Ready-made garments (RMGs) account for close to 95% of all textile and garment exports of Sri Lanka. The RMG sector has established a prestigious customer base, manufacturing garments for a wide range of international brand names such as Abercrombie and Fitch, GAP, Liz Claiborne, Marks and Spencer, Nike, Pierre Cardin, Ralph Lauren, Tommy Hilfiger, and Victoria's Secret.

Heavy reliance on RMGs for growth and development makes Sri Lanka vulnerable to global economic shifts and policy changes. In particular, the expiration of the Multi-Fibre Arrangement (MFA) at the end of December 2004 brought an end to the quota-based system of textile and clothing (T&C) exports which was a driving force behind the RMG sector's phenomenal growth. The industry is now no longer protected under a system that ensures market access, in particular, for developed country markets. In the new quota-free world, low-cost RMG manufacturers with economies of scale, such as China and India – who were the

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main losers under the MFA – are expected to greatly increase their global market share within the next few years to the detriment of smaller, less competitive countries that thrived under the quota system. Sri Lanka faces a number of challenges ahead, and the future of the country's RMG industry will depend very much on the manner and speed with which the government and industry leaders act to face these challenges.

The rest of the paper is organised as follows. The next section outlines the theoretical context of the garment industry in Sri Lanka. This is followed by an outline of the scenario in the RMG sector before the MFA phase out and then the post-MFA perspective. Then the strengths and weaknesses in the RMG sector are set out, followed by a discussion of the Five Year Strategy for the RMG sector with special reference to human resource development. The final section highlights the new thinking for addressing the challenges and provides some concluding remarks.

Theoretical Context

There are two dominant theories supporting garment manufacturing in “latecomer” countries: the “flying geese” model put forward by Akamatsu (1962) and the modified neo-classical view offered by the World Bank (1993) in its consideration of the rapid growth in East Asia. The former argues that the “flying geese” is one of the simplest and easiest industrialisation routes adopted by latecomer economies. The latter argues the origin and development of the garment manufacturing in latecomer economies is based on increasing returns to industries.

According to many mainstream economists, the labour-intensive and low technology base of garment manufacturing is suited to meet the factor endowments of early economies. Moreover, they make an ideal platform on which earlier developers are able to promote industrialisation. This view is also consistent with the “flying geese” theory, although Akamatsu (1962) did allow for government intervention.

When Sri Lanka liberalised its economy in 1977, the country's garment industry took off immediately, mainly as a result of quota-hopping East Asian garment exporters who were attracted by the country's liberal trade regime and relocated their already established garment businesses to Sri Lanka. This relocation encouraged local entrepreneurs to start their own garment enterprises to exploit markets guaranteed by quotas, assisted by the Board of Investment (BOI) to selected industries. Paradoxically, protectionism in the form of MFA quotas helped Sri Lanka and many other developing countries to develop their export-orientated garment industries by insulating them from direct competition from established producers (Kelegama, 2005a). Clearly, the Sri Lankan RMG export take-off was in line with Akamatsu's (1962) suggestions because of the “herd behaviour” of foreign investors and thereafter the local entrepreneurs coming in to take advantage of the profit opportunities offered by the garment industry. It will be seen in the course of the next sections of the paper that the subsequent initiatives to sustain the industry were akin to Gereffi's (1999) buyer-determined commodity chains where upgrading was done according to the international value-addition strengths. The Sri Lankan garment industry remained highly import dependent even after two decades of sustainable growth.

Pre-MFA Phase-out

In 2004, textile and garment contributed to 48.8% of the total value of exports, raking in US\$2.8 billion in export revenue (CBSL, 2005). The industry accounted for approximately 9.5% of GDP, 6% of the labour force and nearly 40% of industrial production in terms of value. In 2003, a reported 830 RMG firms employed a total of 340,367 workers. Around 87% of RMG industry workers were female. More than 70% of RMG factories were concentrated in the Western Province due to better infrastructure and close proximity to seaport and airport facilities, and around 65% of total employment was generated in the region. Some 1.2 million people – 6% of the total population – depended on the RMG industry for their livelihood (Kelegama, 2005b: 89).

The RMG sector displayed immense and consistent growth since market liberalisation policies were implemented in Sri Lanka in 1977. Prior to that, when both imports and exports were highly restricted, RMGs were manufactured by a few domestic companies mostly for the domestic market, while textiles were essentially a state-controlled import-substitution industry that provided fabric inputs for domestic RMG firms. In 1977, textiles and garments accounted for just 2% of exports in terms of value; by 1990, they accounted for 33% of exports (CBSL, various issues). In 2004, Sri Lanka was amongst the world's top 20 exporters of RMGs.

The MFA was one of the main drivers of this growth, allowing the industry to benefit from “quota hopping” investments from foreign firms that relocated their operations to Sri Lanka. Under-utilised quotas also provided room for domestic entrepreneurs to enter the industry. With the quota system in place, Sri Lanka was able to export heavily to two specific markets – the USA and the European Union (EU). In 2007, 50% of RMG exports went to the USA and 47% to the EU. Sri Lanka's quota dependence gradually declined during the decade prior to the MFA phase-out, in particular, when quota-free entry to the EU was granted in March 2001. In the early 2000s, around 55% of overall RMG exports were quota dependent.

Post-MFA Experience

In 2004, the MFA's impending termination resulted in the fear of the unknown as was the case with the Y2K scare in 1999. Two opposing views emerged as to the future of the industry. Pessimists – mainly the small and medium industrialists – stated that the RMG sector in quota-dependent countries such as Sri Lanka would be severely affected by those who would gain from the lifting of restrictions, namely the large Asian economies of China and India. On the other hand, optimists – mainly the large well-established industrialists – stated that the preparations made in order to face the post-MFA scenario by most developing countries with large RMG sectors, such as Sri Lanka, would considerably alleviate the perceived adverse impacts.

Trade Trends in the Asia-Pacific Region

The textile and garment sector in Asia relies mostly on the USA and the EU as its chief export markets. Asia's share of US and EU imports of T&C currently exceeds

50% (Tables 1 and 2). In the transition from MFA to post-MFA, China has been by far the best performer, while Pakistan and India ranked a distant second and third. Sri Lanka has been a moderate performer, along with Bangladesh, Cambodia, Indonesia, Laos, Pakistan, Philippines, Thailand and Vietnam. The worst performers are Fiji, the Maldives, Mongolia and Nepal (UNDP, 2006).

Those who have made gains during the transition period have done so mainly at the expense of the least competitive countries; Hong Kong, Indonesia, Malaysia, Philippines and Brazil in particular have undergone a considerable reduction in their RMG exports to the EU. The main gainers in the EU market during 2006 and 2007 have been China, Vietnam, Morocco and Sri Lanka. However, even in countries that enjoyed reasonably good textile and garment export growth in 2005, factory closure has occurred, with resultant job losses, due to structural transformations. Indonesia and Sri Lanka are two examples.

Importance of the Industry to Sri Lanka

This section examines the importance of the textile and garment industry to the Sri Lankan economy. It will be shown that it is the most important manufacturing industry in the country, accounting for the largest exports and employment in the recent past.

Exports. Comparing Sri Lanka's performance between 2004 and 2005 (MFA and post-MFA) reveals that despite the termination of quotas, textile and garment exports grew by 3.1% compared to 9.8% for overall industrial exports and 10.2%

Table 1. Share in US imports of textiles and garments, 2006-07

Country	Value (US\$ million)				Volume (million SME)			
	2006	Share %	2007	Share %	2006	Share %	2007	Share %
World	93,279	100.0	96,410	100.0	52,150	100.0	53,129	100.0
Asian 12	53,800	57.7	60,513	62.8	32,178	61.7	34,844	65.6
Bangladesh	2998	3.2	3191	3.3	1495	2.9	1552	2.9
Cambodia	2151	2.3	2435	2.5	870	1.7	887	1.7
China	27,068	29.0	32,323	33.5	18,614	35.7	21,392	40.3
India	5031	5.4	5104	5.3	2654	5.1	2723	5.1
Indonesia	3902	4.2	4206	4.4	1599	3.1	1625	3.1
Laos	8	0.0	11	0.0	4	0.0	6	0.0
Nepal	85	0.1	71	0.1	18	0.0	10	0.0
Pakistan	3250	3.5	3170	3.3	3567	6.8	3173	6.0
Philippines	2085	2.2	1794	1.9	694	1.3	558	1.1
Sri Lanka	1703	1.8	1590	1.6	498	1.0	446	0.8
Thailand	2124	2.3	2059	2.1	1019	2.0	965	1.8
Vietnam	3396	3.6	4558	4.7	1148	2.2	1506	2.8
Rest of the world	39,479	42.3	35,897	37.2	19,972	38.3	18,285	34.4

SME, square metre equivalent.

Source: Calculated from data from the US Office of Textile and Apparel, Department of Commerce (<http://www.otexa.ita.doc.gov>).

for all exports (Table 3). Despite the drop in T&C export growth in 2005, the consequent years witnessed above 8% growth. This trend was reflected in RMG exports in 2005, but regained the momentum thereafter, which recorded a growth of

Table 2. Country shares in EU RMG imports, 2006-07

Supplier country	Value of imports		Percentage share in imports		Percentage change
	Jan.-Dec. 2006	Jan.-Dec. 2007	Jan-Dec 2006	Jan-Dec 2007	
EU total	103,167	107,327	100	100	4.03
EU27_Extra	55,481.7	57,939.4	53.78	53.98	4.43
EU27_Intra	47,685.6	49,388.1	46.22	46.02	3.57
China	18,883.1	21,838.4	18.3	20.35	15.65
Bangladesh	4613.7	4376.9	4.47	4.08	-5.13
India	3808.6	3837.3	3.69	3.58	0.75
Hong Kong	2511.5	1681.7	2.43	1.57	-33.04
Indonesia	1413.3	1196.1	1.37	1.11	-15.37
Vietnam	1024.3	1112.4	0.99	1.04	8.61
Sri Lanka	966.4	1039.9	0.94	0.97	7.61
Pakistan	906.7	903.7	0.88	0.84	-0.33
Thailand	878.8	794.8	0.85	0.74	-9.56
Malaysia	297.8	233.6	0.29	0.22	-21.55
Philippines	236.7	187.4	0.23	0.17	-20.84
Singapore	37.9	17.4	0.04	0.02	-54.03
Morocco	2367.7	2516.2	2.29	2.34	6.27
USA	371.8	361.8	0.36	0.34	-2.7
Canada	67.9	67.4	0.07	0.06	-0.77
Brazil	61.1	46.9	0.06	0.04	-23.29
Russian Federation	72.8	43.2	0.07	0.04	-40.63
Australia	14.7	13.3	0.01	0.01	-8.95

EU27_Extra refers to trade with the regions outside EU while EU27_Intra refers to the intra-regional imports.

Source: Calculated from data provided at <http://www.acosting.com>

Table 3. Textile and clothing exports, Sri Lanka, 2003-07

	2003	2004	2005	2006	2007
Total exports (value, US\$ million)	5133.2	5757.4	6351	7740.5	6882.7
Growth of exports		12.2	10.2	8.4	12.4
Industrial exports (US\$ million)	3976.9	4506.1	4952.1	5410.2	5922.7
Growth of industrial exports		13.3	9.8	9.3	9.5
T&C exports	2575	2808.9	2836.6	3086.1	3342.0
Growth of T&G exports		9.1	1.0	8.8	8.3
T&C share of total exports	50.2	48.8	42.3	42.3	40.6
T&C share of industrial exports	64.8	62.3	58.5	57.0	56.4
RMG exports (US\$ million)	2400.0	2654.1	2688.0	2917.1	3144.8
Growth of RMG exports		10.6	1.3	8.5	7.8
RMG share in total exports	46.8	46.1	42.3	42.3	40.6
RMG share in industrial exports	60.4	58.7	54.3	53.9	53.1

Source: Author's calculations using CBSL (2007).

7.8% in 2007. RMG share in Sri Lanka's total exports has managed to remain above 40% throughout 2004-07. On the other hand, it is evident that the share of garment exports in GDP has been declining since 2004.

In the post-MFA period, the most remarkable shift in the trend of Sri Lanka's apparel has been a decline in its exports to the USA and a compensatory gain in exports to the EU. Export of apparel (not knitted or crocheted) to the former has recorded a significant drop while, to the latter, knitted apparel has grown by 31% while apparel (not knitted or crocheted) recorded 24% growth (Table 4).

Not only have the value and volume of T&C exports differed, but the composition of these exports has also seen significant change in the post-MFA years. For knitted or crocheted articles of apparel and clothing accessories (HS 61), Sri Lanka increased its world exports from US\$1.3 billion in 2006 to US\$1.5 billion in 2007, a 14% increase (Table 5). This change was dominated by a 50% share to the EU and 44% to the USA. However, for articles of apparel and clothing accessories, not knitted or crocheted (HS 62), there was a sluggish 1.8% growth, with 55% exports to the USA and 43% to the EU.

The exports of apparel and clothing accessories not knitted or crocheted (HS 62) represent a much larger proportion of total Sri Lankan apparel exports. Total Sri Lankan apparel exports to the world were valued at US\$2.9 billion in 2004 and increased to US\$3.1 billion in 2007, representing a 7.8% growth. In 2007, the top destinations of Sri Lankan apparels were the EU, USA, Japan, Turkey and Mexico.

Overall, from the year preceding the liberalisation of the global RMG trade through the year following, Sri Lanka saw several changes in the value and location of its exports. While it did not experience an overall decline in exports as predicted, there were significant changes in the pattern of trade. The first notable change was a shift away from not knitted or crocheted apparel (HS 62) towards knitted or crocheted apparel (HS 61). Tables 6 and 7 illustrate the composition of the apparel products in HS 62 and HS 61 in the year 2007. Prior to liberalisation in 2004, HS 61 represented 36.2% of total apparel exports but, in 2005, it represented 40.8% and further increased to 49% in 2007. Secondly, comparing Sri Lanka's two major trading partners, the USA and the EU, the US market was more volatile, highlighted by its previously mentioned increase in imports of knitted or crocheted apparel and clothing accessories. Meanwhile, during 2006 and 2007, Sri Lanka's apparel exports to the EU gained over those to the USA, especially with the benefits of the Generalised System of Preferences (GSP) plus scheme that came into operation in July 2005.

Employment. There has been a gradual shrinking of the domestic RMG sector from 830 factories in 2003 to 733 factories in 2005, a decrease of 11.7% (UNDP, 2006). This may be partly due to structural changes within the industry, with the number of small firms shrinking while the large firms surviving over time (Ceylon Chamber of Commerce, cited in UNDP, 2006: 14). Although some small firms shut down, several may have been acquired by, or merged with, larger firms.

The number of directly employed workers in the RMG industry has dropped sharply from 340,367 in 2003 to 273,600 in 2005; this reflects a considerable decline of 19.6% or nearly one-fifth (UNDP, 2006: 14). Most displacements occurred in the small and medium industries (SMIs) in which 130,000 were employed out of the total

Table 4. RMG exports to the USA and the EU, Sri Lanka, 2003-07

Destination	2003		2004		2005		2006		2007	
	(US\$ million)									
USA										
HS 61	379.67	413.78	8.98	580.76	40.35	691.95	19.15	688.77	19.15	688.77
HS 62	1100.98	1125.31	2.21	1052.32	-6.49	940.57	-10.62	881.08	-10.62	881.08
Total RMG	1480.65	1539.09	3.9	1633.08	6.1	1632.52	-0.03	1569.85	-0.03	1569.85
to USA										
EU										
HS 61	390.76	452.24	15.73	488.07	7.92	600.86	23.11	788.97	23.11	788.97
HS 62	367.40	453.14	23.34	505.65	11.59	555.25	9.81	692.51	9.81	692.51
Total RMG	758.17	905.38	19.4	993.72	9.7	1156.10	16.3	1481.48	16.3	1481.48
to EU										

HS 61 – Articles of apparel and clothing accessories, knitted or crocheted.

HS 62 – Articles of apparel and clothing accessories not knitted or crocheted.

Source: Compiled using Sri Lanka Customs data.

Table 5. Profile of Sri Lanka RMG exports, 2005-06

	2006		2007		
	US\$ million	% share	US\$ million	% share	
HS 61					
Total exports of HS 61	1354.2	100.0	Total exports of HS 61	1554.0	100.0
USA	692.0	51.1	USA	688.8	44.3
EU	600.9	44.4	EU	789.0	50.8
Canada	14.4	1.1	Canada	16.0	1.0
Hong Kong	7.1	0.5	Hong Kong	11.1	0.7
Japan	6.8	0.5	Norway	5.3	0.3
Australia	5.6	0.4	Australia	4.8	0.3
HS 62					
Total exports of HS 62	1562.9	100.0	Total exports of HS 62	1590.7	100.0
USA	940.6	60.2	USA	881.1	55.4
EU	555.3	35.5	EU	692.5	43.5
Canada	28.8	1.8	Canada	25.2	1.6
Japan	6.8	0.4	Japan	8.4	0.5
Mexico	5.2	0.3	Turkey	7.4	0.5
Hong Kong	3.0	0.2	Mexico	6.0	0.4

Source: Compiled using Sri Lanka Customs Data.

Table 6. Top 10 exports of articles of apparel & clothing accessories (HS 61), Sri Lanka, 2007

HS Code	Product description	Value (US\$ million)
610910	T-shirts, singlets and other vests, of cotton	271.3
610821	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negligees, bathrobes, of cotton	124.1
611610	Gloves, mittens and mitts, knitted or crocheted, coated or covered with plastics or rubber	113.8
611020	Jerseys, pullovers, cardigans, waist-coats, and similar articles, knitted or crocheted, of cotton	95.0
610990	T-shirts, singlets and other vests, knitted or crocheted, of other textile materials	78.9
610829	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negligees, bathrobes, of other textile materials	76.9
610510	Men's or boys' shirts, knitted or crocheted, of cotton	74.3
610462	Women's or girls' suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bibs, of cotton	62.2
610711	Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar articles of cotton	54.1
610822	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negligees, bathrobes, of man-made fibres	46.5

Source: Compiled using Sri Lanka Customs data.

Table 7. Top 10 exports of articles of apparel & clothing accessories (HS 62), Sri Lanka, 2007

HS Code	Product description	Value (US\$ million)
620462	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, of cotton	251.2
621210	Brassieres, girdles, corsets, braces, suspenders, garters and similar articles and parts thereof	227.8
620342	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, of cotton	213.5
620469	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, of other textile materials	175.9
620520	Men's or boys' shirts, of cotton	109.9
620463	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, of Synthetic fibres	48.6
620690	Women's or girls' blouses, shirts and shirt-blouses, of textile materials ..	39.6
620630	Women's or girls' blouses, shirts and shirt-blouses, of cotton	39.0
620349	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, of other textile materials	37.1
620920	Babies' garments and clothing accessories, of cotton	29.8

Source: Compiled using Sri Lanka Customs data.

340,367 workforce in 2003. Of the factories that closed down in 2005, many did so without adequate notice and most did not pay any form of compensation to their workers (Oxfam, cited in UNDP, 2006).

Current Situation

A major concern is that the apparently successful post-MFA performance of the industry is an aberration. Under pressure from domestic lobbies, in 2004 and 2005 Sri Lanka's two major trading partners, the EU and the USA, signed agreements with China limiting the growth of Chinese textile and clothing exports into their markets. As a result of these agreements, China will be subjected to safeguards and anti-dumping legislation from 2005 to 2008, and then to anti-dumping regulation from 2009 to 2015. These agreements could have led to trade diversion benefiting Sri Lankan exporters. After 2015, China will no longer be a "non-market economy" and will be an equal player in the field.

However, as these agreements began expiring after 2008, there is fear that the possible demise of the Sri Lankan RMG industry has not been averted, but rather delayed. According to some forecasts by the World Bank, China's global share of RMG exports is expected to rise dramatically from 20% to 50% by 2010, while the share of other Asian countries is expected to decline from 32% to 20%. If this is the case, Sri Lanka will be in the difficult position of competing for a shrinking share of the global T&C industry. However, China's persistently high economic growth rates may create labour shortages and increase wage pressure on their domestic RMG producers over the next several years. The quick economic transformation of the Chinese economy may induce firms to move into higher value-added industries and

capital intensive, therefore relieving pressure on competing labour-intensive industries in Sri Lanka (see Kelegama, 2005b). Regardless, restrictions on Chinese exports do, however, provide some room for less competitive and forward-looking firms to restructure themselves and enhance their competitiveness.

On balance, the data indicate that exports by Sri Lanka to the USA and EU of categories of goods under China safeguard restrictions increased relative to apparel categories not under safeguard protection. The broad measures used therefore suggest that some trade diversion may have occurred due to the imposition of the safeguard measures and this may persist during the period they are in effect. Disaggregated data also indicate that the specific product categories benefiting from the EU and USA safeguards for the most part are not the categories of goods that have seen the largest increase in exports post-MFA nor are they the largest categories of Sri Lankan apparel exports overall. Based on this analysis, while the safeguards have so far proved to be a moderate plus for Sri Lanka, there is little evidence to suggest that the overall positive performance of the Sri Lankan RMG industry from 2004 to 2005 is linked to the existence of safeguards. The data suggest good news for the future of the industry.

Strengths and Weaknesses

This section examines the strengths and weaknesses of Sri Lankan RMG industry. An assessment of them is critical to draw any policy conclusions for the industry.

Strengths

Sri Lanka's RMG sector has several distinct competitive strengths over some of its rivals. The share of the top five products (all RMGs) in overall textile and garment exports is lower than that of most other Asia-Pacific countries that have limited capacity in textile production; for example, Sri Lanka's top five export items account for 33% of textile and garment exports, while Nepal's account for 76% (UNDP, 2006). Hence, Sri Lanka has an advantage in not being overly reliant on a few specific product types.

A conscious effort has been made by the well-established and large RMG industrialists to specialise in high value-added products or "niche" products, namely women's underwear, in which the country has a comparative advantage. These products have shown exceptional export growth. From 2004 to 2005, exports of HS 610821 (women's or girls' cotton briefs and panties) to the USA increased by 145%, while exports of HS 621210 (brassieres) to the USA grew by 15% (calculated from Sri Lanka Customs data). Total exports of HS 621210 rose by 18% in 2005, accounting for more than 11% of textile and garment exports. At present, Sri Lanka is in a favourable position to advance further in this particular niche market because the country possesses a better educated and skilled labour force than many other Asian economies (UNDP, 2006).

One of the biggest competitive strengths is that the industry has already established itself as a reliable manufacturer of quality RMGs with competitive pricing and fit capabilities. Compliance with international labour and environmental standards has further benefited the country as an increasing number of buyers demand that

certain standards be met by manufacturing countries with regard to health, labour, environment and occupational safety. In February 2004, under the GSP, the EU granted Sri Lanka a 20% duty concession for its compliance with international labour standards – this was in addition to an earlier 20% duty concession granted under the GSP's General Arrangement. Moldova is the only other country that has succeeded in achieving GSP concessions for labour standards. As mentioned earlier, in mid-2005 Sri Lanka qualified for the GSP-Plus scheme where duty-free entry to the EU market was offered provided the stipulated rules of origin were met.

Sri Lankan RMG industry has the opportunity to enhance its competitive strengths by exploiting its geographical proximity to India. India, along with China, will become a dominant player in the T&C trade, enjoying an increasing demand for its RMG manufactures. Sri Lankan textile producers, such as Brandix Lanka, which operate in India could achieve economies of scale by producing fabric inputs for both Sri Lankan and Indian RMG manufacturers. Currently, companies operating in Sri Lanka face the constraints of a relatively more costly small-scale production.

Weaknesses

While the textile and garment industry in Sri Lanka has performed much better than some anticipated in the post-MFA environment, the industry has been hampered by a number of problems since the MFA years, and these need to be addressed if Sri Lanka's textile and garment industry is to prosper in the new quota-free world. The main issues are weak backward integration, high turnaround time, low worker productivity, persistent labour shortages, and high production costs. Insufficient labour flexibility and government interference in the wage structure also make it difficult for the industry to respond to the challenge of increased international competition. With buyers increasingly looking to respond to fast-changing consumer demand, the ability of the industry to quickly meet buyer demands requires flexibility in the organisation.

Other factors identified as barriers to competitiveness by labour, government and private sector leaders in the industry include: customs delays, constricting rules of origin stipulations in bilateral trade agreements, and the inability to "brand" Sri Lanka as an ethical producer of RMGs. Furthermore, producers have limited direct contact with leading global buyers; around 65% of RMGs are exported via intermediary buying offices based in Sri Lanka, the disadvantage being that many foreign buyers and investors are simply unaware of Sri Lanka's potential to be a supplier of choice to many of them (Kelegama and Wijayasiri, 2004).

Another distinct weakness is the lack of accessory industries to RMGs – such as hand embroidery, beading, printing and washing – particularly in the intimate wear sector. Workers skilled in pattern-making, bra technology, fabric technology and moulding are scarce in number. The country's small textile industry does not possess the capacity to supply quality fabric inputs to the RMG sector. Thus, Sri Lanka's RMG industry is heavily dependent on imports of textiles and accessories; an estimated 80-90% of fabrics and 70-90% of accessories are imported (Kelegama and Wijayasiri, 2004).

The RMG industry is increasingly moving towards low replenishment sourcing and just-in-time sourcing, which switches risk to the wholesaler. This desire by

retailers to order small batches of different products with an increasingly short lead time (the time span between the placing of an order and its delivery) requires producers and distributors to be able to quickly process, fill and ship new orders. The ability to do so requires sophisticated supply chain management and production techniques. However, the paucity of backward linkages and resulting dependence on imported inputs severely hinder production speed, add costs and increase lead times.

Sri Lanka's geographical distance from its major input suppliers lengthens its lead time to an estimated 90-150 days as compared to the ideal lead time of 60 days; lead time in Sri Lanka has continuously been long compared to that of its competitors (Kelegama and Wijayasiri, 2004). While several factors contribute to the relatively long lead times of Sri Lankan RMG manufactures, the difficulty the industry has in providing accurate costing-and-sampling quotes is one of the chief problems. The inability of firms to provide accurate quotes hurts since if the quote is too high they lose potential customers, but if the quote is too low they lose potential profit. The problems the industry faces in providing first time correct samples can be addressed by more creative and careful factory floor initiatives.

The poor state of Sri Lankan infrastructure – particularly roadways – presents serious barriers to the RMG industry as it results in high transportation costs (in terms of time and money) and is cited by RMG exporters as one of the contributors to the long lead times. Because of this, the development of modern highways and roads has long been a priority in the national development strategy and in the eyes of international aid donors. High utility costs are not only a barrier to the development of the textile industry, but also increase production costs for the RMG sector and all industries nation-wide. However, despite the long time focus on the problem of poor infrastructure, implementation is still a major hurdle.

Sri Lanka faces the paradox where, in an industry undergoing consolidation and restructuring, firms face labour shortages. This difficulty stems from the poor domestic image of the industry due to perceived safety issues and sexual exploitation faced by female apparel workers, as well as the perception that the industry is not a viable source of fulfilling long-term employment (Kelegama and Wijayasiri, 2004). To improve its image the industry must address the real issues that drive negative popular sentiment by improving working conditions at the major firms' clusters, such as the Export Processing Zone (EPZ) at Katunayake. This includes increasing security for women workers by enforcing urban council regulations *vis-à-vis* boarding houses in particular (Busser, 2005). Additional requirements include building family housing and developing incentives to promote career employment. Coupled with a media campaign to combat the existing negative stereotypes, the implementation of these on-the-ground solutions would diminish labour shortages and improve the morale of existing employees.

The textile and garment industry is becoming less attractive to both medium-skilled and low-skilled workers, especially young women, due to long working hours, monotonous work and the negative social image surrounding the RMG sector. The sector is deficient in several areas of "decent work," as stipulated by the ILO (Busser, 2005). The high concentration of RMG factories in the Western Province, particularly in the EPZ, has led to population congestion and an unhealthy working environment with limited welfare facilities. Trade union activity is hindered by employers operating in the EPZ; wages are low, with women receiving lower pay than

men for work of equal value; workers are sometimes forced into working overtime and are often denied their legal entitlements; women are frequently harassed at the workplace and on their way to work; and living conditions are low with poor facilities for transport, sanitation and utilities (Kelegama and Wijayasiri, 2004).

One of the primary complaints of firm managers is that the productivity of Sri Lankan workers is not only low compared to that of regional competitors, but lower than in firms abroad that employ expatriate Sri Lankans. This low productivity impedes competitiveness and is a significant problem in responding quickly to new orders (Amaleen, 2006).

Hence, although the country's official unemployment level has stood at around 8% in recent years, the RMG industry has suffered a shortage of labour. Currently, there is a major scarcity of sewing operators, the majority of whom are women. Additionally, Between 100,000 and 120,000 RMG workers – the majority of whom are skilled workers – have sought employment in foreign countries due to better pay and better economic and social opportunities (Kelegama and Wijayasiri, 2004).

High absenteeism in the workplace and high labour turnover have also proven costly to manufacturers. Additional responses include increasing worker input in the decision-making process and reducing the endemic absenteeism faced by many Sri Lankan firms. To do so requires better communication from managers to workers of company performance, production targets and industry developments. Government co-operation in amending labour laws to allow flexible scheduling – such as the use of a five-day working week – would allow workers to meet social and personal obligations outside of work more comfortably and, hence, reduce absenteeism. These responses could be best facilitated through regular meetings between labour, private sector and government officials.

Facing the Future: The Five-year Strategy

This section discusses the strategies undertaken to prepare the textile and garment industry in Sri Lanka to face the wave of competition in the post-MFA era. This was to manage the competition that was expected from the large exporters, such as China, as well as the least developed countries that have started to enjoy preferential access into the developed markets since the late 1990s.

The Joint Apparel Associations Forum

In order to prepare Sri Lanka's RMG sector for the post-MFA period, a number of associations representing various aspects of the industry collaborated with the government to establish the Joint Apparel Associations Forum (JAAF) in 2002. The JAAF identified industry weaknesses and came up with a comprehensive five-year strategy aimed at laying the groundwork for healthy post-MFA industry growth (JAAF, 2006). Nine sub-committees, comprising industry leaders and government officials, were formed to implement the strategy, which consists of five objectives.

1. Increase industry turnover from its 2001 level of US\$2.3 billion to US\$4.5 billion by 2007, taking into account the existing industry growth rate of 18.5% over the period 1989-2000 and the possibility of a post-MFA reduced growth rate of 12%.

2. Transform the industry from a “contract manufacturer” to a “provider of fully integrated services,” as leading buyers will increasingly focus only on consolidating brand names while channelling all other functions to suppliers.
3. Focus on high value-added RMGs instead of low-cost RMGs, and penetrate premium market segments.
4. Consolidate and strengthen the industry.
5. Establish an international reputation as a superior manufacturer in four product areas – sportswear, casual wear, children’s wear and intimate apparel.

The following steps were identified as key measures to transforming the industry into a provider of fully integrated services:

1. encourage backward integration;
2. improve human resource capital/technology;
3. change labour laws and regulations;
4. promote Sri Lanka’s image as a complier with high labour standards;
5. cater to the needs of small and medium-scale industries;
6. strengthen bilateral and multilateral links with key nations;
7. lobby the government for improved infrastructure;
8. mobilise funds to implement changes.

Human Resource Development Initiatives

As mentioned earlier, the industry faces major challenges with regard to labour. Currently, Sri Lanka’s worker productivity levels are far from satisfying – approximately 35-45% compared to 65-75% in other cost-competitive countries (Amalean, 2006). Hence, the area of human resource development (HRD) is of particular importance if post-MFA challenges are to be met. The HRD sub-committee of the JAAF has set the ultimate goal of raising worker productivity levels through the creation of a competent and skilled human resource pool *beyond* mere technological improvements; the committee also looks to undertake the even greater challenge of changing social attitudes such that productivity becomes an integral component of people’s thinking. The committee is looking to implement the following six measures to achieve this goal:

1. strengthening marketing capabilities;
2. create design capabilities;
3. improve productivity within organisations;
4. develop technical competence;
5. enhance grassroots’ level skills;
6. encourage a cohesive focus for apparel and textile education.

Five landmark initiatives have either already been implemented or are in the process of being implemented and they are discussed in the following sections.

The Bachelor of Design Programme (2001). The University of Moratuwa offers two RMG-related degrees. A four-year Bachelor of Science in Textile and Clothing

Technology was inaugurated in 1993. With a consistently full enrolment of 50-5 students, the course offers instruction in spinning, weaving, production management and a final-year specialisation in either textiles or apparel manufacturing. The training focuses not on the operation of machinery but on a comprehensive understanding of the manufacturing process. Additionally, the University of Moratuwa offers a part-time Master of Arts in textile studies, clothing studies, and textile and clothing management. The course has had an enrolment of 10 students per year during the last three or four years.

The university also offers a four-year full-time Bachelor's degree in Fashion Design and Product Development. This programme is organised in conjunction with the London College of Fashion and saw its first cohort of 20 students graduate in 2005. The current cohort has the maximum enrolment of 40 students.

As well as the full- and part-time courses, the University of Moratuwa has offered a variety of extension courses since 1991 for those employed in the RMG sector. These frequently updated courses cover a wide variety of subjects related to production planning, quality control, pattern production and merchandising.

The Graduate Diploma in Apparel Marketing. In June 2002, the HRD sub-committee collaborated with the Chartered Institute of Marketing (CIM)-UK to launch the Graduate Diploma in Apparel Marketing, a world-wide first. The programme is expected to strengthen the existing weak link between domestic manufacturers and foreign buyers so as to provide better marketing opportunities for local industrialists. The diploma is recognised by CIM-UK and is open to both industry insiders and outsiders. It has produced 80 graduates so far.

The Productivity Improvement Programme. The government-funded Productivity Improvement Programme (PIP) was launched in November 2004 with the aim of increasing productivity at 200 selected RMG manufacturing plants by 30% by the year 2007, and reducing the cost of manufacturing to US\$0.05 per minute. A team of trained graduates from the PIP collaborate with core groups of employees of the participating factories to set benchmark figures and regularly monitor the factories' productivity gains over a period of two years.

Partnership with North Carolina State University. Established in 1984, the Textile Training and Services Centre (TTSC) and Clothing Industry Training Institute (CITI) are co-ordinated by one on-site administrative director and fall under the purview of the Ministry of Industrial Development. Originally established with technical assistance from the UNDP and UNIDO, significant technical upgrading was conducted from 1994 to 1999 with assistance from the Japanese International Cooperation Agency. The agencies are now largely self-financing.

The HRD committee has built an alliance between the CITI, the TTSC and North Carolina State University (NCSU). NCSU is recognised internationally for its technical education programmes focused on textiles, and it will assist CITI and TTSC to raise their training programmes to meet world-class standards. The project is funded by the government and will focus specifically on technical competence, supply chain development, management and industrial engineering.

Grassroots' skills training programme. The HRD committee has joined hands with USAID (United States Agency for International Development) to create four model training centres for the RMG industry. The project is intended to enhance the training that currently takes place; at present, only 31 out of 189 vocational training centres (VTCs) are geared towards providing RMG-related training and even these aim only to produce sewing machine operators. USAID funds will be utilised to upgrade infrastructure, equipment and resource people at 4 of the 31 training centres. The improved centres will provide an education in multiple disciplines and will guarantee employment upon completion of the programme. The project will receive industry accreditation. It is expected to meet the demands of the RMG industry while empowering rural youth with valuable skills and knowledge.

Other training facilities. In addition to these formal training programmes, a variety of small-scale programmes are run by non-governmental organizations (NGOs) to train women for employment in the RMG industry.

The American Centre for International Labour Solidarity (ACILS) is a branch of the AFL-CIO formed in 1997 and operates in ten countries in Asia, Africa, the Balkans, Eastern Europe and the Middle East. Among its activities in Sri Lanka, ACILS runs a post-MFA worker rights employment programme funded by USAID Dehli. Operational since December 2005, this programme is run in conjunction with the Indian organisation Community and Police (CAP).

Don Bosco – named after an Italian missionary – began operating in Sri Lanka in 1956 with a technical centre since 1962. The organisation provides vocational training on *juki* machines as well as textile manufacturing. The organisation provides a three-month industrial training course in Kandy (central Sri Lanka), which currently has seven participants. Additionally, Don Bosco plans to begin a fashion design and pattern-making course shortly.

The government-run Vocational Training Authority (VTA) offers six-month courses entitled Pattern Maker, Dress Maker, ISM Mechanic, Screen Printer, Tailor, and Garment Production Supervisor. Additionally it offers a three-month course in Garment Quality Controller and a one-month course entitled ISM Operator. Enrolment statistics are unavailable.

Conclusions

Industry leaders agree that specialising in the production of specific product categories will enable Sri Lankan manufacturers to streamline their production processes and develop skills that will ultimately make them world-wide experts in their chosen product categories. They also believe that targeting select customer groups will transform Sri Lanka from a basic manufacturer into a high value-added service provider catering to prominent retailers in the USA and the EU. After careful deliberation, industry leaders have suggested that the RMG industry should focus on producing knitted tops, knitted bottoms, woven tops, woven bottoms, and cotton and synthetic bras and briefs, while targeting specialty stores and selected discount stores in the USA, UK, Italy, France and Germany.

The apparel industry of Sri Lanka is aiming to be the best supplier of clothing, not only with regard to quality, price and speed but also design and innovation,

execution, logistics and compliance with ethical standards. Industry leaders are striving to exceed customer expectations while raising the country's competitive position in the global market. With this in mind, the private sector is being strongly encouraged to establish a product development centre for the primary purpose of enhancing the industry's speed and flexibility. Today, enquiries from buyers need to be turned into sample RMGs within three days. However, experts believe that Sri Lanka should aspire to match Hong Kong, where design concepts are transformed into sample RMGs within a period of just six hours.

The Katunayake EPZ is the suggested location for the product development centre, giving foreign buyers easy access to airport and hotel facilities. The centre will be a one-stop shop, where buyers can simply walk in with a concept and walk out with approved sample RMGs. Moreover, the centre is planning to focus on the specific product categories (listed earlier in the paper). Bonded warehouses and duty-free imports of sample yardage are considered for overseas suppliers operating stalls at the centre, while domestic vendors will be allowed to set up sample rooms. This project would require much support from the government, particularly with regard to obtaining land at Katunayake, as well as soliciting domestic and foreign investors.

One of the fundamental weaknesses of Sri Lanka's RMG industry is the lack of scale economies, resulting in high production costs. Hence, Sri Lankan companies are planning to collaborate with Indian firms to manufacture fabrics and garment accessories to achieve economies of scale by catering both to the Indian and Sri Lankan markets. This will support large-scale manufacturing operations and address the issue of high cost of production. The acquisition of scale economies, in conjunction with the establishment of a product development centre, will provide some local manufacturers with product management capability. Experts believe that Sri Lanka should move in this direction within the next three years in order to keep on a par with India's RMG industry.

It is further suggested that Sri Lanka make maximum use of duty concessions under the EU's GSP-plus scheme by taking advantage of Pakistan's strong woven fabric (cotton) industry to import textiles for RMG manufacture, thus fulfilling the GSP's Regional Cumulation criteria.

Co-operation with South Asian Association for Regional Cooperation (SAARC) countries is vital for Sri Lanka since retailers consider strategic sourcing at a regional level instead of at a company level. Brand owners, such as GAP and Nike, are currently looking to build collaborative relationships with their supply chain partners to develop regional centres of expertise, ranging from design to manufacture.

The strategies described above may be incorporated into a comprehensive agenda that might be in place by the end of 2009. Such a strategy will go a long way in acquiring internationally competitive standards for the Sri Lankan RMG industry. The key to Sri Lanka's future success in garments and textiles is to create and implement innovative measures to eliminate supply-side constraints. In this regard, human resource development will be given priority status. Meanwhile, producers should place some emphasis on co-operating with other South Asian countries for improved market access. Such strategic moves will complement the new strategy in place and reposition the RMG sector towards sustainable development in Sri Lanka.

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