The Problems and Prospects of Sri Lanka's Handloom Industry

Ramani Gunatilaka

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Ramani Gunatilaka

INTRODUCTION[1]

The heyday of Sri Lanka's handloom industry in recent times was the era of import substitution prior to 1977, when Government regulations and subsidies[2] provided a protective environment for the remarkable expansion of the industry.[3] The onset of the 1977 liberalisation, however, devastated the sector as textile imports increased nearly five-fold from 20 million metres a year to 96 million metres (Osmani 1987:187). At the same time, Government intervention in the supply of raw materials and the marketing of finished products was withdrawn, the subsidy on cotton yarn was abolished, and powerlooms were allowed to compete freely with handlooms. Nearly 40,000 weavers lost their jobs between 1977 and 1980 as a result of the turn around.in policy[4]

But liberalisation is likely to have brought to light the actual state of play in the industry. Employment in the sector was mainly a State-created phenomenon, even in much of the private sector, because of the protectionist and promotional measures taken by the state. Moreover, capacity utilisation in the sector even prior to 1977 was extremely low; according to estimates of the then Ministry of Textiles, although 111,000 looms existed, there were no more than 23,000 looms prior to 1977 in terms of fully utilized capacity (Osmani 1987:186-187). So the rapid decline in the number of looms after 1977 could have been due to a process of rationalisation as the vast majority of production units in existence before the

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1 I am grateful to Padmaseela de Silva (Department of Textile Industries), David Dunham (IPS), D.P. Gunawardana (Lanka Fabrics Ltd.), Wimal Hettiarachchi (IPS), W. Jayamaha (Ministry of Industrial Development), Saman Kelegama (IPS), Manel Kuruppu (Ministry of Industrial Development), Shelton Wanasinghe (IPS) and Dushni Weerakoon (IPS) for insightful comments on an earlier draft. Premilla Gamage (IPS) and Malini Govinnage (*Silumina*) provided valuable documentary support. I alone remain responsible for the views expressed in this paper.

2. In the 1960s, all importers of textiles were required to purchase a certain percentage of locally produced handloom textiles under the Industrial Products Act of 1949 (De Silva et al. 1996:10); cotton yarn was supplied to weavers at a subsidised price through the Weaving Supplies Corporation; and, the production of sarongs was reserved exclusively for the handloom sector (Osmani 1987:187) .

3 For example, there were ten times as many handlooms in 1964 as there had been a decade earlier, and the number doubled again by 1970 so that, in 1977, there were reputedly 111,000 in the country (Osmani 1987:187).

4. Kelegama and Wignaraja (1992:133), citing Waidyanatha (1980).

liberalisation is likely to have been economically unviable (Osmani 1987:186).[5] However, the impact of liberalisation was felt in terms of production as well, which declined dramatically due to the competition from imports.[6]

The Government began to show interest in the industry once again in the early 1980s when the Export Development Board took various steps to develop production for export.[7] In any case, as a result of lobbying by domestic textile producers, effective rates of protection for textile manufacturing had, by this time, started creeping up again from 0.95 in 1979, to 1.81 in 1983 and to 2.27 by 1988.[8] By the early 1990s, the Government had begun to look to the industry as a means of generating employment[9] and supporting rural development. And more recently, the Government has become supportive of measures to encourage the export of handwovens to foreign markets.[10]

Clearly, the Government appears to be looking to the handloom sector to achieve several objectives at the same time: to create employment, to increase export earnings, to support rural development, and to preserve a tradition and way of life which is believed by some to pre-date colonial conquest by at least two thousand years.[11] But the crucial questions to ask are, which of these objectives can the handloom sector realistically achieve, particularly in the context of further liberalisation, and what are the conditions necessary for the industry to be able to meet these expectations?

A related issue is the extent to which the problems faced by the industry stem from the general economic conditions faced by the small industrial sector, and to what extent they are

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5 However, this is not reflected in Central Bank data obtained from the Ministry of Textile Industries, which reveal a marginal *decline* in capacity utilisation after 1977 from 30.2 per cent in 1977 to 29.3 per cent in 1980. But 1981 recorded an increase to 34.2 which, however, was not sustained thereafter. According to these data the most significant change in capacity utilisation occurred in 1989 (85.33 per cent), but this figure too declines to 63 per cent by 1991 (Central Bank of Sri Lanka, *Economic and Social Statistics of Sri Lanka*, various years). Nevertheless, the high figure for 1989 is surprising, especially in the context of the insurrectionary situation which prevailed at the time. Therefore these figures need to be treated with some degree of scepticism.

6 For example, Osmani points out that, before 1977, nearly 80 per cent of handlooms were narrow looms capable of producing sarongs, but ten years later the production of sarongs had been completely taken over by the powerloom sector (1987:186).

7 Neumann and Ranasinghe (1990:10).

8 Weerakoon (1994), citing a variety of sources including the Presidential Tariff Commission Reports of 1985 and 1991.

9 According to the Ministry of Handlooms and Textile Industries (1990), the then Government's handloom development plan envisaged the creation of 100,000 jobs in the sector.

10 See 'Handwoven textiles for London, NY, Paris' in the *Daily News*, 14 October 1996.

11 See for example, De Silva et al. 1996.

peculiar to the intrinsic nature of handlooms. In his study on the impact of economic liberalisation on Sri Lanka's rural industries, Osmani (1987) argues that, unlike the larger firms, the small industrial sector was not favourably placed to take advantage of the new policy environment, principally because of its small scale of production.[12] He also cites the case of the handloom industry as a key industry in the rural sector which was severely affected by the 1977 liberalisation (1987:186-187).

However, the industry is not representative of the small industrial sector because size is not the most serious drawback which the industry faces. This paper will argue that the fundamental constraint which makes the industry unique in the small-scale sector itself, is its inherent cost and productivity disadvantages vis-a-vis its foremost competitor, the powerloom sector. Moreover, the huge economies of scale the powerloom sector is able to achieve makes the scale of handloom production almost irrelevant by comparison. Thus, the most intractable problems faced by the industry do not stem so much from the general economic conditions faced by the small industrial sector, but from the intrinsic nature of the handloom industry itself.

While the industry has been the subject of several recent reports (a selected list is included in the references), which have provided a wealth of information on various aspects of the industry, a common weakness is their almost exclusive focus on the supply side of the equation. An exception is *A Market Survey for Handloom Textiles in Shri Lanka* (Gunawardana 1992), which attempted to assess the potential market demand for handloom textiles in the country. However, this study does not seem to have considered the possible impact on demand of possible changes in the relative prices of handwoven, domestic powerloom and imported textiles.

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[12] The reasons advanced by Osmani as to why the small-scale sector was at a disadvantage in the new policy environment are as follows:

(a) liberalised imports led to dumping at below-cost against which small-scale units could not compete;
(b) having been long-starved of imported goods, Sri Lankan consumers shifted away from domestic goods to imported products;
(c) technological upgrading of production in small-scale units did not take place due to limited access to foreign technologies and financial constraints on new investments;
(d) the liberalised import of raw materials and capital equipment benefited primarily the larger enterprises, which were able to reap the benefits of economies of scale by expanding production and buying inputs in bulk;
(e) small firms could take advantage of incentives to export promotion only indirectly through middlemen or as subcontractors to larger firms; and,
(f) commercial banks discriminated against small firms which could not benefit from the increased financial resource mobilisation following liberalisation (Osmani 1987:183).

The present study will analyse the problems and prospects of the handloom industry mainly from the demand perspective, as it is premised that the prices which handwovens can command in the domestic and international markets and the quantities which can be sold at these prices are the most important determinants of the extent to which the sector can meet the expectations of the Government. Hence we draw on the comprehensive assessments of supply-side constraints made by previous studies, but look at them from the point of view of determining the capacity of the sector to respond to market demand.

The paper is organized as follows: Section 1 presents some background information about the sector's organizational set-up, employment, output and exports; Section 2 looks at the demand side of the equation, followed by Section 3 which looks at supply-side constraints. The final section concludes by returning to the issues raised above and assessing the prospects of the handloom industry in the context of further trade liberalization.

1. BACKGROUND[13]

1.1 Organization of the industry

Sri Lanka's handloom sector is primarily a cottage-based industry, although both the State sector and the cooperative sector are also represented. The private sector accounts for almost 70 per cent of nearly 45,000 looms in existence, but the majority of production units have only 5-10 looms each. Only a small number of production units have an installed capacity of more than 30 looms. The cooperative sector accounts for approximately 5000 looms and production activities are organised by the District Cooperative Societies, while the State sector accounts for roughly 9000 looms (Census of Handlooms 1992:8).

However, of the total of nearly 45,000 looms counted in 1992, only 44 per cent were in actual operation (Census of Handlooms 1992:8). A capacity utilisation rate of less than 50 per cent is considered low even by cottage industry standards, where a 75-80 per cent utilisation rate is

13 Much of the analysis in this section is based on data yielded by the Census of Handlooms 1992. The accuracy of this data is questionable as it yields some dubious results which will be highlighted later, and therefore the data analysis in this section should be regarded as indicative rather than definitive. We have no option but to use this data as it is the only available source for the most recent island-wide data.

considered good.[14] While the private sector accounts for 61 per cent of all looms in operation, there are indications that the number of private sector looms in operation has declined even further since the census (see Table 1.1) (De Silva et al. 1996:13). The industry is geographically dispersed, but the districts with the highest concentrations of handlooms are Gampaha, Ampara, Galle, Colombo, Matara and Batticaloa, which have more than 3000 looms each (Census of Handlooms 1992:9-10).

The State sector consists of a number of players. The Department of Textile Industries, (which comes under the Ministry of Industrial Development of the Central Government), formulates policy, undertakes promotional activities at national level and manages the Design and Training Centres situated in 13 districts.

Table 1.1
Ownership of Looms, Employment and Output of the Handloom Industry 1992

Sector	Looms in Operation	Employment		Output
		Weavers	Others	Million metres per annum
State	5,402	5969	1813	1.56
Cooperatives	2,283	2721	714	1.37
Private	12,214	13,461	5839	20.62
Total	19,899	22,151	8366	23.55

Source : Census of Handlooms 1992

However, production operations are carried out by the Departments of Industry attached to the Provincial Councils. The State-owned Lanka Salu Sala Ltd., too, operates nearly 200 looms (Image Sri Lanka:1996). Meanwhile, designs for the export market are developed by the National Handloom Centre,[15] which is attached to the Textile Training and Services Centre in Ratmalana. The Government has also set up a company (through the then Ministry of Handlooms and Textile Industries) called Lanka Fabrics Ltd. to market handwovens produced in both the State and private sectors. The company also acts as a marketing agent for

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14 Capacity utilisation rates in cottage industry rarely exceed 80 per cent because such industries are carried out on a part-time basis for supplementary income purposes (verbal communication, W. Jayamaha, Ministry of Industrial Development).

15. The National Handloom Centre was established in 1991 as a joint project of the then Ministry of Textile Industries and the Export Development Board.

hanked yarn produced by Kabool Lanka Ltd., and imports finer counts of yarn for the domestic handloom industry.[16]

1.2 Employment

Table 1.1 above also sets out the employment and production figures for 1992 of each of the sectors derived from the Census of Handlooms 1992. Of 30,517 people employed in the industry, 73 per cent were weavers. Sector-wise, 63 per cent of all employees were employed in the private sector, and 26 per cent in the State sector. District-wise, the largest concentrations of workers employed in the handloom industry were found in Ampara (20 per cent), Gampaha (11 per cent), Batticaloa (11 per cent), and Colombo (9 per cent) (Census of Handlooms 1992:24-25) (see Table 1.2).

1.3 Production

The output of the handloom sector meets approximately 10 per cent of the total demand for textiles in the domestic market. The sector produced roughly 23.5 million metres of fabric in 1992, of which nearly 88 per cent was produced by the private sector. District-wise production figures are available for the first quarter of 1992,[17] and it can be seen that Ampara produced 24 per cent of the total, Colombo produced 16 per cent, and Gampaha and Batticaloa 12 per cent each (Census of Handlooms 1992:17-19) (see Table 1.3 below). Table 1.4 sets out the production figures for the first quarter of 1992 by type of product. It can be seen that, of a total of 5.89 million metres produced, sarongs accounted for 38 per cent, surgical gauze for 21 per cent, and bed sheets for 12 per cent. The production of surgical gauze has been stimulated by the guaranteed price assured by the Government, which procures gauze for use in the public health sector. The guaranteed price, however, is at least 50 per cent higher than that prevailing in the open market.[18]

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16 Verbal communication, D.P. Gunawardana (Lanka Fabrics Ltd.).

17 The first quarter of the year is generally the peak season for handwovens.

18 Verbal communication, D.P. Gunawardana (Lanka Fabrics Ltd.).

Table 1.2
Employment in the Handloom Sector 1992

	State	Cooperatives	Private	Total	% of Total
Colombo	225	75	2399	2699	9
Gampaha	225	595	2636	3456	11
Kalutara	446	25	793	1264	4
Galle	510	83	659	1252	4
Matara	444	404	477	1325	4
Hambantota	542	25	49	616	2
Ratnapura	339	250	461	1050	3
Kegalle	388	563	355	1306	4
Kurunegala	852	290	446	1588	5
Puttalam	189	102	118	409	1
Kandy	1080	171	684	1935	6
Matale	379	46	87	512	2
Nuwara Eliya	321	0	35	356	1
Badulla	520	0	33	553	2
Moneragala	381	18	2	401	1
Anuradhapura	359	234	87	680	2
Polonnaruwa	232	0	22	254	1
Ampara	122	387	5504	6013	20
Batticaloa	133	72	3005	3210	11
Trincomalee	45	0	0	45	0
Jaffna	40	95	1448	1583	5
Mulaitivu	0	0	0	0	0
Vavuniya	10	0	0	10	0
Killinochchi	0	0	0	0	0
Mannar	0	0	0	0	0
Total	7782	3435	19300	30517	100

Source: Census of Handlooms 1992

Figure 1.1:
Province-wise distribution of employment in the handloom industry 1992

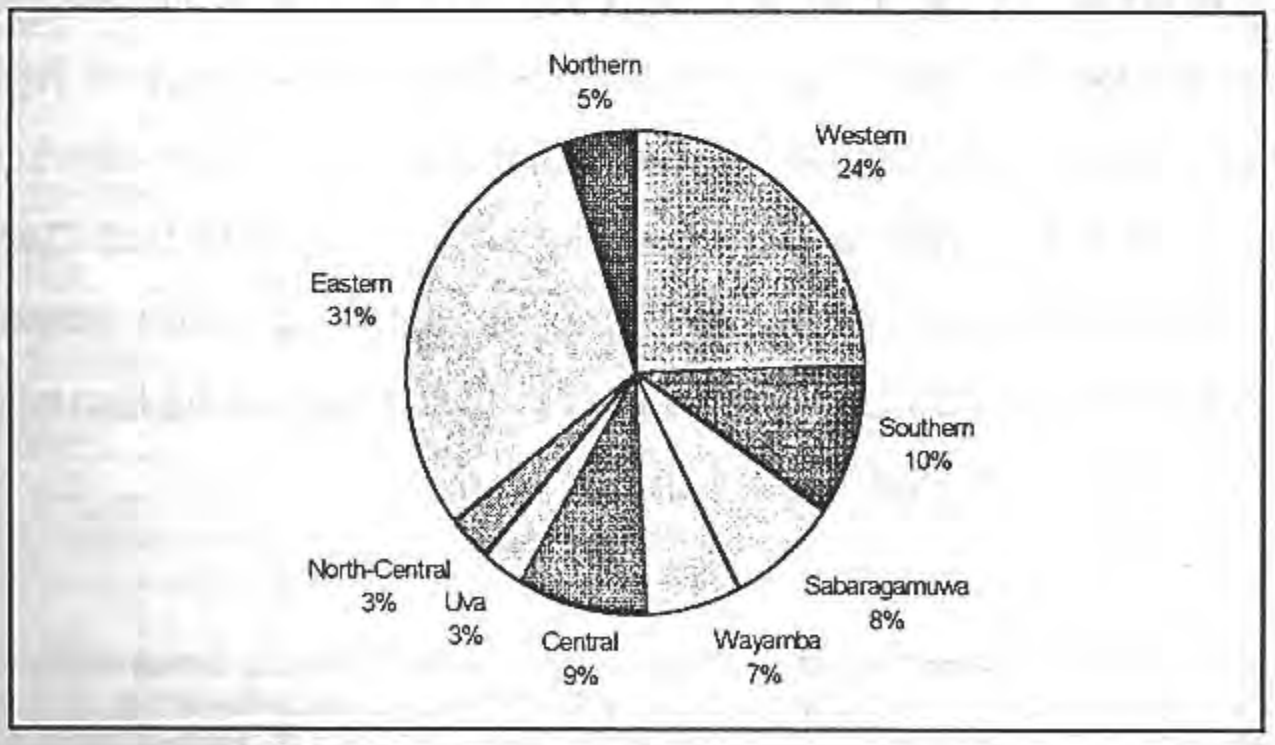


Table 1.3
Output of the Handloom Sector by District - 1st Quarter 1992

(in metres)

	State	Cooperatives	Private	Total	% of Total
Colombo	12648	8961	1015839	1037448	16
Gampaha	13656	48973	692157	754786	12
Kalutara	23060	1154	214844	239058	4
Galle	28035	5583	537956	571574	9
Matara	24534	46500	79997	151031	2
Hambantota	20408	0	5138	25546	0
Ratnapura	20246	14564	33449	68259	1
Kegalle	21828	63929	63471	149228	2
Kurunegala	51379	21129	190507	263015	4
Puttalam	6591	5310	11956	23857	0
Kandy	45570	16458	98803	160831	3
Matale	6460	34110	4858	45428	1
Nuwara Eliya	9623	0	1947	11570	0
Badulla	43380	0	3086	46466	1
Moneragala	13468	4500	353	18321	0
Anuradhapura	10734	3439	3265	17438	0
Polonnaruwa	12330	0	3682	16012	0
Ampara	9412	85137	1434867	1529416	24
Batticaloa	16257	5069	714212	735538	12
Trincomalee	298	0	0	298	0
Jaffna	751	8735	437810	447296	7
Mulaitivu	0	0	0	0	0
Vavuniya	0	0	0	0	0
Killinochchi	0	0	0	0	0
Mannar	0	0	0	0	0
Total	390668	373551	5548197	6312416	100

Source: Census of Handlooms 1992

As can be seen in Table 1.5[19] and Fig. 1.2, productivity in terms of output per employee appears lowest in the State sector at 47 metres per employee during the first quarter of 1992, whereas an employee in the private sector produced nearly five times as much during the same period. The figures imply that underemployment in the State sector is quite high. Productivity in the cooperative sector is, on average, nearly three times as high as that in the State sector, and highest in the Central Province, Uva and the Eastern Province in that order. Output per worker in the private sector was highest in the district of Galle, followed by Kurunegala, Colombo, Jaffna, Kalutara, and Gampaha. If one considers output per weaver in the private sector by district, then Galle again tops the list, followed by Kurunegala, Colombo, Ampara, Jaffna and Batticaloa (see Table 1.6).

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19 The estimates in this and the following Table should, however, be regarded with some degree of caution. For example, output per private sector employee in the first quarter in Galle District at 816 metres (Table 1.5), seems improbably high. Output per weaver in the same district in the first quarter at 1076 metres (Table 1.6) implies that average daily output per weaver exceeds 12 metres, assuming she works every day of the week, which seems humanly impossible.

Table 1.4
Output by product type - 1st Quarter 1992

Product type	Output in metres	Percentage of total output
Curtaining	444, 141	7.54
Bed sheets	683, 451	11.61
Table cloths	24,946	0.42
Dress Fabrics	208,702	3.54
Silk Fabrics	20,052	0.34
Sarees	156,440	2.66
Sarees (silk)	22,154	0.38
Surgical gauze	1,206,802	20.5
Sarongs	2,237,565	38.5
Verties	45,361	0.77
Terry towelling	133,102	2.26
Honeycomb towelling	183,690	3.12
Serviettes	117,675	2.00
Handkerchiefs	13,977	0.24
Grey Cloth	122,021	2.07
Others	267,609	4.55
Total	5,887,688	100.00

Source : Census of Handlooms 1992

Table 1.5
Output per Employee by District - 1st Quarter 1992

Metres per employee

	State	Cooperatives	Private	All Sectors
Colombo	56	119	423	384
Gampaha	61	82	263	218
Kalutara	52	46	271	189
Galle	55	67	816	457
Matara	55	115	168	114
Hambantota	38	0	105	41
Ratnapura	60	58	73	65
Kegalle	56	114	179	114
Kurunegala	60	73	427	166
Puttalam	35	52	101	58
Kandy	42	96	144	83
Matale	17	742	56	89
Nuwara Eliya	30	n.a	56	33
Badulla	83	n.a	94	84
Moneragala	35	250	177	46
Anuradhapura	30	15	38	26
Polonnaruwa	53	n.a	167	63
Ampara	77	220	261	254
Batticaloa	122	70	238	229
Trincomalee	7	n.a	n.a	7
Jaffna	19	92	302	283
Mulaitivu	n.a	n.a	n.a	n.a
Vavuniya	0	n.a	n.a	0
Killinochchi	n.a	n.a	n.a	n.a
Mannar	n.a	n.a	n.a	n.a
Average	47	130	218	136

Source: Calculated from Census of Handlooms 1992 data

Fig. 1.2
Output per employee by district - 1st Quarter 1992

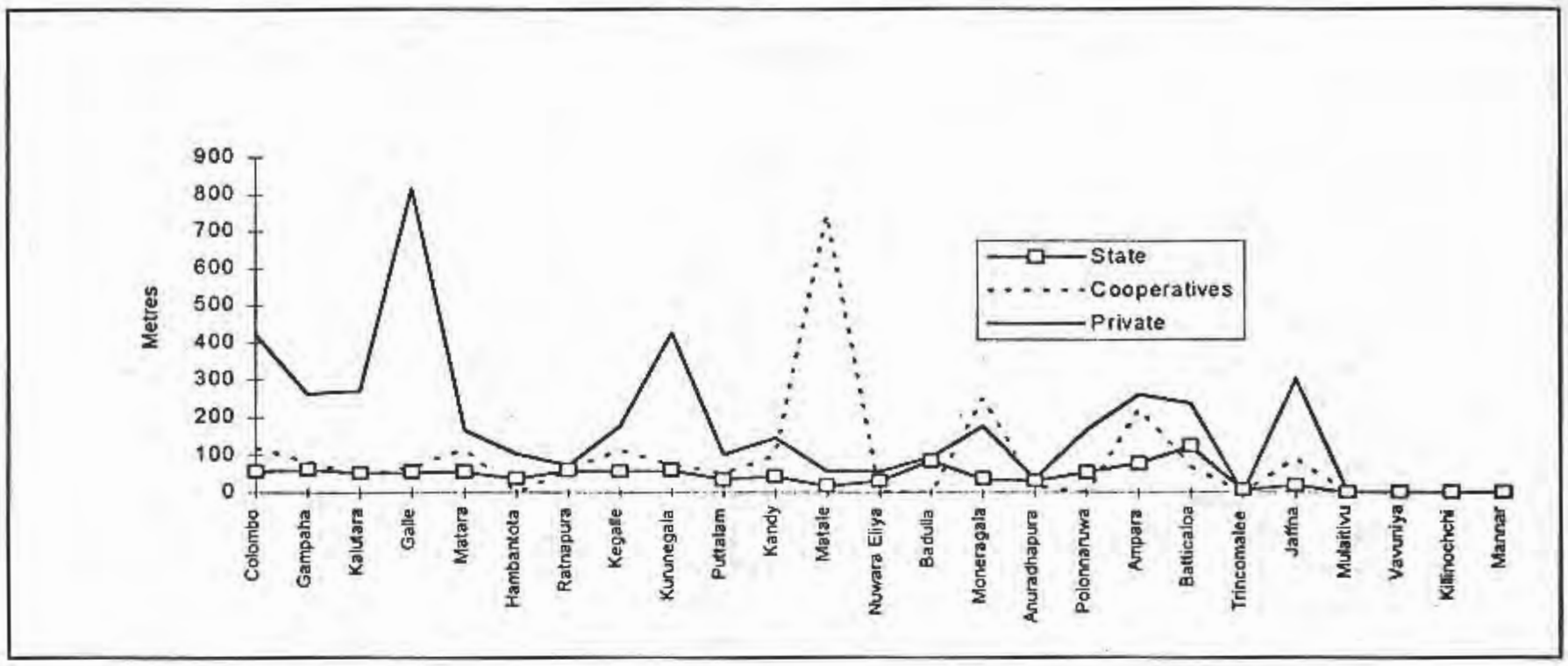


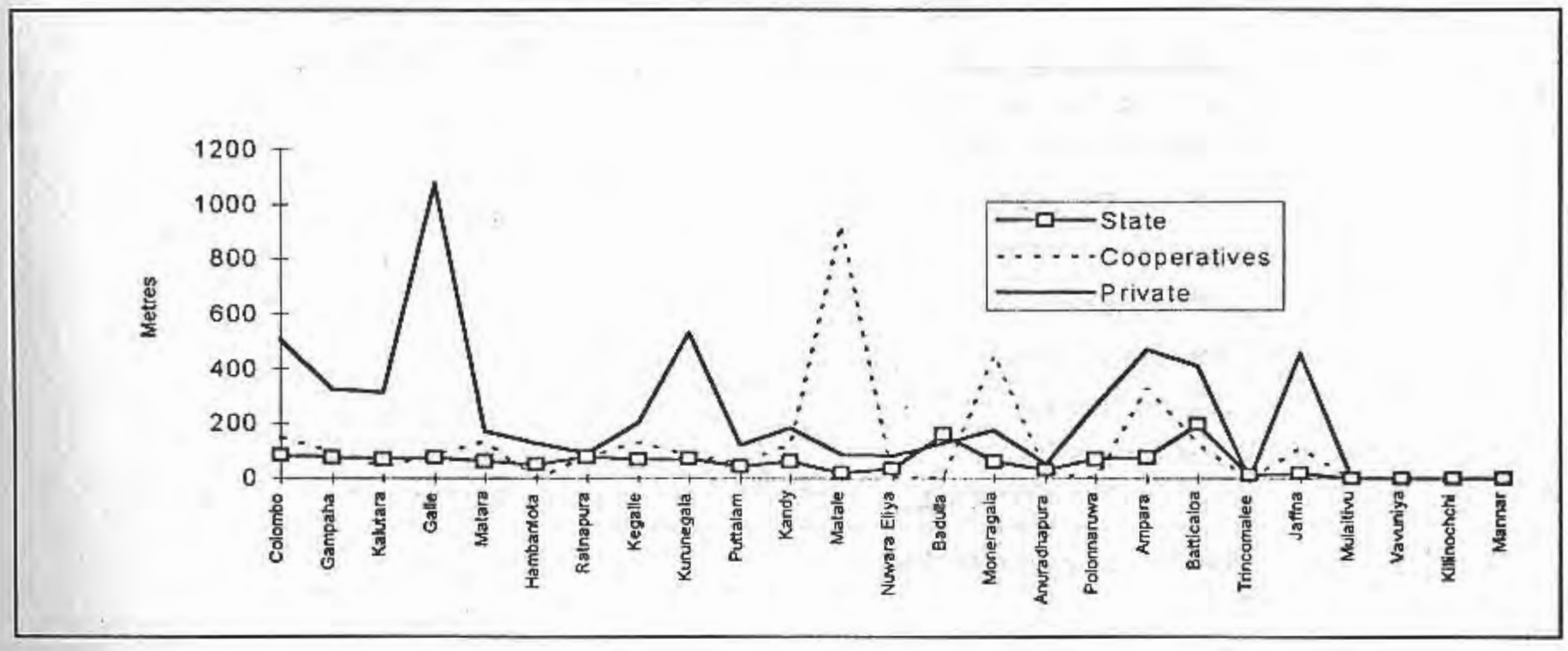
Table 1.6
Output per Weaver by District - 1st Quarter 1992

Metres per weaver

	State	Cooperatives	Private	All Sectors
Colombo	84	152	504	466
Gampaha	78	96	325	268
Kalutara	69	46	314	229
Galle	74	83	1076	604
Matara	60	134	171	124
Hambantota	50	0	128	55
Ratnapura	76	79	90	83
Kegalle	68	131	204	133
Kurunegala	73	86	529	201
Puttalam	43	59	121	69
Kandy	60	119	184	112
Matale	19	922	88	106
Nuwara Eliya	33	n.a	81	37
Badulla	161	n.a	129	159
Moneragala	60	450	177	78
Anuradhapura	32	27	52	33
Polonnaruwa	70	n.a	263	84
Ampara	77	329	470	446
Batticaloa	196	124	408	392
Trincomalee	11	n.a	n.a	11
Jaffna	19	111	455	413
Mulaitivu	n.a	n.a	n.a	n.a
Vavuniya	0	n.a	n.a	0
Killinochchi	n.a	n.a	n.a	n.a
Mannar	n.a	n.a	n.a	n.a
Average	64	173	288	195

Source: Calculated from Census of Handlooms 1992 data

Fig. 1.3
Output per weaver by district - 1st Quarter 1992



1.4 Exports

The export of handwovens has grown rapidly in the recent past, driven almost exclusively by a few pioneering private sector firms. The Government provides a compensatory grant of 20 per cent for exports in order to assist exporters to break into international markets dominated by India, where production costs are at least 20 per cent lower. Nevertheless, export earnings from handwovens are negligible relative to earnings from the textile and wearing apparel sector as a whole. Table 1.7 below sets out the export figures for handwovens during the period 1989-1995, as well as those for the textile and garment sectors, while Table 1.8 sets out the export earnings of the top eight firms.

Table 1.7
Exports of Handlooms, Textiles and Garments 1989-1995

Year	Handlooms (Rs. Million)	Textiles (Rs. Million)	Garments (Rs. Million)
1989	7.5	112	16,916
1990	11.1	96	24,287
1991	15.9	238	31,652
1992	25.5	771	49,176
1993	34.1	1534	62,349
1994	49.3	2077	68,945
1995	67.4	2263	84,803

Sources : Data for Handloom Sector are from De Silva et al (1996 :17); data for the other sectors from Central Bank Annual Report 1996:Table 74.

Table 1.8 :
Principal Exporters of Sri Lankan Handwovens - 1995

Firm	Export earnings Rs. Million
Ko Lanka Pure Silk (Pvt) Ltd	20.3
Barbara Sansoni Exports	15.7
Nangi Soft Crafts	8.6
Suntex Weaving Industries	7.2
Selyn Exports	6.5
Kandygs Handlooms	2.5
Joy and Friends	2.2
Orchid Agencies	2.1
Total	65.1

Source: De Silva et al 1996.

2. THE DEMAND FOR HANDWOVENS

2.1 The domestic market

The demand for handloom textiles in the domestic market is not more than 10 per cent of the total demand for textiles, which is estimated at roughly 200 million square metres per year.[20] A market survey by Gunawardana (1992:3) estimated a potential domestic demand for handloom fabrics of nearly 28.5 million metres, as against the demand for 44.3 million metres of domestic powerloom textiles, and 31.6 million meters of imported fabric. Given that total output of handwovens amounted to 18.6 million metres in the same year (Gunawardana's data),[21] the results of the survey indicate that there is potential for domestic production to expand by roughly 50 per cent (see Table 2.1). The production of handwoven sheeting seems to have the greatest potential to expand, followed by curtaining, sarongs and sarees.[22]

However, these demand estimates appear to warrant close scrutiny. In the first place, total potential demand for textiles in the domestic market as estimated by the survey at 104 million square meters per year is roughly half that estimated by the Textile Training and Services Centre in 1994.

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20 Domestic consumption is calculated on the basis that the per capita requirement is 12 sq. mt. of fabric per year (TTSC 1994).

21 The survey figures do not tally with the Census of Handlooms 1992 data.

22 The demand for curtaining is mainly from the urban and semi-urban upper and middle income segments of the market, and the demand for cotton sarees is increasing among these segments (De Silva et al. 1993:5).

Table 2.1
Demand for handwovens
by product as identified by the 1992 Market Survey

Item	Potential Demand (metres)
Sarees	1,909,847
Dress Fabrics	1,879,865
Sarongs	2,921,396
Verties	460,109
Shortings	484,727
Handkerchiefs	157,336
Bed sheets	11,330,345
Curtaining	4,821,596
Table cloths	1,445,727
Serviettes	1,339,007
Dusters	116,369
Towels - Honeycomb	846,614
Terry	605,591
Others	117,940
Total	28,496,469

Source : Gunawardana 1992

In the second place, if present handloom production levels meet only half of potential demand as the survey results indicate, then handwovens should fetch very high premium prices. But actually, only a small proportion of handwovens produced for high-income niche markets command high prices, whereas the standard product is much cheaper. This contradiction is likely to have arisen as a result of the estimating methodology not taking into account the array of tax concessions and subsidies (see Appendix), which directly reduce the market price of handloom products by at least 40 per cent.[23] These concessions range from exemptions from duty and Turnover Tax on the import of yarn, and a rebate of 20 per cent to manufacturers of handloom textiles who purchase yarn in hank form, produced locally, to a captive market of Ministries, Departments, Boards and Corporations in the State sector, while imported textiles are subject to a tariff of 35 per cent. Thus, the demand estimates are based on a configuration of static price differentials among the three groups of textiles, the *status quo* being one where government intervention is making handloom production competitive even in relation to the powerloom sector. Handloom textile producers in the State sector also

23. Verbal communication, W. Jayamaha (Ministry of Textile Industries).

enjoy non-price subsidies in terms of fixed and operating costs, which make them even more competitive. For example, while the price of a metre of powerloom sheeting averages between Rs. 110 (48" Hybrite printed) and Rs. 142 (48" printed sheeting available at Nagindas), Salu Sala and the Provincial Councils sell their sheeting at about Rs. 95 a metre.

Some idea as to the extent to which production in the State sector is subsidised can be gleaned from the price differentials between the State and the private sectors. For example, the quality of "Kandygs" sarees is far superior to that available at "Viskam Niwasa" or the Provincial Councils' sales outlets, and may account for some of the difference in price (Kandygs' handloom sarees cost between Rs. 1350 and 1750 each, whereas in the State sector prices range from Rs. 520 to Rs. 900). However, if full overhead costs (borne by the State) were to be included in the price of sarees produced in this sector, then these prices would increase at least by 100 per cent, and would exceed the prices at which Kandygs Handlooms sells its higher quality sarees.[24]

It can be seen, therefore, that the potential to expand domestic sales of the items identified by Gunawardana's market survey can be realised only if domestic production continues to enjoy the protective measures currently in operation. If these protective measures and the subsidies to production are removed, there is likely to be a drastic contraction in the demand for handwovens. For example, Indian voile sarees smuggled into the domestic market cost around SL Rs. 700 at present, whereas they cost no more than SL Rs. 300 in India. If tariffs on sarees were to be removed, Sri Lankan handloom sarees would find it extremely difficult to compete. The only products which are likely to be able to withstand the onslaught of international competition are those such as handwoven sarongs sold by Barefoot, Kandygs, Rafters, and Paradise Road, which cater to particular, high-income niche markets. However, supply-side constraints also matter and these will be discussed in Section 3.

The market survey by Gunawardana (1992) also found that consumer demand for handwovens was determined by price, durability, ease of care, design and quality. Nevertheless, two points to note here are that price is a function of durability, and that the low

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[24] Verbal communication, Padmaseela de Silva (Department of Textile Industries)

replacement rate that greater durability implies, particularly in relation to household linen such as curtaining, which have low replacement rates anyway, have significantly negative implications for the volume of handwovens which can be sold in the market. Therefore, Gunawardana's estimates of potential demand for handwovens should be treated with some degree of caution.

2.2 The export market

A careful examination of the products exported by leading exporters reveals the kind of exports for which there appears to be a growing international market. Ko Lanka Pure Silk (Pvt) Ltd., the largest exporter, produces head-pieces for silk kimonos on a sub-contracting basis for a Korean principal who in turn exports them to the Japanese market. Barbara Sansoni Exports Ltd. has succeeded in developing a distinctive image, in creating a demand for it, and in meeting that demand thereafter. The firm exports a range of products from curtaining and other household linen, to soft toys and dress fabrics, and has, in addition, an important base in the domestic, high-income market. Nangi Soft Crafts and Selyn Exports have focused on the production of soft toys with handwoven fabrics. Characteristics such as design and quality, and the reliability of supply have been key ingredients in their success.

World-wide, there has been a revival of interest in fabrics made with natural fibres, hand-made and ethnic products, reflecting the success of the 'Back to Nature' and environmental movements in the industrialized world. Moreover, the growth in consumer incomes in developed countries has encouraged those consumers at the higher end of the market to move away from mass-produced goods and look for differentiated and exclusive items. An intrinsic characteristic of niche markets is that the demand for such products is relatively inelastic and based on a certain scarcity value. Therefore, producers of such goods have little chance of expanding profits by increasing supply as such goods would then lose their exclusivity and prices would fall dramatically. To succeed in such markets, producers should be able to maintain consistently the distinctinctive and exclusive character of their products and create a demand for them.

However, while high-income, niche markets open up in developed countries, Sri Lanka may not be in the best position to compete in them, unlike, for example, India. Not only does India produce raw cotton and silk fibre domestically; it has a centuries-old tradition of handweaving as an art as well as a craft; and India's technological capability in terms of looms and product design is unique. Moreover, handwoven textiles are heavily subsidised by the Indian Government, and the handloom lobby has emotive symbolic imagery (for example, Mahatma Gandhi's Kadi campaign) on which to draw in order to maintain its protected status. In contrast, Sri Lanka's handloom industry faces serious supply-side constraints, as will be discussed in the section below.

3. SUPPLY-SIDE CONSTRAINTS

Supply-side constraints faced by the handloom industry have been well documented in previous reports, and we draw on much of this information in the discussion to follow. Nevertheless, the approach adopted here is essentially one of assessing the extent to which they reduce the flexibility of the industry to respond to changing market conditions.

3.1 A dwindling work-force

Unlike in India, handloom weavers in Sri Lanka are predominantly female. Males engage in the industry only in the Eastern Province and that, only in certain Muslim villages, where handloom weaving has been a traditional occupation. The gender of the work-force has significant implications for productivity: handloom weaving is an extremely strenuous operation, and physical strength is a key ingredient of productivity in this industry.[25]

Productivity levels in the industry are generally low, particularly in the State sector. A weaver in the public sector rarely produces more than two metres of handwoven fabric per day. Going by the data on output per weaver in Table 1.5 above, the average weaver in the State sector produces less than one metre per working day during the peak first quarter of the year. The principal reason for low productivity in the state sector is the irregular supply of yarn; this

[25]. I am grateful to Manel Kuruppu (Ministry of Textile Industries) for drawing my attention to this point.

will be discussed in the following section. Low productivity in turn leads to low earnings, and this makes it difficult to retain workers in the industry.

Average daily output in the private sector is considerably better, varying between 5 and 6 metres per weaver (De Silva et al. 1993:10). Even so, there are signs that the industry is fast approaching a situation of labour attrition. The majority of weavers are more than 40 years old, and the number of young people who are willing to enter the industry is declining steadily.[26]

There are several reasons for this. First, the work is strenuous and average returns in terms of wages and superannuation benefits are low relative to those associated with other employment. For example, average monthly wages amount to Rs. 2500 in the handloom sector (De Silva et.al 1996:20), but are around Rs. 3000 in the garment sector. Moreover 'it takes several years of dedicated effort to develop skilled craftsmen (*sic*)' (De Silva et.al 1993:7), whereas juki training takes a fraction of that time.[27] In addition, weaving is generally regarded as being of low status and less attractive than, for instance, the work of the present-day garment factory worker.[28]

It has been proposed that handloom weavers be paid a minimum wage of Rs. 125 per day (at present they are paid by piece-rate), and that efforts be taken to change the negative image of weaving as an occupation, in order that weavers remain in the industry (De Silva et. al 1996:20). However, these measures are only palliatives. In the long run, the most crucial determinants of the industry's survival, and its ability to retain workers, are the volume of demand for handwovens in the market and the prices they can command. These must be

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26. This is despite significant incentives provided by the State. In the Central Province, for example, weavers who receive 6 months training in the State sector, receive a grant of Rs. 400 per month of training, and are thereafter given a loom costing Rs. 20,000, which they can operate at home. They are even supplied with yarn and the State purchases the output according to a system of piece-rates (Punya Chandani de Silva's interview with K. Udage, Director, Department of Textiles, Central Province, in the *Ravaya*, 18 May 1997).

27. The training of weavers in the State sector takes place in the Training Schools of the Department of Textile Industries and at Handloom Service Centres (De Silva et. al. 1993:7). The Vocational Training Institutes of the Ministry of Labour and Vocational Training too provide courses in handloom weaving, while the private sector trains its staff on the job in their own workshops.

28. For example, the Department of Textiles, Central Province recruited 3500 trainee weavers, of which 1453 left for jobs in the investment promotion zones (Punya Chandani de Silva's interview with K. Udage, Director, Department of Textiles, Central Province, in the *Ravaya*, 18 May 1997).

favourable enough to ensure a return to weavers which is at least as favourable as the terms and conditions offered by alternative sources of employment.

There are even reasons why the handloom industry's problem of labour attrition can be viewed in a positive light when contrasted with the situation in India. There, handloom weaving is generally carried out by certain caste groups whose ability to move into other occupations is restricted, not only because of the structure of Indian society, but also because there are relatively few other employment opportunities available. There are over three million handlooms in India employing more than six million people (Lynton 1995:12), and handloom weavers make up a significant lobby group. Compared to the Indian situation, labour attrition in Sri Lanka's handloom industry denotes a relatively less painful form of structural adjustment in the sector.

3.2 The supply of yarn

The high costs and uncertainty associated with the supply of yarn (yarn accounts for about 60-70 per cent of the cost of fabric) are two key problems facing the industry.

The local spinning mills are capable of manufacturing the major portion of the handloom sector's yarn requirements, and the major part of the sector's demand has been met from the Mattegama mill which was originally set up by the Government to meet the needs of the handloom industry. (It was later privatised). Both Mattegama and Kabool produce hanked yarn which is most suitable for the handloom industry, but these cost more than the imported yarn (De Silva et.al 1993:11). Only Kabool's yarn meets the quality standards that exporters of handwovens require.[29]

Yarn importers sell their imports in the domestic market at a price on par with the price of locally manufactured yarn, and so get a bigger margin of profit (De Silva et. al 1993:11). In order to reduce the cost of yarn to the handloom weaver, the Government subsidises the price of local yarn by 20 per cent, thereby forcing the yarn importer to lower his price to fall in line with the price of locally-produced yarn. Although formerly the local manufacturer of yarn

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[29]. Verbal communication, D.P. Gunawardana (Lanka Fabrics Ltd.) to Rozana Salih (IPS), May 1997.

was paid the subsidy directly, it is now administered by the Provincial Councils and takes the form of a rebate to the handloom weaver. But the new rebate system does not seem to be functioning effectively because of certain administrative weaknesses in the Provincial Council system (ibid.).

The supply of domestically produced yarn has been irregular because of the following reasons: (a) the problems of industrial unrest which seem to affect Mattegama periodically; (b) competing demand from the domestic powerloom sector - the mills prefer to sell yarn in large quantities to powerloom textile producers rather than to small-scale, widely dispersed producers of handlooms, who need yarn in hanks rather than in cones; and (c) the yarn exporting priorities of Kabool.[30] The State sector faces a further problem: due to liquidity constraints, the Provincial Councils are frequently unable to purchase sufficient stocks of yarn,[31] and at other times are unable to pay their bills on time, with the result that the mills place an embargo on any further supplies of yarn.[32] Acute yarn shortages which occur periodically in the State sector is the main reason why productivity in the sector is so low. The situation has worsened after the recent closure of the Mattegama mill. It is to be bought and operated by Kabool, but yarn production operations will be discontinued. Therefore handloom producers will be almost entirely dependent on yarn imports in the near future.

Importing yarn to meet the needs of the handlooms sector is, however, not without its disadvantages. Although a duty of 10 per cent was payable until recently at the point of import, imported hanked yarn is now exempted from all duty as well as from the Turnover Tax.[33] However, it is still subject to the Defence Levy of 4.5 per cent, together with the stamp

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30 According to the terms of Kabool's agreement with the Sri Lankan government, it is bound to make available a certain volume of hanked yarn for the handloom industry. However, Kabool meets the demands of its export markets before supplying Lanka Fabrics Ltd., and since the closure of the Mattegama mill, Kabool appears to be exploiting its monopoly position by making its yarn available only when prices are high (verbal communication, D.P. Gunawardana (Lanka Fabrics Ltd. to Rozana Salih (IPS)).

31 Verbal communication, Padmaseela de Silva, Department of Textile Industries.

32 Verbal communication, K. Udage (Department of Textiles, Central Province) and A.D. Ratnayake (Department of Textiles, North-Western Province).

33 However, it appears that the duty exemptions granted to assist the handloom sector are being poached by small-scale powerloom producers as well, who buy the hanked yarn and thereafter wind it in cones for use in powerloom manufacturing (verbal communication, D.P. Gunawardana, Lanka Fabrics Ltd.).

duty payable by yarn importers and the cost of freight, so that Sri Lankan producers have to pay considerably more for yarn than their Indian competitors.[34]

While India is the principal source of yarn imports for Sri Lanka's handloom industry, the Indian government imposes both variable tariff and non-tariff restrictions on the export of yarn in order to guarantee a regular supply to its own handloom industry. The export of certain counts of yarn are subject to a total embargo and higher grade Indian yarn is exported as cones. The need to hank the yarn thereafter pushes up costs even more (De Silva et.al 1996:21).

The Government has responded to these problems in various ways. It has removed the duty on the import of hanked yarn and has also directed the State Trading Corporation to import yarn for the handloom sector.[35] It may also be possible to work out more favourable trading conditions for yarn imports from India through bi-lateral trade agreements or through SAPTA (South Asian Preferential Trade Agreement). Meanwhile, some weavers have started using a single thread instead of the traditional two to weave sarees and sarongs to reduce costs. These measures may provide some relief, but the fact remains that, as far as the availability of yarn is concerned at least, Sri Lanka does not have a comparative advantage in the production of handwovens. Whether Sri Lanka can overcome this natural disadvantage by developing a competitive advantage at firm level through productivity increases, design technology and marketing strategies, will be discussed in the sections to follow.

3.3 Weak design capability

As noted earlier, the demand from the domestic mass market for items such as bed sheets and sarongs is governed by factors such as relative price (which make subsidies crucial for the survival of the industry), durability, and ease of care (Gunawardana 1992). However, the ability of handwovens to compete with the powerloom sector in higher income niche markets is largely determined by its intrinsic value. Here, handwovens are valued as works of art

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34. If the yarn is imported from India, as is almost always the case, the price differential faced by Sri Lankan weavers is probably higher as the Indian Government levies a tax on yarn exports and provides subsidies to its own producers.

35 The State Trading Corporation, however, is yet to act upon the Government's direction (verbal communication, Manel Kuruppu, Ministry of Industrial Development).

rather than purely for their utilitarian value, and the quality of design is fundamental to the marketability of handwovens in such markets. In export markets, a distinctive image is crucial to success.

While one or two producers of handwovens in the private sector (Barbara Sansoni, for example) have created highly successful, distinctive images for their products, standards of design in the majority of Sri Lankan handwovens are fairly elementary. Design innovation has not progressed much beyond the traditional Dumbara designs, and there is a strong tendency to use too many primary colours in pastel shades, which do not appeal to urban-based consumers who have a relatively more sophisticated sense of colour.[36] The limited range of designs available, and the dearth of talented designers, have been serious constraints to developing a distinctive image for Sri Lanka's handwovens.

The dearth of designer talent encouraged the Government to set up the National Handloom Centre, in 1991, to develop handloom designs and create a distinctive Sri Lankan image primarily for the export market. The Centre began with two professional designers but is now functioning with only one. Nevertheless, it has since held several impressive exhibitions displaying a series of strikingly beautiful designs based on traditional Sri Lankan art forms, such as temple paintings, lacquer work, and carved wooden pillars. Even so, the designs seem to have been created purely for the sake of their aesthetic beauty, with little attention paid to practical matters such as costs of production and the resulting marketability of the final product.

Of even more serious concern is the fact that the Centre sold only 826 sample cards between 1991 and September 1996, even at a price as reasonable as Rs. 100 each. Of this number, six well-known firms in the organised private sector[37] account for about 125 sample cards or 15 per cent of the total number sold in five years (Image Sri Lanka 1996). The major buyers of samples are the Provincial Councils, which, however, do not produce for export. The low take-up of designs by the organised private sector probably indicates one or both of the

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36. I am grateful to Sirancee Gunawardene for drawing my attention to this point.

37 These firms are Kandygs (26), Selyn (38), Barefoot (15), Fablanka (6), Paradise Road (16), De Soysa Trading Co. Ltd. (30).

following: (a) that these firms have their own design capability and therefore do not really need designs from the National Handloom Centre, and/or (b) that where a distinctive image as well as the ability to differentiate is the key to success, using designs which can also be used by other producers defeats their purpose. This leads to the conclusion that successful producers of handwovens for niche markets need to develop their own design capability in order to succeed, and that handloom exporters find the Centre useful only for the purpose of getting a few ideas that could be used in their own exclusive designs which give their products their particular distinctive character. This questions the economic justification for the export-oriented design research and development activities of the Handloom Centre.

As for the Design Centres managed by the Department of Textiles, which produce designs for the local market, apart from a few talented designers, the majority are in fact master weavers rather than designers. However, even these few gifted designers tend to overlook the cost factor in their designs.

Various proposals have been advanced to solve the problems of weak design capability. These have ranged from developing the National Handloom Design Centre to train designers and providing undergraduate degree courses in design at Moratuwa University, to hiring designers from India (De Silva et al 1993, 1996). A more practical solution would be to provide graduates of the Institute of Aesthetic Studies with specialized training in textile designing for handlooms.[38] Accordingly, the Handloom Centre is even now conducting such a course for five such graduates on behalf of the Southern Development Authority.[39] However, here again, the demand for the product and the price at which it can be sold both here and abroad will be the final determinant of the feasibility of any of these measures to improve design quality.

3.4 Outdated technology

The overwhelming majority of handlooms in Sri Lanka are very old, and of weak construction and therefore need to be modernised. Weak construction results in poor quality weaving as

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38. Verbal communication, Chandra Thenuwara, (formerly of the National Handloom Centre).

39 Verbal communication, Madhara Dolapihilla (National Handloom Centre).

the loom tends to move from one side to the other during weaving (Neumann and Ranasinghe 1990:27). The productivity of old machines is very low. Of all the looms counted in 1992, only 10 per cent can be used for the manufacture of broad width fabrics (more than 61" in width) for which demand is more favourable, and almost all belong to the private sector (Census of Handlooms 1992:10-13). There are relatively few specialist looms such as jacquard and dhobby machines,[40] which together account for just 1 per cent of the total number of handlooms in the country. Here again, 85 per cent of these machines are privately owned and are located in the districts of Colombo, Ampara and Jaffna (ibid.).

The industry is also unable to obtain basic accessories such as reeds, healds, shuttles, pirns, punch cards and take-up motions easily, and is heavily dependent on imports from India (Neumann and Ranasinghe 1990:27). Dyes too need to be imported and represent a significant cost, hence the tendency to opt for lighter shades of yarn which require less dye. While consumers in rural areas seem to prefer lighter shades,[41] urban-based high income consumers prefer handwovens in darker hues and jewel colours which are costlier to produce. Meanwhile, the majority of manufacturers use outdated processes to dye their yarn. As they rely on firewood for heating, the absorption rates of dye vary, resulting in uneven dyeing. However, the Department of Textiles and a few Provincial Councils (for example, Central Province and Wayamba) have steam dyeing factilities. Some of the pioneering exporters too have modern dyeing capabilities.

In its array of concessions to the handloom industry, the Government grants a Rs. 1500 subsidy for the purpose of widening narrow looms. This scheme is administered by the Provincial Councils. However, the rate of investment in new technology is likely to be determined not so much by the availability of investment capital, but by the demand for handwovens and the prices they can realistically command, which would justify such investments.

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40 These machines enable the weaving of more complex designs.

41 For example, Gunawardana's survey (1992) found that roughly 50 per cent of consumers in the North Western, Southern, Uva and Sabaragamuwa Provinces, preferred lighter shades in sarees and sarongs. Fewer than 20 per cent opted for darker colours. The preference for darker hues in household linen was somewhat greater.

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This section has shown that significant supply-side rigidities constrain the ability of the handloom industry to respond to changes in demand. Of these, the most serious relate to a productive labour-force and the supply of yarn. The Census of Handlooms 1992 found that the principal reasons for the non-operation of looms were the shortage of inputs, the lack of investment capital, and problems of marketing. These data are reproduced in Table 3.1 below.

Table 3.1
Reasons given for the non-operation of looms

	Private	State	Co-op.	Total
Lack of raw materials	26%	34%	48%	29%
Lack of funds	27%	1.2%	17%	25%
Lack of spares and accessories	14%	10%	10%	10%
Shortage of weavers	9%	41%	11%	16%
Marketing problems	17%	3%	-	14%
Other reasons	6%	9%	7%	6%

Source : Census of Handlooms 1992

4. PROSPECTS

In this section the main conclusions relating to the demand for, and supply of handwovens, discussed above are brought together, and their implications examined, for the Government's objectives of generating employment and promoting rural development and exports.

4.1 Employment and rural development

The strongest conclusion to emerge from the above analysis is that the handloom industry does not have the potential to create mass, or even large-scale employment, even in a heavily protected environment. This automatically restricts opportunities for rural development through the development of the handloom industry, regardless of the possibility that production can be carried out in remote areas with poor infrastructural facilities.[42] In fact, even

[42] Accessing inputs and markets in such areas is another problem altogether.

protective measures and subsidies to the sector are unlikely to be able to arrest the inexorable decline in the numbers employed, and the 1992 employment figures of roughly 30,000 jobs will not be sustainable.

There are two reasons for this. First, the ability of handwovens to cater to a mass, low income market ended with the Industrial Revolution and the advent of powerlooms in the early-19th century. If 10 per cent of domestic demand for textiles is being met by handwovens even today, then it is because the industry is protected and subsidised to such an extent as to overcome even the intrinsic productivity and cost advantages of the powerloom sector.

Secondly, even in a highly protected environment, it will be increasingly difficult to find young people who are willing to enter the handloom industry and undertake the long training period. As Sri Lanka's industrial base diversifies and grows faster, more attractive and less arduous employment opportunities will emerge elsewhere and exacerbate the problem of acute labour shortages in the handloom industry. Labour attrition in the sector seems inevitable, but employment in other sectors will increase and that itself should achieve some of the employment objectives of policy makers.

Liberalising the import of textiles further will only accelerate this inevitable process, but the social costs of rapid transition are likely to be high. The majority of workers who are likely to lose their livelihoods, being older women, are unlikely to be able to find employment in the newly opening-up sectors. The greatest impact of any restructuring will be felt in the areas with the highest concentrations of handloom workers, such as the Eastern (9268), Western (7419), Southern (3193), and Central (2803) Provinces (see Table 1.2 and Fig. 1.1 above). However, the Government has announced its intention of moving towards a uniform tariff rate of 15 per cent in the near future (textiles are subject to a 35 per cent import tariff at present) (Budget Speech 1996). Meanwhile, the terms of the Uruguay Round Agreement may see the end of the grant of subsidies to the export sector. Therefore, further research needs to be

undertaken to assess the social costs of liberalisation for the handloom sector, and some safety nets put in place to ease the transition.[43]

Sequencing the liberalization will, however, be of paramount importance. If Sri Lanka liberalises textile imports further before India liberalises her textile market, for instance, we may face the ironic situation where heavily subsidised Indian handwovens wipe out the local industry. Consumers, however, are likely to gain as textiles become cheaper and they reap the benefits of the Indian Government's subsidies to its handloom sector.

While it seems inevitable that the industry faces the gloomy prospect of a drastic down-sizing in the medium to long term, its extent will be determined by the degree to which Sri Lankan handwovens manage to meet the quality and design requirements of high income niche markets both here and abroad. These issues will be examined in the following section.

4.2 Production for niche markets

If the export of handwovens is to succeed, the local industry needs to overcome the cost and input disadvantages from which it suffers in relation to its largest regional competitor, India. As discussed earlier, Sri Lanka does not have a comparative advantage in handloom production, particularly in relation to the cost and availability of inputs (yarn, dyes, modern technology and a large pool of highly productive, skilled weavers). Therefore, the competitiveness of Sri Lankan handwovens will depend primarily on characteristics such as quality, distinctive design, product differentiation and the ability to deliver on time. While the State sector has played its part in helping to keep the industry alive (though barely), the future of even a considerably down-sized handloom industry in this country will depend entirely on the private sector's ability to meet these requirements.

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43. The only way in which the severity of the decline in employment in the sector may be somewhat mitigated is through a degree of automation. B. D. Perera of Dayani Weaving Centre, Alubomulla, Panadura has developed a loom powered on single phase electricity based on an Indian model. The productivity of these machines is high: whereas even a highly skilled weaver can produce only one handwoven saree a day, the new machine can produce three, and the sarees are sold at roughly Rs. 350 each (personal communication, B. D. Perera and the *Navaliya*, 20 January 1997:20).

Of course, the product will no longer be a handwoven fabric, but will be better able to withstand the competition from imports, so long as it meets the design and quality requirements of the market. However, given the superior design technology and natural competitive advantages of Indian production, the chances that the new technique will make a significant impact on staving off the inevitable downsizing of the domestic textile industry, are very slim indeed.

A closer scrutiny of the successful exporters reveals two export industry models which have made for success. The more difficult model is epitomised by Barbara Sansoni Exports. The firm has displayed exceptional design capability in creating a distinctive image and has reached the stage of export maturity where it markets its own products under its own evocative brand name, "Barefoot". If one adopts Fonseka's (1996) typology of exporting firms, then Barbara Sansoni Exports probably has a long-term vision, takes inspiration from the export market, is innovative, differentiates its products and is willing to take risks. The company also has a firm base in the domestic high-income market and trades on the snob appeal of its products. In the words of one commentator, it caters to 'the elite banner-bearers of local cotton handlooms, now very much a fashion/art cult'.[44] Furthermore, the firm depends on fundamentals rather than on incentives to make profits.

The second option may be to enter into a sub-contracting arrangement with a foreign buyer. This seems to be the strategy followed by Ko Lanka Pure Silk (Pvt) Ltd. which subcontracts for a Korean firm producing kimonos for the Japanese market. For firms which lack design capability and easy access to foreign markets, sub-contracting may be a more feasible option, as the inputs and designs are provided by the foreign principal, much like the *modus operandi* of the garments sector.[45] As in that sector, the quality of product and reliability in meeting delivery targets are key ingredients of success.

A third option may be to ride on the success of other industries and export in tandem. For example, Sri Lanka's ceramic industry has already broken into several high income markets abroad. If domestic suppliers of table-ware were to package their exports along with handwoven table linen designed to match and set it off, then the handloom industry may be able to capitalize on the success of the table-ware industry and enhance the value of both. This too would involve some subcontracting arrangement which would provide the handloom industry with appropriate designs and ensure market access.

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44 See 'Innovative designers showcase products' in *The Island*, 19.11.1993.

45 However, this kind of sub-contracting can stifle the development of design skills among Sri Lankan producers.

Likewise, there may be opportunities to diversify into non-traditional products. The product differentiation skills of Barbara Sansoni, for example, has extended to fashion accessories, cushion covers, wall hangings, stuffed toys and book covers. Her striking sarongs are also used as dress lengths for simply-cut outfits which depend on the beauty of the fabric rather than the line of cut for their attractiveness. The niche market for exclusive dress lengths in light-weight cotton handwoven fabric is another potentially lucrative market which, however, other producers seem to have missed. Kandygs Handlooms, for example, produce a limited range of sarongs, but the cotton dress fabric it produces is usually too thick for domestic use.

Nevertheless, while there is considerable potential in niche markets for certain handwoven products, hardly any domestic firm seems to have the ability to break into these markets without the support of a subcontracting arrangement with a foreign principal. Even in this type of arrangement, requirements of quality and the ability to deliver on time are crucial factors, as stated earlier, and given the nature of the demand for handwovens, it is unrealistic to expect an expansion in sub-contracting arrangements amounting to even a fraction of those operating in the garments industry. The only advantage that handwovens have over the powerloom sector is in their exclusivity, and any attempt to expand supply without significant differentiation is only likely to result in a collapse of the market.

Hence, by its very nature, handwovens do not lend themselves to mass production, mass employment generation or to large-scale export earnings. Niche markets are small by definition, and cannot support an expansion in supply. Nevertheless, the sector can provide opportunities for significant returns to a small number of specialized firms which can meet the requirements of quality, product differentiation, and reliability. Risks are, however, high, and the learning period is long. Hence the number of firms which are likely to undertake such a challenge is very small, given the other less risky investment opportunities available in the market, particularly in the garments sector.

4.3 Conclusions

This paper has assessed the capacity of the handloom sector to meet the employment and export growth objectives of the Government. It has shown that there are virtually no

economies of scale in the handloom sector, and the fact that it meets even 10 per cent of the domestic demand for textiles, as at present, is entirely due to the array of protectional and promotional measures taken by the Government. If protection is removed, then the demand for handwovens is likely to contract drastically in favour of the cheaper powerloom textiles, and only a few high income niche markets will remain. While these markets can provide opportunities for two or three producers to make substantial profits, they cannot provide jobs for more than two hundred or three hundred workers at a generous estimate. Thus, while a downsizing of the industry is inevitable even with protection, due to labour attrition, further liberalization will drastically accelerate the process. The key policy issues here are the timing and sequencing of liberalisation, and easing the social costs of transition.

While opportunities for exporting handwovens do exist, only exceptional firms with long-term vision, strategic marketing and product differentiation skills, strong links with foreign buyers and with a reputation for guaranteeing quality and reliability can make the grade. Unlike in other industries, the scale of demand is too small to permit any fluctuations in quality and reliability, and the firm which fails to keep to these standards is likely to be punished severely. Moreover, the nature of niche markets is such that there are no opportunities for large-scale production and employment as the scale of production is governed by the differentiated demand for the product. However, the returns to the successful firms and the workers they employ are likely to be high, and successful firms may be able to retain their work-force and attract new recruits to the industry, albeit on a very small-scale. Nevertheless, the investment climate does not seem conducive to new investors entering the field, as quicker, less risky profits are to be had elsewhere.

As far as encouraging production for niche markets is concerned, the policy option may be to pick winners among existing handloom producers who have yet to break into foreign markets, and help them establish links with foreign buyers. A package of financial incentives somewhat like those provided by the BOI can also be considered, but a time-frame for the phasing out of such incentives should also be clearly articulated so that the profitability of the enterprise stems from market fundamentals rather than from the incentives provided by the Government. The phasing out of incentives is vital for the future viablity of the industry as

continued protection tends to retard productivity growth and also encourages the proliferation of unproductive industrial units which depend on State patronage for survival.

If the capacity of the industry to generate employment and export earnings is extremely limited as has been shown, what does the Government hope to achieve by intervening in the industry as it does at present, and by going against its own stated commitment to an open economy and the play of market forces?

We are forced to conclude that government intervention is simply postponing the day of reckoning when trade barriers will come down and a profound structural change in the textile industry, which began nearly two centuries ago, will finally take over. Government intervention is also preserving a cultural tradition and a way of life for which there seems to be considerable sentimental attachment among the general public.[46] The outlook for Sri Lanka's handloom industry is indeed bleak, and its fate may be finally determined by the eventual liberalisation of textile imports, or the rate of labour attrition in the industry, whichever takes place first.

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[46]. See the Editorials in the *Silumina* of 5 December 1993, in the *Dinamina* of 21 April 1994, and the article in the *Divaina* of 18 April 1997. These writers strongly exhort the government to support the handloom industry and generally take too rosy a view of the capacity of the sector to generate employment and support rural development.

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Appendix

CONCESSIONS TO THE HANDLOOM INDUSTRY

(a) A rebate of 20% is given to manufacturers of handloom textiles who purchase yarn in hank form produced in local spinning mills.

(b) Import of yarn in hank form is exempted from the Turnover Tax. The counts of yarn so exempted are, upto 16, 20/2, 30/2, 50 and above.

(c) Production of handloom fabrics is exempted from the Turnover Tax.

(d) A grant of Rs. 1, 500/- per loom is given for widening narrow handlooms.

(e) All the Ministries, Government Departments, Boards and Corporations are required to purchase the following items exclusively from the handloom sector.

- (i) Curtains
- (ii) Bed sheets
- (iii) Coverlets
- (iv) Furnishings
- (v) Dusters
- (vi) Prisoners' dresses
- (vii) Hospital patients' clothing

(f) The Ministry of Health purchases all its requirements of surgical gauze (7 million mtrs per annum) from the handloom weavers registered with the Ministry of Industrial Development, at a price determined by two Ministries.

(g) The Sri Lanka State Trading (General) Corporation has been required to import and distribute yarn to handloom weavers.

(h) The duty of 10%, which was formerly payable on imported hanked yarn, has been removed.

(i) Training:

The Department of Textile Industries conducts a two-year training programme in handloom weaving. Trainees are paid an allowance of Rs. 30/- per day during the training period. The Department also bears the cost of the bus/train season ticket to travel between home and weaving school.

Additional Assistance by the Export Development Board to Exporters of Handloom Textiles:

(i) Payment of 20% of the FOB Value of exports as a compensatory grant. This payment covers not only fabrics, but also made-up items such as bed sheets, cushion covers, soft toys, etc., made of locally produced handloom textiles.

(j) Financial assistance at concessionary rates of interest on a case-by-case basis.

(k) The Export Development Board also shares expenses in promoting a market.

Source: Manel Kuruppu, Textiles Division, Ministry of Industrial Development.

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