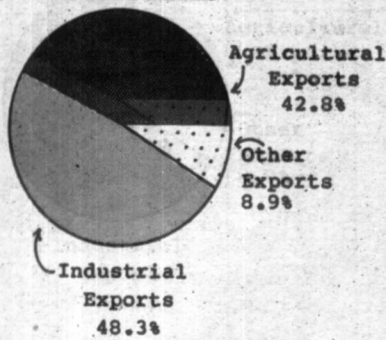


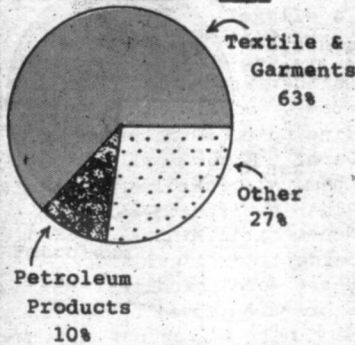
SHARE OF MANUFACTURES

IN TOTAL EXPORTS



COMPOSITION OF INDUSTRIAL

EXPORTS - 1988

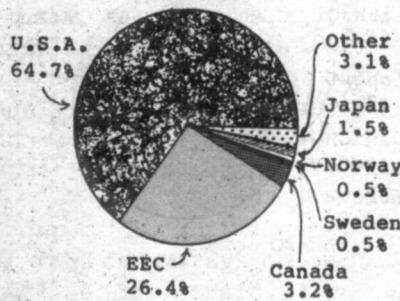
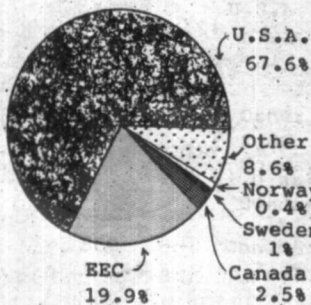


DESTINATION OF APPAREL

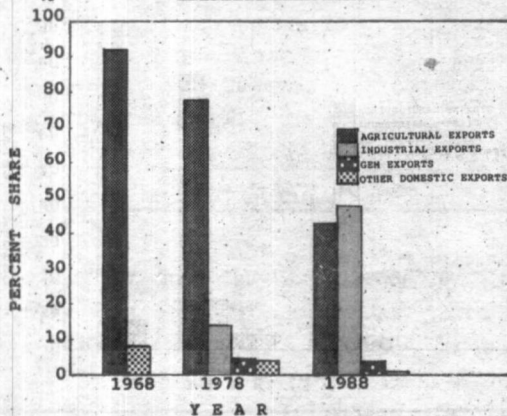
1986 (Act.)

PRODUCTS

1989 (Proj.)



SRI LANKA'S CHANGING EXPORT STRUCTURE 1968, 1978 AND 1988



The growing importance of the Ready Made Garments industry in Sri Lanka's industrial sector and the entire economy is apparent from these illustrations. It has led to changes in the structure of the country's exports and industrial sectors; though the destinations of these garment exports, highlighted here, remind us of the dangers of concentrating too much in a single market.

The phenomenal expansion of Sri Lanka's ready-made garments exports - an increase of almost 200 times in terms of rupee values during the past 12 years (Rs.70 mn in 1976 to Rs.13,651 mn in 1988) - has propelled this sector to the position of the country's largest category of industrial production, (see table), and also as a most important provider of employment and foreign exchange earner. Equally significant is the fact that while those sectors responsible for the rapid growth of the early 1980's, such as some of the other industrial sectors; fisheries; construction; tourism; and other service sectors began to record diminishing growth rates from the mid 1980's, the textile and weaving apparel sector has continued to maintain the growth momentum it began in the late 1970's. Today, however, this sector faces many problems and future threats. Its future depends to a large extent on maintaining the momentum built up over the last 12 years. There is no doubt that a firm foundation has been laid, and on which the future of this industrial sector could be chartered; yet there is much to be done to meet the challenges of intense competition in the coming years.

The fact that net foreign exchange earnings from this sector are only about 25 percent to 35 percent continues to cause concern, though in the current context of the Poverty Alleviation Programme there can be substantial socio-economic benefits from the employment generated both in this industry and its feeder industries such as the manufacture and supply of ancillaries to the industry.

Again, the high degree of

READY MADE GARMENTS

concentration (65% - 70%) of Sri Lanka's exports in a single market, namely, the United States, is another disturbing prospect.

Several other issues require urgent attention. For instance:

-the backward-linkage of the garment export industry and the textile industry through the establishment of modern plants for manufacture of textile fabrics suitable for export garments.

- the improvement of the competitiveness and flexibility of the garment export industry through low-cost financing, streamlining of export procedures and higher productivity.

- the improvement of the quality of garments leading to up-market operations.

- the provision of a combined package of efficient infrastructure services and incentives to attract a high degree of entrepreneurship to this industry.

Sri Lanka's Apparel Exporters Association has also expressed its concern about the possibility of the Multi-Fibre Arrangement not being renewed in 1991. "We have only three years to restructure our industry to meet the

TABLE 1

VALUE OF INDUSTRIAL PRODUCTION 1978 & 1988

Category	1978		1988	
	Value RsMn	% of Total	Value RsMn	% of Total
1. Food, Beverage, Tobacco	2,609	29.5	12,962	27.1
2. Textiles, Wearing Apparel, Leather Products	1,008	11.4	15,428	33.6
3. Wood & Wood products (including furniture)	124	1.5	677	1.2
4. Paper & Paper products	376	4.2	1,372	2.8
5. Chemicals, Petroleum, Rubber & Plastic products	3,279	37.1	13,477	25.3
6. Non-metallic Mineral products (except Petroleum & Coal)	592	6.7	2,156	4.2
7. Basic Metal products	219	2.5	307	0.9
8. Fabricated Metal products, Machinery & Transport Equipment	590	6.7	2,006	4.6
9. Manufactured products (n.e.s.)	55	0.3	155	0.3
Total	8,852	100.0	54,063	100.0

* Provisional

Source: Central Bank of Sri Lanka

challenges of 1991 and beyond to create an awareness amongst exporters and to enable the export industry to withstand competition and continue its growth in the future", states the Association's Chairman.

Again, the current quota allocation system has come in for criticism. Since 1977 nearly all major importing countries have limited Sri Lanka's exports of selected categories of garments to those countries through quota agreements. A member of the Exporters Association commenting on the Quota Allocation system states "the government has tried to evolve

schemes to ensure fair and equitable allocation of export quotas among garment exporters. Unfortunately the result has been a hodge-podge of rules and regulations introduced in a haphazard fashion which have led to various abuses as well as inequitable distribution and consistent under-utilisation of quotas negotiated with great patience and difficulty".

The survey and discussion that follows focuses on these and other major issues facing this sector. We begin with a brief overview of the beginnings of the apparel export industry.

TABLE 2 COMPARATIVE POSITION OF VALUE OF APPAREL EXPORTS FROM SRI LANKA (Value Rs million)

Year	Value of Total Exports	Value of Industrial Exports	Value of Apparel Exports	Growth Rated Apparel Exports	Value of Apparel Exports as a % of GNP	Value of Apparel Exports as a % of total exports	Value of Apparel Products as a % of Industrial Exports	Value of Tea Exports	Value of Petroleum Exports
1975	3,933.4	519.4	24.3	--	0.1	0.6	4.7	1,931.6	391.0
1978	13,206.3	1,944.1	435.3	240.2	1.2	3.6	24.4	6,400.9	926.0
1981	21,043.1	7,455.7	2,956.8	63.4	3.8	14.0	39.6	6,444.0	3,122.0
1984	37,346.6	12,815.5	6,812.4	52.5	5.0	18.2	53.2	15,764.3	3,288.0
1987	41,132.7	20,004.2	12,488.0	45.2	7.2	30.3	62.4	10,653.5	2,592.0
1988	46,927.8	22,674.1	13,611.0	8.9	6.7	29.0	60.0	12,298.7	2,265.0

Sources: Central Bank, Sri Lanka tourist Board; Ministry of Textile Industries; GCEC.

SRI LANKA'S GARMENTS INDUSTRY – THE BEGINNINGS

Factory scale production of ready-made garments in Sri Lanka had its beginnings in the early 1950's. A few pioneering industrialists who started out on an uncertain course at this time, confined their manufacture to only some popular items of garments and catered essentially to local demand. During the 1950's imports of textiles and garments were freely permitted and the pioneering manufacturers faced resistance from the traditional mercantile community which attempted to prevent them making inroads into the traditional market. One measure the Government adopted in these early days, in its attempts to protect those employees in this nascent industrial sector, was to bring in an Industrial Products Act which obliged importers to purchase a quota of local products for a given quantity of imports.

There are many interesting facets to the pioneering days of the industry. For instance, as one commentator who was closely associated with the industrial sector from the 1950's recounts "One may be surprised to learn that the first shirts to be made in the country were 'assembled'. The Monte Carlo shirts were imported from Hong Kong in a 'completely knocked down' condition and 'assembled' at Keyzer Street. Thereafter, a number of shirt factories were set up in and around Colombo, and these were principally concerned with the domestic market. None of the producers were interested in exports until the 1960's when the Soviet Union showed some interest in purchasing shirts from Sri Lanka.

With the worsening of the foreign exchange situation by the end of the 1950's there was a reversal in policies and the economy moved towards restrictions on imports and a policy of import substitution in industry began to be pursued. While the major basic industries were reserved for the state, a wide range of consumer goods industries were opened to the private sector, which was provided with various investment incentives and a protected market. Over the decade of the 1960's as many as 300 categories of industrial products began to be manufactured locally. Among this range of products a major item was textiles and another ready made garments, though from the outset raw materials required for the garments industry were imported.

Over the 1960's the industry came to be established, and by the end of the 1960's, spinning, weaving and finishing of textiles accounted for around 8 percent of the total value of industrial production, while ready-made garments and other apparel wear accounted for another 4 percent of total production. There were about 10 pioneer manufacturers who came into their own in the 1960's among them being Bentley Industries, Bernard Boteju Industries Ltd., Ceylon Dia Shirts Company, Candy Garments, Ceylon Knit-Wear Industry, Hentley Garments Ltd., Hirdaramani Ltd., Lanka Weaving Mills and Velona Industries, Noortex Garments Industry, and Maxims Ltd.

It was in the 1960's that Sri Lanka's ready made garments began to break into export markets. Sri Lanka's shirts had found acceptability in markets such as the UK and Soviet Union and a leading shirt manufacturer began exporting upto Rs. 2 million worth of his product annually to the USSR, within the bilateral trade agreement between Sri Lanka and the USSR. As far back as 1966 a few of the big manufacturers exported to the value of Rs.327,375 to markets in the USSR, France, Pakistan, Maldives and Thailand. Between 1965 and 1969 value of output in the industry had increased nearly four times over the 1965 output of Rs. 29 million. By the early 1970's there were over 300 manufacturers (most of them producing on a small scale) specialising in various forms of apparel wear, though mainly for the local market.

The industry, however, continued to depend entirely on raw materials and accessories from abroad, while local producers appeared to perform more of a tailoring or service function. By the early 1970's, however, with the country's foreign exchange problem getting further aggravated there were more restrictions on raw material imports. During this period the industry went through a

recessionary phase and an acute under-utilization of capacity was experienced, while costs of production kept going up. With a heavily regulated economy and restrictions operating at many levels there were even times when prices of apparel wear in the local market had to be controlled.

Around 1972 there was a change in outlook towards the industry as existing policy was altered to allow certain sectors to adapt an export oriented approach. Incentives for exports such as raw-material rebates, larger allocations of raw materials, convertible rupee account benefits, special foreign exchange allocations and other fiscal and tax incentives were offered to selected export oriented industries under this package. There were 17 product groups earmarked for these incentives and ready made garments featured prominently in the priority products selected for this programme. These incentives encouraged some of the leading garment producers to divert their attention more fully to external markets, even at the expense of domestic demand. Evidence of the benefits these manufacturers derived from the new concessions offered in the early 1970's is seen clearly in the rapid growth rate registered in the export figures over the next five years. (See Table 3).

In the first six years of the 1970's over 2,500 industrial units received approval from the Local Industries Approval Committee (LIAC) and of these nearly 2,000 were in the product group of Textiles and Textile-based industries. There were several factors responsible for the steady growth of this sector, apart from the various incentives that were offered. The main attraction for increasing investment in this sector was the growing potential in the markets and comparatively higher returns from the manufacture of ready-made garments. By the mid 1970's wage/price inflation and imposition of trade quotas on exports of traditional Asian suppliers of made-up garments such as Hong Kong, Taiwan, South Korea and Singapore made Sri

TABLE 3 SRI LANKA'S READY-MADE GARMENTS EXPORTS QUANTITY AND VALUE 1972-76

Year	Qty.in Pcs.(Mn)	Percent Growth	F.O.B.Value (Rs.Million)	Percent Growth
1972	0.72	—	6.1	—
1973	1.20	67	14.1	131
1974	2.16	80	29.3	108
1975	2.28	6	30.7	5
1976	3.60	58	70.8	13

Lanka a more attractive location for the industry. New units began to be established in collaboration with foreign capital/marketing, while production was being upgraded through import of new equipment and machinery and modernization of plant. A significant factor was the comparatively low cost of manufacturing in Sri Lanka. According to an official view of that time ready made garments were selected as a priority industry for development because "it was labour intensive, required few skills and export sales could be increased quickly, thereby lending credibility to the export drive that had been launched." There was strong official support in the early 1970's for this 'priority' industry, although it had to operate within the confines of an 'import substitution' economy.

November 1977 and After

The series of 'liberalised' policy changes introduced after 1977 resulted in an initial sharp increase in industrial output, with the ready availability of imported inputs for all industries. By the 1980's, however, this initial spurt in overall industrial production was petering out, but the garments industry did not look back after the impetus it had received and growth accelerated over the 1980's.

What is noteworthy is that these achievements were recorded in the context of international economic conditions that were unfavourable for Sri Lanka, and against the head start made by the leading Asian exporters who had built up and consolidated their markets over the previous ten to fifteen years. One factor that added momentum to Sri Lanka's export growth was once again the international trade environment, particularly the rising cost of labour in the industrially advanced countries and the clamping of export quotas on the traditional East Asian garment manufacturers. These conditions together with a comparatively cheap and abundant labour force and a reasonably satisfactory infrastructure being offered in Sri Lanka saw the industry take off on a vigorous programme from the late 1970's.

It was the elimination of various rigidities and constraints that existed upto 1977, and the attractive package of facilities and incentives being offered that helped the industry make an unprecedented leap over the next twelve years. (See Table 4). The setting up of the

TABLE 4 SRI LANKA'S READY-MADE GARMENTS EXPORTS QUANTITY AND VALUE 1977-1988

Year	Qty. in Pcs (Mn)	Percent Growth	F.O.B. Value (Rs. Million)	Percent Growth
1977	7.17	74	139.8	103
1978	12.64	76	457.5	227
1979	33.96	169	1,103.5	141
1980	51.51	52	1,808.4	64
1981	58.64	14	2,956.8	64
1982	65.98	13	3,444.9	17
1983	84.09	27	4,635.6	35
1984	150.66	79	6,812.4	53
1985	166.16	4	7,687.8	5
1986	171.31	10	9,254.1	20
1987	187.89	10	12,383.4	35
1988	188.55	1	13,651.7	9

Katunayake Industrial Processing Zone (KIPZ) in 1978 marked a further turning point for the industry.

From less than Rs.500 mn worth of exports in 1978, values moved close to Rs.3,500 mn by 1982, a seven-fold increase within four years. The total value of Sri Lanka's exports had shot up from Rs.13 bn in 1978 to Rs.21 bn by 1982; and on the whole, the striking growth in garment exports accounted for nearly half the 1978-1982 increment in the total value of exports.

INVESTMENT FOR APPAREL PRODUCT INDUSTRY AND PRODUCTION CAPACITY

By the end of 1988 there were about 400 firms engaged in the export of garments, of which about 200 were major firms exporting directly; while a large number of other firms were indirectly engaged with exports, through sub-contracting work. Most of these firms were regarded as medium sized, having between 150 to 250 sewing machines and employing around 300 to 500 persons.

There are three categories of approvals among these firms, namely those approved by the Local Investment Advisory Committee (LIAC), the Foreign Investment Advisory Committee (FIAC) and the Greater Colombo Economic Commission (GCEC).

A large number of firms approved by the LIAC were not exporters and produced ei-

Upto about 1978 Sri Lanka's exports depended heavily on a narrow base of four items, of clothing; namely, shirts, blouses, trousers and jackets which accounted for nearly 85 percent of exports. A process of diversification, however, helped to increase these four items to about fifty items over the next ten years. There was also an increase in earnings from Rs. 140 mn in 1977 to Rs.9,274 mn in 1986 a 6,500 percent increase over the ten years.

ther for the local market or undertook to supply garments on a subcontracting basis. Over the ten year period, 1978-1987, there were nearly 3,000 firms approved by the LIAC for manufacturing apparel products.

Over the same ten years up to 1987 the FIAC has approved 130 applications from firms as exporters of apparel products. Although a large number of firms had received approval the number functioning as actual exporters was much less. Some of the FIAC manufacturers are international sub-contractors. It appears that an increasing number of firms, without entering into foreign collaboration are operating in the export field. According to industry sources a considerable number of buyers who have come into the country

have replaced the foreign collaborators in finding markets. They are merely operating on behalf of buying houses which have permanent offices in the country or neighbouring countries and they visit factories in search of specific items and place their orders. There are several factories producing on their own which have become dependent on the buying houses for the marketing of their products. Over the ten year period ending in 1988, as many as 83 apparel/textile factories had been approved, by the GCEC for production, although only about 35 apparel factories operated by 1986. In terms of investment the 130 FIAC factories had a capital of Rs.2,180 million while the GCEC factories had a higher investment than this. The figures reveal that a factory in the GCEC averaged Rs.32.8 million whereas the comparative figure for a FIAC factory was Rs.16.7 million. On this basis it could be assumed that generally the GCEC factories were larger and better equipped than those outside the GCEC.

A comparative picture of all industries within and outside the GCEC shows that for factories in the GCEC the per capita investment per factory was Rs. 45.4 million; whereas for FIAC factories it was Rs.18.8 million. On the whole however, it was observed that capital requirements in garment factories are generally lower than what are required for other industries.

Foreign Investment

The capital investment figures also show that upto 1988 in the apparel industries in the GCEC the level of foreign investment averaged 68.5 percent, ranging from 43.3 percent to 77.2 percent;

while in all industries the level of foreign investment averaged 71.8 percent and ranged between 58.4 percent to 82.7 percent. In case of factories approved by the FIAC, however, the level of foreign investment for apparel industries averaged 34.6 percent, and ranged from 13.6 percent to 69.7 percent; whereas in all FIAC industries foreign investment averaged 50.7 percent and ranged between 20.1 percent and 70.2 percent. It may be observed that the level of foreign investment both within and outside the GCEC was lower for apparel product industries than for all industries as a whole.

Investment per Employee

An estimate of investment per employee showed that to provide one job in firms in the GCEC it would cost around Rs.60,000 whereas the FIAC figure was much higher, amounting to Rs.116,000 and the LIAC figure was lowest at Rs.41,000. This was the average for all categories of industries. But considering the specific case of apparel industries it was seen that the cost per job in the GCEC was Rs.30,000, FIAC Rs.90,000 and LIAC Rs.27,000. These figures apply to the latter part of the 1980's. In the early 1980's, however, the investment requirement per employee for all industries was Rs.150,000 in the GCEC; Rs.111,000 in the FIAC; and Rs.110,000 for LIAC; and the comparative investment requirement for apparel industries was Rs.65,000 for the GCEC, Rs.50,000 for the FIAC; and Rs.14,000 for the LIAC.

Employment Potential

In the GCEC, at the end of 1988, total direct employment was 50,744, with the majority of jobs - about 35,000 - in the garments sector. In 1987 there were 12

firms that signed agreements with the GCEC, having a potential total employment of 3,581 of which 2,286 (64 percent), from 4 firms, were in the textiles, weaving apparel and leather products category; while in 1988 there were 26 firms that signed agreements and had a potential total employment of 11,060 of which 4,958 (45 percent), from 7 firms, were in this product category.

Among the FIAC investment approvals in 1987 and 1988 were a total of 96 firms, of which 16 firms were in the textiles, apparel and leather products category; and the total employment potential for the 96 firms was 8,579 of which 4,405 (51 percent) were to be in this product category.

GROWTH OF APPAREL EXPORTS IN THE EARLY 1980'S

Exports of Sri Lanka's apparel products accelerated with the liberalization of trade from the end of 1977. This trend is apparent in the figures of the last 5 years of the 1970's where the volume of exports rose from 1.7 million pieces in 1975 to 51.6 million pieces in 1980. The entry of GCEC exports in Sri Lanka's total apparel exports intensified this surge in exports particularly to the USA and EEC countries, though it also resulted in more stringent quota restrictions on exports to these countries. After the GCEC factories came into production a substantial part of quotas were allocated to them. Before 1980, exports from the Katunayake Export Processing Zone were a negligible part of the total exports. From the 1980's however, the presence of exports from the Zone began to be felt strongly in the total export picture. By 1982, as much as 37 percent of total export values of apparel products were contributed by Zone exports and by 1986 the proportion had risen to 45 percent of the total. In 1985 GCEC firms exported about 100 million pieces; while factories outside the GCEC had exported only 56.2 million pieces, a little more than one half of the GCEC exports. The factories in the GCEC had several advantages with regard to facilities, particularly the availability of finance and raw materials,

and also the relatively larger and better equipped factories which enabled them to achieve a faster and higher level of productivity. By 1987 GCEC exports had gone up to 121.1 million pieces whereas the non-GCEC factories exported only 69.4 million pieces that year.

In terms of value, in 1987 total exports of apparel products amounted to Rs. 12,383 million compared with the 1980 figure of Rs.1,808 million; this was a seven fold increase. Over the 1980's a steady and rapid growth was recorded, with the average annual growth rate amounting to 37.1 percent, and ranging between 63.4 percent in 1981 to 6.5 percent in 1985. If the 1988 export situation is considered the weighted average growth rate for the 1980's comes down to 35 percent, since the growth rate for 1988 came down to 8.9 percent from the previous year's 35.8 percent. Although in 1988 the value of exports had gone up to Rs.13,651 million the exchange rate changes had a significant impact on the rising rupee values of exports in recent years. The increases in US dollar terms and SDR terms were also apparent over the seven year period. Between 1980 and 1987 exports showed an increase of 441 percent in US dollar terms, going up from US \$ 84 million in 1980 to \$ 438 million in 1987; while in SDR terms there was a 289 percent increase from SDR 84 million to SDR 327.8 million. In 1988, however, despite an almost Rs.1,200 million increase there was only a US \$ 1 million increase and in SDR terms a fall of nearly SDR 8 million.

Apparel exports in country's total exports

In 1978 apparel exports (in rupee terms) comprised less than 4 percent of the total value of exports of the country and about 24 percent of all industrial exports. The increasing importance of this sector is seen in the figures (table 2) which illustrates that by 1987 the proportion of apparel exports in total exports had gone up to 30 percent and in industrial exports it had reached 62 percent; though in 1988 there was a slight drop to 29 percent and 60 percent respectively.

The changing position of apparel exports in the total export structure is also of significance. In 1980 the value of apparel exports were well below that of tea, rubber and petroleum and also the foreign earnings from tourism. At this

stage it amounted to only 2.9 percent of the GNP. By 1985 the value of apparel exports was only second to tea; but in 1986 it moved into the leading position, overtaking earnings from tea for the first time and recording Rs.9,629.2 million (SDR 299.6 million) against earnings from tea which amounted to Rs. 9,252.7 million (SDR 281.2 million); and it has retained this position over both 1987 and 1988.

Diversification of Products

In the 1970's there were only four export items of significance, but over the next ten years the number of items increased to about fifty. In 1973 shirts and Tee shirts together accounted for 66 percent of total exports, while blouses and jackets comprised the other 34 percent. From the late 1970's there was a greater diversification in export items, with the significance of the original four items also changing, and Boys and Gents Trousers, Jeans, Skirts also becoming important export items. The surge in exports brought about restraint action on the part of developed importing countries and quota restrictions were imposed on Sri Lanka's apparel exports by the EEC countries, USA, Canada, Norway, Sweden and Finland. The restricted items included shirts, trousers, blouses, dresses, coats, sweaters and gloves exported to the USA; while shorts, breaches, shirts, parakas and anoraks and wind cheaters were among the items restricted by the EEC.

In 1980 Shirts, Tee shirts, Blouses, Jeans, Trousers, Jerseys and Pullovers accounted for 69.5 percent of the total value of apparel exports from Sri Lanka while in 1985 this group of items contributed 58.7 percent of the total value of exports and in 1987 it came down to 55.8 percent. The share of miscellaneous item exports meanwhile, kept increasing from about 6.3 percent in 1985 to 8.4 percent by 1987. However, the increase in miscellaneous items has not been large enough to reduce the dependence on the 'sensitive' items which are the major items of exports from Sri Lanka.

Product Concentration

In more recent years among knitted garments exports there has been a high concentration of outer garments, socks and stockings, which are largely subject to quota restrictions, especially by USA. Of the total knitted garment exports outer garments accounted for 50.9 percent in 1985 and its share continued

to increase reaching 61 percent of the total by 1988. Nearly four-fifths of these exports have been to the USA, where quotas are applicable. Exports of gloves have also increased in importance, though exports to US are relatively small. Another item of importance among the knitted products are undergarments whose share has increased significantly since 1986.

Among the woven fabric exports the largest part belongs to quota groups such as Mens and Boys outer garments and Womens, Girls and Infants outer garments. The latter, Womens, Girls and Infants outer garments were the largest group, accounting for nearly 50 percent of the woven fabrics category. This group together with Mens and Boys outer garments and also corsets, brasiers, gloves, mittens, stockings and socks have made up over 80 percent of total woven fabric exports in recent years. In 1987 they accounted for 86.6 percent and in 1988 85.7 percent of total woven fabric apparel products exports. Among the non-quota products, from woven fabrics, Boys under garments was the most important item but its share in total woven fabric product exports has continued to decrease in recent years, accounting for only 13 percent in 1988.

Market Concentration

From around the mid 1970's Sri Lanka's apparel products have found markets in nearly 25 countries. The two major markets, however, were the USA and West Germany; while among the other EEC countries were UK, France, Denmark, Benelux, Italy and Ireland. A glance at the markets for Sri Lanka's apparel products makes it apparent that the US dominates. In 1986 when total value of apparel exports was around Rs. 9 bn nearly 70 percent was accounted for by USA; followed by 21 percent by the EEC. This high degree of market concentration has been an endemic phenomenon since the 1970's. In 1987 and 1988 there was a slight drop in exports to USA and an increase to the EEC countries; with the US taking around 58 percent in terms of value and around 62 percent in terms of volume during these two years, while the EEC countries took 32 percent valuewise and about 27 percent quantitywise. By 1987 the dependence of Sri Lanka's apparel export industry on these two markets was as much as 92 percent (91.7 percent value and 92.3 percent volume) though in 1988 it had dropped to around 89 percent (88.4 percent value and 90.1 percent volume).

EXPORTS OF SRI LANKA'S APPAREL PRODUCTS IN 1988

The export of Sri Lanka's apparel products suffered a set back in 1988 due to the disturbed situation in the country in the latter part of the year. Textiles and garment exports recorded a marginal decline from 30 percent of total exports in 1987 to 29 percent in 1988. Despite this declining trend textiles and garments remained Sri Lanka's largest single export item (the plantation crops - tea, rubber and coconut together accounted for only 37 percent of total exports in 1988).

The data shows that exports of apparel products had by 1988 reached the record figure of 188.55 million pieces. In rupee terms export earnings from garments amounted to Rs. 13,651.7 million also the highest on record. What is significant, however, was the trend in growth rates where in 1988 both in quantity and value terms there was a drop over that of the previous year. In 1986 and 1987 growth rates (in quantity) has been around 10 percent annually. Though 1985 was an unusually low year, but 1983 recorded a 27 percent growth and 1984 a 79 percent growth; while 1981 and 1982 averaged growth rates of nearly 13 percent annually. The highest growth, however, was recorded in 1979 moving from an annual growth of 75 percent in the previous year to 169 percent growth in 1979. Compared with such rates growth in 1988 was less than 1 percent.

In value terms too growth had reached a peak in 1978 (227 percent) and 1979 (141 percent) and for the next five years averaged an annual

growth rate of 45 percent, till 1985 when there was a slump and growth was less than 5 percent. In 1986 earnings picked up once again with growth of 20 percent and in 1987 a growth of 34 percent; whereas in 1988 growth came down to only 10 percent (considering the falling rupee value real growth would have been far less).

Industrial growth on the whole had slowed down in 1988 in the uncertain atmosphere surrounded by civil disturbances. Disruption to electricity supply, poor attendance at work places, and interruption to the distribution network in certain areas were attributed as the major factors for lower growth in industrial output last year. One result was that the value of industrial output expanded only 6 percent in 1988 compared with 8 percent in 1987 and 12 percent in 1986. All commercial activity was affected in the last few months of the year, with curbs on transport and banking hours and factory routines upset, orders were difficult to meet. Cargo could not be cleared and some apparel exporters had to bear the additional costs of air freighting their production. (Their air freight problems, however, were not as grave as those of the Indian apparel exporters, as the accompanying box on page 10 illustrates).

Exporters were uncertain as to whether orders could be executed, and in most instances higher costs had to be incurred by exporters in order to retain their markets. Total apparel exports of factories in both the GCEC and outside the GCEC were close to 200 million pieces. Despite the apparently high volume of exports there are

possibilities that markets would have been lost as a result of the unsettled conditions, as some of the existing orders could not be serviced in time. Some exporters stated that if not for the bonded warehouses scheme there would certainly have been a severe shortage of material for manufacture of ready made garments. but this did not prevent costs of production going up more than usual, mainly because of additional air freight costs and heavier over time payments to cover up for lost working hours. The authorities helped exporters in this situation by enabling them to adjust quota operations, and in certain cases suspension of interest and repayments on bank finances. The drop in the growth rate is clear evidence of the set backs the industry faced during this disturbed period of 1988.

There were only a few industrial sub sectors that recorded increases in production in 1988, and these included basic metal products (21 percent); and textiles, wearing apparel and leather products (12 percent). The Central Bank reported that it was the continued expansion of the wearing apparel industry, both within and outside the Investment Promotion Zones, that was mainly responsible for the high level of output in the textiles, wearing apparel and leather products sector.

Despite the high output of textiles and wearing apparel, developments in Sri Lanka's external trade sector were unfavourable in 1988. Value of exports increased only marginally by 2 percent in SDR terms, as compared with a 4 percent

growth in 1987. This slower growth of export earnings was primarily due to the decreases in earnings from textiles and garments, petroleum products and coconut products.

There are certain leading issues that have to be looked at in the current situation. Firstly, with the increasing impact of restrictive measures following each Multi Fibre Arrangement (MFA), Sri Lanka's production has concentrated on the conventional garments such as shirts, trousers, blouses,

jeans etc., while buyers have been largely confined to the traditional markets in the USA, Canada, EEC and Scandinavian countries. This situation has prevailed despite the growing competition from new suppliers in developing countries and also with comparative advantages shifting back increasingly to some more developed countries.

Another issue needing attention is the growing number of approvals for new production units for ready made garments by both the LIAC and FIAC, although competition is get-

ting more severe in overseas markets and restrictive barriers are on the increase. At the end of 1987 there were 297 factories outside the KEPZ and 39 factories within, registered for export of apparel products. In 1988 there were 60 more factories approved bringing the total number to about 400. Although the number of factories manufacturing apparel products for export within the KEPZ was less than 10 percent of the total number, their share of exports was about 45 percent of the total quantity exported in 1987.



CARGO CHAOS

An Unprecedented pile up

In April this year, harassed Indian garment exporters fretted and fumed as the Rs 3,000-crore garment export industry in India - which feeds much of Europe's high summer fashion - erupted in complete chaos. Reason: an unprecedented cargo pile-up at the country's airports. The reported backlog at Delhi alone was around 2,000 tonnes.

The problem began in mid-March as the quota deadlines (garment exports are subject to the quotas importing nations impose) began expiring, and several thousand exporters landed up at the airports to deliver their garments.

Exports soar in seasonal peaks, the worst being March and April, before high summer. Exporters claim that this time they had flashed early warning signals to the Government - with little result. "Exporters cry wolf so often that the Government has stopped listening", says Deepak Seth of Pearl Agencies, one of the largest exporters in Delhi. "But this time there was a bloody wolf." Even as hundreds of tonnes of cargo was being cleared every day, several hundred tonnes were also being left behind.

As a result, several exporters missed deadlines for overseas summer promotions, scheduled to

start on May 1 - and had to unload their wares at discounts of up to 40 percent. "Ours is a perishable commodity", says exporter Lalit Gupta. "If our goods reach late, a buyer may very well say, 'sorry, it's out of fashion now'."

Worse, first-time buyers many never come back. Says Suri: "In mid-summer, we get into re-orders and repeats. We certainly won't get that now." The claimed loss due to cancelled orders: Rs 100 crore. The loss arising from missed opportunities: another Rs. 100 crore.

Ever since export profits became partially tax exempt two years ago, garment exports have burgeoned by 30 percent a year. "But airline capacity has simply not grown in proportion," says Michael Nicholson, cargo manager for Luftansa, which brought in 41 extra freighters to cope with this season's peak rush. In the last four months, the Government also cleared 340 special flights. But that too didn't help: an estimated 150 tonnes of cargo was still being left behind every day.

With the devaluation of the rupee, the repatriated earnings of foreign airlines fetch fewer dollars. Moreover, with the low rate for garment cargo - Rs 35 per kg - compared to Rs 55

per kg for general cargo, foreign airlines prefer not to accept garment consignments. Airlines also hesitate to bring in freighters since they have to fly in virtually empty.

Moreover, this is the busiest season the world over and freighters on lease are simply not available on the international market. For Air-India to send a special freighter to New York would cost Rs 50 lakh. Said R.S. Hooda, cargo manager, Air-India: "We can try arranging freighters for next year but the Apparel Export Promotion Council will have to underwrite the cost."

The problem is compounded by the fact that the enormous tonnage has to go through the International Airport Authority of India (IAAI) funnel. Exporters complain that IAAI frequently loses packages, refuses to take cargo after 6 p.m., and slaps high demurrage charges. Said a Commerce Ministry official: "When exports are rising, infrastructural problems are bound to come into relief."

One solution would be for Air-India to get new freighters. But as Commerce Secretary A.N. Varma said: "It would be a tremendous national loss to buy them and then keep them idle six months in the year. Why can't garment exporters stagger their shipments?"

But the industry feels more sinned against than sinning: the electricity fails every day, tailors run away and shipments have to leave before 2 p.m. Fashion demands also depend on weather conditions abroad. Said Gupta: "Despite all that, we are building up exports. But the Government has to do something about flying them out."

With the industry and the Government locked in argument, no long-term solution appears to be in sight. Both still have to learn the old, familiar moral of the garment business itself: a stitch in time save nine.

Simran Bhargava

(Courtesy: INDIA TODAY)

Another issue that has roused attention is the level of the surplus which the country gets from the overall industry. The high value of exports alone is no indicator of the benefits to the country. It is argued that in order to develop this industry a costly infrastructure was built, particularly for the KEPZ exporters and therefore the opportunity costs and return on this heavy investment should be of a considerable magnitude. Furthermore, a separate Ministry exists for the promotion of this industry and several other institutions such as the Clothing Industry Training Institute, and special units in the Export Development Board, Banks and Ports are all contributing towards the progress of this industry. There is also much investment in building and machines and other infrastructure facilities, which all have opportunity costs and alternative costs which in the long run should be met by the surplus in the industry. Upto now, however, the contribution to the economy does not appear to have been adequately covered.

A high proportion of the major input of "fabrics" is still imported. In the year 1987 Sri Lanka apparel exporters outside the KEPZ imported 213.4 million square metres of woven fabrics and 36.9 million square metres of knitted fabrics, costing Rs. 5,752.8 million; in order to manufacture garments for export only. Sri Lanka has several integrated textile mills producing a large volume of textiles. In recent years these factories were partially modernized at a high cost and their managements revamped. Yet, consid-

ering their contribution to the export oriented garment industry of the country there is much to be done.

Furthermore, the apparel industry uses a large amount of accessories for their export garments. Investigations have shown that local linkages in this regard are very small. Compared with other countries, which manufacture apparel products for exports, Sri Lanka's value added seems to be one of the lowest. The World Bank's "World Development Report" for 1987 states that the value added in the textiles and clothing sector of Sri Lanka was 8 percent in 1980 and 15 percent in 1984 at 1980 prices. The 1984 figures show Sri Lanka was below many other NICs and developing countries. Examples of the comparative figures were: Ethiopia 28 percent, Bangladesh 39 percent, Madagascar 42 percent, India 26 percent, Tanzania 26 percent, Egypt 29 percent, Zimbabwe 19 percent and Republic of Korea 17 percent.

Proposals from various quar-

ters have urged uplifting the level and grade of production and changes in the structure of the industry itself. Although a potential exists the fact is that competition in the trade is strong and the future of the industry is not certain. Those Asian countries that are well established in the sector introduced vertical integration into their apparel and textile industries as a strategy and this continued to be their advantage.

Sri Lanka is also unable to make an impact on the global trade as its exports are comparatively negligible when considered beside the bigger exporters. The country's share of global exports however small have continued to show a rising trend; for example, in 1980 Sri Lanka apparel exports contributed only 0.1 percent of global exports, although this rose to 0.2 percent in 1983 and reached a little above 0.3 percent in 1984 and 1985. In 1986 the share further increased to 0.5 percent of global exports. (See Table 5.2).

TABLE 5.1

Comparative Position of Global Exports of Apparel Products

	Value: US \$ billion							
	1970	1980	1984	1985	1986	70/88	80/88	70/80
All Merchandise:								
Global	313.7	1,992.5	1,901.9	1924.9	2,115.8	575.1	6.2	1,678
Developed country	223.1	1,251.6	1,220.8	1,266.4	1,468.1	558	17.3	460
Developing Country	56.8	564.0	476.4	455.0	422.4	543	-25.1	889
All Manufactures:								
Global	190.7	1,095.0	1,140.6	1,190.7	1,431.3	653	30.6	476
Developed Country	160.3	895.9	889.6	940.3	1,138.6	611	27.2	459
Developing Country	10.2	105.8	147.2	144.7	169.0	1,590	60.9	950
Apparel Exports:								
Global	5.6	40.4	45.8	47.2	61.8	933	35	566
Developed Country	3.9	19.7	18.7	19.6	28.1	600	42.6	405
Developing Country	1.4	16.8	21.0	22.6	27.0	2,600	58.8	1,100

Source: U.N. Year Book on Trade Statistics

GLOBAL TRENDS IN TRADE OF APPAREL PRODUCTS

Trends over the 1980's reveal that the developing country's position as exporters of apparel has grown strongly over the last decade. The value of global apparel exports rose from US\$ 5.6 billion in 1970 to US\$ 61.8 billion in 1986. Between 1980 and 1986 there was a 35 percent increase in the value of exports, which amounted to US\$ 40.4 billion in 1980. Developing country exports registered a 59 percent growth between 1980 and 1986 as against a 43 percent growth in exports of developed countries (the developing countries referred to here are the 4 Asian suppliers Hong Kong, South Korea, China and Taiwan).

The growing significance of apparel exports may also be observed in comparing their position against all merchandise exports. In the years 1970, 1980 and 1986 global apparel exports accounted for 1.7 percent, 2.0 percent and 2.9 percent respectively of exports of all merchandise. In these three years apparel exports formed 2.9 percent, 3.7 percent and 4.3 percent of all exports of manufactures. The position of developing countries vis-a-vis developed country exports and global exports is seen in Table 5.1 and 5.3

The relative position of apparel exports of the developing countries has kept changing as seen in the figures in these tables. In 1970 apparel exports of the developing countries were approximately 25 percent of global exports but by 1980 it had reached 42 percent and by 1985 it had increased further to 48 percent, though in 1986

there was a reduction to 43.5 percent.

The actual figures show that in 1970 the developed country exports were \$ 3.9 billion as

against developing country exports of \$ 1.4 billion. By 1985 developing country exports had reached \$ 22.6 billion, while developed country exports were \$ 19.6 billion.

TABLE 5.2 WORLD TRADE IN APPAREL PRODUCTS - BY COUNTRY

(Billion dollars)

	Exports (F.O.B.)					Imports (C.I.F.)				
	1980	1983	1984	1985	1986	1980	1983	1984	1985	1986
WORLD	40.36	41.30	46.95	48.65	61.80					
Canada*	0.21	0.19	0.24	0.25	0.30	0.71	1.03	1.30	1.29	1.53
United States	1.22	0.88	0.85	0.72	0.88	6.95	10.42	14.60	16.21	18.70
Argentina	0.14	0.03	0.02	0.02	—	0.16	0.01	0.01	0.01	—
Brazil	0.14	0.11	(0.18)	(0.18)	—	0.01	0.01	0.01	—	—
Colombia	0.12	0.06	0.04	(0.04)	—	0.02	0.02	0.02	—	—
Austria	0.60	0.54	0.52	0.58	0.81	0.95	0.83	0.87	0.89	1.29
Belgium-Luxembourg	0.99	0.75	0.73	0.74	1.05	1.84	1.37	1.29	1.34	1.95
Denmark	0.38	0.38	0.42	0.47	0.64	0.50	0.39	0.42	0.50	0.74
Finland	0.73	0.50	0.50	0.52	0.66	0.22	0.20	0.21	0.26	0.38
France	2.31	1.74	1.76	1.97	2.56	2.64	2.45	2.46	2.74	4.16
Germany, Fed. Rep.	2.91	2.56	2.63	2.88	4.20	8.37	6.73	7.01	7.05	10.43
Greece	0.41	0.54	0.62	0.65	1.12	0.03	0.06	0.07	0.07	0.08
Ireland	0.21	0.18	0.18	0.20	0.26	0.41	0.36	0.35	0.37	0.50
Italy	4.63	4.53	4.83	5.36	7.57	2.80	0.63	0.66	0.79	1.16
Netherlands	0.87	0.67	0.67	0.75	1.11	2.88	1.97	1.92	2.05	2.97
Norway	0.07	0.05	0.04	0.05	0.06	0.71	0.60	0.64	0.74	1.13
Portugal	0.64	0.70	0.89	1.03	1.48	0.02	0.02	0.02	0.02	0.05
Spain	0.31	0.30	0.36	0.35	(0.40)	0.15	0.12	0.10	0.12	(0.22)
Sweden	0.29	0.21	0.22	0.24	0.31	1.35	0.94	0.98	1.13	1.52
Switzerland	0.37	0.29	0.29	0.30	0.42	1.47	1.39	1.46	1.49	2.13
Turkey	0.13	0.65	1.27	1.18	(1.20)	0	0	0	0	0
United Kingdom	1.87	1.31	1.34	1.52	1.80	2.85	2.42	2.69	2.68	3.49
United Kingdom	1.87	1.31	1.34	1.52	1.80	2.85	2.42	2.69	2.68	3.49
Yugoslavia	0.42	0.51	0.60	0.56	0.54	0.03	0.02	0.02	0.01	0.01
Czechoslovakia *	0.39	0.43	0.46	0.48	—	0.15	0.15	0.15	0.18	—
Hungary	0.34	0.27	0.28	0.30	—	0.10	0.11	0.11	0.12	—
Poland*	0.64	0.27	0.27	0.28	—	0.15	0.18	0.12	0.14	—
Romania	(0.63)	(0.60)	—	—	—	—	—	—	—	—
USSR *	0.03	0.03	0.03	0.04	0.05	2.52	2.62	2.68	3.12	3.68
Egypt	0.02	0.02	0.02	0.02	—	0	0.03	0.02	0.01	—
Mauritius	0.07	0.08	(0.11)	(0.15)	—	0	0	—	—	—
Morocco	0.11	0.15	0.18	0.20	—	0	0	0	0	—
Tunisia	0.34	0.33	0.29	0.24	0.43	0.08	0.06	0.05	0.06	0.07
Israel	0.26	0.21	0.22	0.22	0.29	0.02	0.02	0.04	0.02	0.03
Saudi Arabia	0.01	—	—	—	—	0.68	(1.00)	(0.96)	(0.52)	—
Australia	0.02	0.01	0.01	0.01	0.02	0.34	0.34	0.42	0.40	0.42
Bangladesh	0	0.02	0.08	0.17	—	0	0	0	0	—
China	(1.68)	2.06	2.53	2.08	2.97	0	0	0	0.02	0.01
Hong Kong **	4.95	5.29	6.75	6.72	8.39	0.69	1.17	1.48	-1.70	2.53
India	0.59	(0.72)	(0.79)	(0.79)	—	0	—	—	—	—
Indonesia	0.10	0.16	0.30	0.30	—	0	0.01	0.01	0	—
Japan	0.50	0.66	0.78	0.73	0.73	1.53	1.50	1.95	1.00	2.85
Korea Rep. of	2.95	3.70	4.50	4.45	5.48	0.01	0.01	0.02	0.02	0.02
Macau	0.42	0.44	0.50	0.51	—	0.01	0.02	0.02	0.01	—
Malaysia	0.15	0.22	0.29	(0.34)	—	0.03	0.05	0.05	(0.04)	—
New Zealand	0.04	0.04	0.04	0.04	0.04	0.02	0.03	0.03	0.03	0.04
Pakistan	0.10	0.23	0.25	0.26	0.46	—	—	—	—	—
Philippines	0.28	0.32	(0.56)	(0.54)	—	—	0.01	(0.01)	(0.01)	—
Singapore	0.43	0.48	0.55	0.54	0.68	0.15	0.30	0.32	0.30	0.36
Sri Lanka	0.11	0.20	0.29	(0.30)	0.52	0	0.01	0	—	—
Taiwan	2.43	2.99	3.76	3.50	4.25	0.01	0.01	0.01	0.01	0.01
Thailand	0.27	0.41	0.55	0.57	—	0	0.01	0.01	0	—

* Imports F.O.B.

** Includes significant re-exports. Domestic exports were as follows: 1980-4.64; 1983-4.68; 1984-5.96; 1985-5.73; 1986-6. 67

Sources: UNSO, Comtrade data base; UN, Yearbooks of International Trade: national trade statistics

Leading Exporters

During the 1980's the Western European countries, particularly the EEC countries, and the four major East Asian exporters have been the major suppliers of apparel products to the World Market. Over the 1980's, however, a greater share of the market was taken by the four main Asian suppliers. Between 1980 and 1986 the value of apparel exports by Western European suppliers increased from US \$ 18.2 billion to US\$ 26.2 billion. Meanwhile, that of the four main Asian suppliers moved from \$ 11.7 billion in 1980 to \$ 19.4 billion by 1986, recording a 66 percent increase.

The most notable contrast in the trade patterns in these two groups of exporters was in their share of the market over the six year period. In the case of Western Europe a major part of the production, about 80 percent, has been for intra-trade, within Western Europe. In contrast the intra trade position of the Asian suppliers was only 3 percent. Also, less than 10 percent of the North American market was fed by Western Europe whereas the four main Asian suppliers fed almost 55 percent of this market. Nearly 25 percent of the West European market was also fed by these major Asian suppliers. Among the European exporting countries West Germany and Italy were the most important suppliers; and since 1983 together they have contributed about 45 percent of total European exports. Other important European exporters of apparel products were Belgium/Luxemburg, France, Greece, the Netherlands, Portugal, Turkey and the United Kingdom. All these countries, with the exception of Turkey,

experienced a continued increase in their exports after 1983.

The largest single exporting nation of apparel exports was in the Asian countries, namely Hong Kong. In 1986 Hong Kong apparel exports were worth US \$ 8.4 billion as compared with US \$ 4.95 billion in 1980, almost a doubling of exports over the six year period. Almost 50 percent of its exports go to the US market. The next most important exporter was South Korea which suffered a set back in 1985. In 1986 South Korea's exports were US\$ 5.5 billion also almost doubling over the six year period, from total exports of \$ 2.95 billion in

1980 to \$ 5.48 billion in 1986. The growth trends of Taiwan and China were equally strong over this six year period, each recording approximately 50 percent growth in exports between 1980 and 1986; Taiwan from \$ 2.43 billion to \$ 4.25 billion and China from \$ 1.68 billion to \$ 2.97 billion. Nearly 20 countries in Asia were engaged in apparel products exports among the Asian suppliers being Singapore, Pakistan, India, Indonesia, Morocco, Thailand, Philippines, Sri Lanka, Malaysia and Bangladesh. Several of the new exporters have seen much potential in apparel exports and countries like Pakistan are making a determined bid to

Table 5.3

CLOTHING: TRADE DISTRIBUTION BY SELECTED REGIONS IN 1980 AND 1984-86

	(Billion dollars and percentages)							
	Exports (F.O.B.)				Imports (C.I.F.)			
	1980	1984	1985	1986	1980	1984	1985	1986
NORTH AMERICA								
Total (Value)	1.4	1.1	1.0	1.2	7.7	15.9	17.5	20.2
(Share)								
Intra-trade	10	23	27	25	2	2	2	2
Latin America	38	44	48	50	9	6	7	7
Western Europe	37	14	12	14	7	9	11	12
Eastern Europe & USSR	0	1	0	0	1	1	1	1
Africa	2	1	1	0	0	0	1	1
Middle East	3	5	4	3	0	0	0	0
Asia	9	8	8	8	80	81	78	77
WESTERN EUROPE								
Total (Value)	18.2	17.8	19.5	26.2	25.2	21.2	22.3	32.3
(Share)								
Intra-trade	84	79	79	82	64	65	67	67
North America	3	8	9	9	3	1	1	1
Latin America	1	0	1	0	1	1	0	0
Eastern Europe & USSR	4	4	4	3	4	4	4	4
Africa	3	2	1	1	3	3	4	4
Middle East	3	3	3	2	1	1	1	1
Asia	2	3	3	3	24	25	23	23
FOUR ASIAN TEXTILE SUPPLIERS *								
Total (Value)	11.7	16.8	15.8	19.4	0.4	0.7	0.7	0.9
(Share)								
Intra-trade	2	3	3	3	47	63	59	60
North America	38	54	56	53	5	2	2	3
Latin America	3	1	1	1	0	0	0	0
Western Europe	33	21	20	23	25	16	18	20
Eastern Europe & USSR	2	1	2	2	0	0	0	0
Africa	3	2	1	1	0	0	0	0
Middle East	5	4	4	3	0	0	0	0
Other Asia	13	14	12	13	23	19	20	17

* China, Hong Kong, Republic of Korea and Taiwan

Sources: UNSO, Comtrade data base; national trade statistics

take over more of a share of the major Asian exporters and the expanding world market. (See Box).

There were also six Middle Eastern countries whose exports recorded growth during the 1980's; they are Mauritius, Morocco, Tunisia, Israel and Saudi Arabia. (See Table 5.2).

Major Apparel Exporters

More than 70 percent of global apparel exports in the 1980's were grouped in the categories of outer-wear and under-wear. The larger proportion of exports were grouped under outer-wear, where total value increased from US \$ 22.0 billion in 1980 to \$ 35.7 billion in 1986, recording a 62.3 percent increase over this period. Meanwhile, products in the under-wear category recorded a 51.8 percent increase in the same period. Considering total apparel exports woven apparel products have always exceeded those of knitted apparel product exports.

Much of the market, however, is defined by fashion trends, particularly for womens wear which makes up the biggest part of all garment sales. US garment sales, especially among working women who were feeling ill-served by the fashions which focussed more on youth, began to dip in 1986 and 1987. This falling trend had an impact on the upstream apparel production sectors in Hong Kong, Taiwan and South Korea. The latter two countries, however, were partly insulated from these trends by the continuing robust demand for their synthetic-fibre based garments, as against Hong Kong's production which was heavily oriented towards natural fibres. Another trend noted in the US

PAKISTAN GETTING SET TO CHALLENGE ASIA'S

GARMENT GIANTS

Shamim-Ur-Rahman

Pakistan's garment exports have been experiencing phenomenal growth, registering a tenfold rise during the last decade from 40 million US dollars in 1977-78 to 452 million dollars in 1986-87.

But while it is a world leader in raw cotton exports, Pakistan is ranked 26th in the world garments market, with a share of less than one percent, with production of about 600 million garments a year, two thirds of them for export. (In value terms Pakistan was behind Sri Lanka in 1986. See Table 5.2).

Planners with an eye for profitability are aiming for a gradual cutback of raw cotton exports over the next decade in favour of finished garments.

Its main competitors in this field are Taiwan, Hong Kong, South Korea, Malaysia, Singapore, Thailand, the Philippines, China, India and Turkey.

Industry sources are optimistic about the prospects for a quantum increase in Pakistan's garment exports.

They note that General Agreement on Tariffs and Trade (GATT) experts have projected a 10 percent annual increase in world demand for clothing, creating plenty of additional room in the market for Pakistan even if East Asia continues its reign as the world's tailor.

Like any developing country Pakistan is keen to increase its foreign exchange earnings to clear its debts any pay huge import bills, and industry sources see the lucrative potential of textile products.

"Value-added exports in the form of garments would certainly be the best way of increasing Pakistan's foreign exchange earnings, and converting raw cotton into yarn could simply be the first step in boosting its share in the world market", said a marketing expert.

"If we were to convert all our raw cotton into yarn exports alone, we could earn an additional 1.5 billion dollars", boosting the country's total export earnings by more than 35 percent, he said.

Pakistan, earning more than a third of its foreign exchange through cotton and textiles exports, will pose a challenge to East Asian garment giants as it converts more of its "white gold" into finished garments, local industry sources say.

"In global terms, Pakistan controls more cotton trade than Saudi Arabia's oil trade, by exporting more than 20 percent each of the world's traded raw cotton and cotton yarn", marketing expert Irfan Ahmed said.

He agreed that Pakistan could realise the full potential of its white gold by converting more raw cotton into apparel.

But development of the clothing industry is impeded by a variety of factors, analysts said.

The country's low production costs are a boon in the competitive international market, but they are coupled with a lack of modern infrastructure and recurring power shortages.

A potential problem lurks in the weaving sector, which has become a widespread cottage industry and is unlikely to welcome modernisation if it renders traditional skills obsolete, they said.

Most urgently needed for growth in the garment industry is increased capability in weaving, knitting, dyeing, processing and finishing. Industry sources said dyeing and finishing operations must double within a year to match the competition.

The apparel industry currently imports nearly all accessories such as interlining, buttons and zippers, and this support industry must be developed at home before Pakistan's garments can truly compete abroad, the industry sources said.

Pakistan, already suffering from the multifibre arrangement under the General Agreement on Tariffs and Trade (GATT) which has hurt sales to Europe and the United States for the last 15 years, will also face a unified European market after 1992 that is expected to be more difficult to penetrate, they observed. (AFP).

fashion-dictated decline in 1988, was in US jeans sales and other denim clothes. According to a leading Hong Kong supplier this trend was brought about by the end of the craze for designer-label jeans, which has also resulted in a 30 percent decline in the price of denim cloth.

The limp demand in the US in 1988 was said to be due to the absence of a clear fashion direction. Demographic change, was another, namely, the 14-24 age group which influences the market strongly was growing slowly. The main reason, however, appeared to be that major US retailers, both up-market and mass merchandisers, were unable to define a fashion trend that was compelling enough to draw shoppers into the stores. The result was weak sales in the US, which in turn was dragging down the industry in Hong Kong, despite its gains in Western Europe and other markets.

Increasing Significance of MNCs in International Apparel Trade

When apparel manufacture was transformed into the stage of factory production, from the custom and seamstress production system, it continued to operate largely in the form of small and medium scale ventures. The traditional domination of female labour in this industry is still prevalent in almost all producer countries; while to a large extent manufacture, especially at the assembly stages, remains labour intensive. Over the 1950's and 60's the big manufacturers in the Western world found their markets being undermined by the low wage based competitive advantages of the developing countries. Many of the traditional suppliers in the

international trading system began to realise that in order to stay in the competition merging of factories and take overs was an important strategy.

There were two major forces reshaping the industry in the 1960's and 1970's in both the developed market economies and the newly industrialized developing countries which today dominate this US \$ 50 billion export market. The forces that influenced this trend were the slackening of demand in the 1970's, and the over saturation of the apparel markets at that time. In addition the newly industrialising developing countries were transforming the global market and had enlarged their share of the apparel products export trade from 19 percent in 1965 to 37 percent by 1977. The industries in the Western developed countries were severely affected and many such countries which at the beginning of the 1960's imported less than 10 percent of their requirements were by 1977 importing over 30 percent. The combined threats of the economic crisis of the 1970's and imports from developing countries provoked the larger apparel corporations in the developed countries and also those newly set up in the NICs to respond with four basic survival strategies; relocation of their more labour intensive phases to developing countries; automation; larger advertising budgets, with emphasis on brand names; and coordinated State and corporate attempts to expand exports. These strategies enabled them to keep down the smaller producers and also raise the level of ownership integration in the textile and apparel industry. The import and distribution trade moved increasingly into the

hands of these corporations with multinational connections and they were successful in making markets less accessible to most new aspirants. A survey conducted in West Germany in the mid 1970's showed that around 45 percent of the country's textile firms and 75 percent of the country's apparel firms were engaged in production abroad. Such outward processing helped to strengthen the oligopolistic organization of the firms which possessed dynamic marketing networks and the ability to carry sizeable inventories. This was beyond the power of small and medium sized firms; and the larger corporations were therefore in a position to under-price the smaller domestic apparel firms.

It was not only over purchasing prices that these combines had an advantage, they also laid down their requirements regarding fabrics and textiles; as well as colours, styles, packing, accessories and transport. The domination of all these aspects of the industry was carried out directly by them or through their agents or representatives.

A programme of restructuring of industries was carried out in the Western developed world in the 1970's and under these programmes the industries which found difficult to function viably were encouraged to relocate in developing countries where production costs were lower. Here once again the larger firms which had the capital found it easier to move into developing countries.

In the Far East another type of amalgamation was taking place, which helped them to get round the enhanced import

restrictions of the buying countries. When quantitative restrictions were made these major suppliers decided to go up market and be competitive in this area. Since cost of production had to be reduced for them to remain competitive one strategy turned out to be vertical integration with the textile manufacturing sector. This happened not only in the Far East but also in countries such as West Germany, Italy and USA. Soon horizontal integration also became wide spread. Countries coming into the apparel industry were seeking foreign assistance for capital, market access, technology, machinery, etc. and in almost every country foreign collaboration occupied an important position. Production processes and management systems had to be changed and factories needed to be highly departmentalized and for this purpose huge capital investments were required. In order to acquire and have access to capital the unification of industrial ventures became imperative. An outstanding example of this integration and amalgamation was Levi Strauss, the world's largest apparel Corporation. By the end of the 1970's it had 31 overseas plants. Most of this Corporation's fabric originated from Burlington Industries reinforcing the dominant position each exercised in their respective sectors. Levi's other major supplier was Cone Mills, one of the largest US textile producers which together with Burlington exercised control over US denim prices. Levi Strauss began its huge advertising outlays and brand marketing in the 1970's, triggering what came to be labelled the "jeans revolution". By the end of the 1970s, the United

States jeans retail turnover alone exceeded \$ 5 billion. Levi's global advertising budget exceeded \$ 50 million by 1985.

The manipulation of consumer tastes through brand promotion has been a typical feature of oligopolistic markets, and these apparel firms soon realised its potential. An example is seen in one of the leading apparel lines, Denim, where three Corporations dominated the global market, each protecting its share by massive brand promotion - Levi Strauss (Levi), Bluebell (Wrangler) and Vanity Fair Corporation (Lee). The first two were the largest apparel producers in the US and Bluebell had 27 overseas plants as against the 31 Levi Strauss plants. So powerful was the advertising and promotion of this garment that by the end of the 1970's the jeans retail turnover alone exceeded \$ 5 bn. Over the 1980's there were significant new comers such as Gloria Vanderbilt and Murjan.

In the UK too there were strong concentrations where 8 companies controlled over half of the apparel sales. Among them were Courtaulds, Burton Group, Coats Patons, ICI, Raybeck and Selincourt. To there were added some of the big textile groups such as Tootal and Carington Viyella, demonstrating the interdependence of the textiles and apparel industry. One of Europe's biggest exporters of textiles, the Italian firm Basseti had a marketing tie-up with Tootal.

In West Germany about 80 percent of the apparel trade, through the departmental stores, were controlled by four multistores and depart-

mental stores, among them were Karstadt, Kanfhof, Hertie and Schickedang. Karstadt was the largest textiles and apparel retailer for the whole of Western Europe.

In the US on the other hand, there was heavy concentration among the four major textile and apparel retailers (according to 1979 figures) Mobil Oil \$ 4.7 bn, Sears Roebuck \$ 17.3 bn, K Mart \$ 12.7 bn, J.C. Penney \$ 11.7 bn. An UNCTAD study has shown that a direct relationship exists between increasing concentration in retailing and the ability of the giant retail chains to obtain ever larger margins. The retailers gain has been at the expense of consumers through higher prices, and of the textile and apparel wholesale establishments through lower supply prices. Among the more widespread techniques of "fattening" margins are retailers making deductions from suppliers' invoices - practices which most manufacturers are powerless to resist. Likewise, the extension of private brands by giant retailers replacing in many cases producer trademarks, creates opportunities

for higher mark-ups, since the purchaser can no longer compare different apparel brand prices. Another marketing strategy involves playing off low-cost apparel manufacturers in developing countries against national apparel producers or transnational marketing companies. This strategy results in higher mark-ups on cheaper imported apparel which large retailers are able to sell at about the same price as domestic apparel.

THE MULTI FIBRE ARRANGEMENT (MFA)

A worldwide system of managed trade in textiles and clothing came into existence in 1974 with the Multi Fibre Arrangement (MFA). A precursor of the MFA, was a Short Term Cotton Textile Arrangement negotiated in 1961 under GATT auspices at the request of the United States, and this was replaced in 1962 by a Long Term Arrangement (LTA).

MFA I 1974-77

In 1974 the first MFA which replaced the LTA was promoted by the world's major textile traders as they argued that the use of synthetic fibres which had increased tremendously were not restricted under the LTA. Secondly, overall productivity in the textile industry had grown substantially during this period which led to a decline in textile employment in the industrial countries. Thirdly, because the LTA placed quota restrictions on large exporters such as Japan, smaller developing countries had gained a progressively larger market share. Among the most rapidly growing were the Asian NICs. This MFA specified a minimum of 6 percent annual growth in imports, more flexibility in negotiating the bilateral agreements in which quotas for each country were set, and the right of an exporting country to transfer quotas among categories of goods and between years.

MFA II - 1978-81

With the lapse of the first MFA the United Kingdom and France, which experienced a 21 percent increase in textile imports from 1973 to 1977, supported a more restrictive MFA in 1977. The failure of the EEC to negotiate quickly with its major suppliers, the worldwide recession, and increased productivity in the EEC textile industry led to a 16 percent decrease in textile employment from 1973 to 1977. MFA II reflected the strong protectionist sentiments of the EEC. It allowed more restrictive quotas than did MFA I. For the first time, global ceilings were placed on certain categories of "sensi-

tive products" and thereby put an absolute limit on some types of imports. Evidence shows that since 1978 the MFA measurably retarded the overall rate of expansion of Third World apparel exports to the EEC countries and the US.

MFA III - 1982-86

MFA III maintained the restrictions of earlier arrangements and added some additional constraints on large exporters and a "surge mechanism" which limited growth of medium-size exporters. Under MFA III, the United States negotiated forty-one bilateral agreements with its major suppliers, which covered the growth rate of specific types of clothing and textile exports. The United States also initiated a "call" system, which allows the restriction of exports not covered by any specific bilateral agreement.

The call system attempts to add a greater degree of restrictiveness by limiting the export potential of new entrants and is therefore particularly harmful to countries which are starting at a very low export base. It maintains the status quota in both the industrial and newly industrialized countries at the expense of the newer, and possibly more efficient, textile-exporting countries.

Under the MFA III the EEC had developed a similar device for restricting imports which are not directly covered by any bilateral agreements.

MFA IV, 1986-91

In 1986 came the fourth MFA with a broader coverage and tighter restrictions than its predecessors. Despite the severe limitations, textile and clothing exports to the industrial countries had continued to grow and in response to this trend the latest agreement, signed in July 1986, specially added silk, linen, ramie, and jute to the existing fibres in an attempt to finally control trade in all products. In effect, the new agreement restricts additional trade - including (using 1985 figures) \$ 813 million of Hong Kong's exports, \$ 368 million of the Republic of Korea's exports, and \$ 203 million

of China's exports.

MFA IV has continued the tradition of including all conceivable fibres in the MFA and of plugging all the "leaks" which allowed imports of clothing and textiles to grow under the previous arrangements. With the inclusion of these natural fibres, the industrial countries have at least temporarily eliminated the possibility of having trade diverted into non-MFA fibres.

Despite its elaborate new extension, MFA IV still cannot preclude the possibility of increased uncontrolled industrial country exports. It is through extending increasingly restrictive bilateral agreements to every, textile producer, as well as the 'call' and 'basket extractor' systems, that the industrial countries will continue to exert protectionist pressures on developing country exporters.

This desire of the industrial countries to block loop-holes in their barriers to textile and clothing imports is likely to limit new comers to minimal quotas (despite a special provision for new suppliers) in MFA IV. Evading restrictions is likely to become harder. This may deter newcomers from their first, and most natural, step up the ladder of comparative advantage in exporting textiles and clothing.

A Dutch economist, Clemens Boonekamp has argued that the MFA, which largely governed the export of textiles and clothing from low-cost developing country producers to industrial countries, has become progressively more restrictive, and the growth in share of world exports of developing countries of textiles and clothing has continued to slow down in the 1980's. Developing countries are heavily affected by the tariff protection in industrial countries. Tariff peaks and escalation in industrial countries are often concentrated in traditional export industries, such as clothing, where developing countries appear to have a comparative advantage. He has estimated that the elimination of all tariffs by the industrialized countries would lead to an overall trade expansion for devel-

oping countries of some 5 percent. He adds that much of the expansion would be in textiles and clothing; although food processing and miscellaneous manufactures would also benefit.

There is considerable speculation, however, over whether the MFA which has guaranteed a comparatively orderly trade in apparel products for developing countries like Sri Lanka will lapse in 1992 and what would be the future of their apparel industries would be after it lapses. The major developing country exporters (NICs) are eager to see the end of MFA restrictions as they are in a position to compete strongly with any other suppliers and would wish to have a free and open market. Following the Uruguay Round Multilateral Trade Negotiations held in Montreal in December last year negotiations began from April 1989 for the integration of the Textile and Clothing Sector into GATT. This process is expected to include the phasing out of restrictions under the MFA and other restrictions on textiles and clothing not consistent with GATT rules.

Despite the limitations on open international trade and the GATT principles the MFA and the bilateral agreements concluded under it have been a great source of encouragement to new exporters since it guaranteed a certain degree of accessibility to markets in terms of volume; although in terms of quality and price the products from these developing countries had to face competition. If the MFA is discontinued by 1992 smaller producers such as Sri Lanka with their comparatively low and underdeveloped technology, would find it more difficult to adjust to the competition. Local exporters are aware of such possibilities and are gearing themselves to meet the challenges of 1991 and beyond as may be seen in the statements of the spokesmen for the industry.

Beyond the possibilities of disbanding the MFA by 1991 are the prospects of the European Community's plan to create a "single market" or "fortress Europe" by 1992, where it would be far more difficult to compete from outside.

GARMENTS FACING RESTRICTIONS DUE TO THE MFA By Item and Country

Country	Restricted Items
USA	Gloves & mittens, suit type coats, coats, dresses, play suits, sun suits, knit suits, blazes, shirts; blouses, skirts, sweaters, trousers, shorts, slacks, nightwear, jump suits, coveralls, overalls, towels.
Canada	Winter outerwear, trousers, shorts, slacks, jeans, overalls, coveralls, shorts, shirts, blouses, T-shirts, sweaters, dresses, shirts, suits, co-ordinate sets, underwear, jackets gloves.
Sweden	Shirts, blouses, trousers, jackets, shorts, underwear and other items on basket quota.
Norway	Jackets, blazers, anoraks, trousers, slacks, jeans, T-shirts, blouses, undergarments, skirts, nightwear, dresses.
Finland	Shirts
EEC	Trousers, shorts, breeches, blouses, shirts, parkas, anoraks, wind cheaters.

The entry of Sri Lankan garments into the overseas markets on a substantial scale appears to have provoked restrictive regulations as embodied in the Multi Fibre Arrangement. Starting in 1976 with an agreement signed with Norway restricting the import of shirts into that country, the MFA now covers a large number of countries in relation to a wide variety of garments as shown in the table above.

These restrictions have had a serious adverse impact on the growth of the garments sector since 1984. For instance, the growth rate of 53.14 percent registered in 1984 was reduced to 1.36 percent in 1985 and a marginal 1.62 percent in 1986. For 1985, in terms of rupee value, it had come down to about 5 percent from a growth rate of 58 percent in 1984 and a growth rate of 64 percent and above in the years before 1981. Since 1985 the growth rate has remained low and in terms of SOR was even negative in some years.

New Bilateral Agreement between Sri Lanka and its Major Importers USA and EEC

The most stringent limitations set on the export of Sri Lanka's apparel products came with the bilateral agreements negotiated under the MFA III. About thirty product items made of cotton and wool, were brought under quota restrictions with a low base and still low growth rate allowed. Both woven and knitted products were also brought under these quotas.

Under the MFA IV, which allowed, negotiations to be

carried out in more accommodating circumstances, bilateral agreements were signed with the EEC during 1986 and with USA in 1987. The quota year under the EEC agreement is synonymous with the Calendar year whereas, the U.S. agreements are from June 1 to May 31 of the following year. The EEC quota period started from 1.1.87 and proceeds till 31.12.1990 while the US quotas started from June 1, 1988 and continues upto May 31, 1991. Since all woven fabrics products and knitted fabric products of man-made fibres have been brought into orderly trade under the MFA the

Under the new agreement with EEC the base level shows a considerable increase over the base level of 1986. Two regional quotas in the earlier agreement with UK and France were removed while annual growth rates have been increased all round. Flexibility of provisions such as carry over and carry forward and transfers have been increased from 5 percent each in the earlier agreement to 9 percent and 11 percent respectively, subject to a accumulative maximum of 17 percent. Outward processing has been excluded from the normal quotas.

The agreement negotiated in 1988 with the US was the third with Sri Lanka under the MFA. The quotas granted by each quota country/region such as the USA, the EEC, Canada, Finland, Norway and Sweden are apportioned between factories functioning under the GCEC and factories outside the Zone. Although the number of factories within the GCEC are less than those outside they are larger in capacity, and larger US quotas are allocated to the GCEC factories.

The value of the world import trade in garments for 1986 was US \$ 56.7 billion, of which the US share was \$ 18.7 billion. However, Sri Lanka has only a small share of US imports of garments and made-up textiles; by quantity it increased from 0.81 percent in 1981 to 1.22 percent in 1987. The base level for the negotiation of the new Textile Trade Agreement were the quota limits of the 42 categories for the last year of the previous Agreement, i.e. June 1, 1987 to May 31, 1988.

The new Textile Agreement which runs for four years from, June 1988 has the same provisions for carry-forward and carry-over as the previ-

ous one and the same swing provisions - 5 percent for wool categories and 6 percent for others; the annual growth rates will be the same - 1 percent for wool categories and 6 percent for others.

Eleven more categories of garments and other made-up articles are brought under restraint by the new Agreement, individually or within merged categories. Some categories have been brought under restraint on the basis of "anticipated" disruption of trade and even before Sri Lanka has had a chance to build up a reasonable export performance; the necessary capacity being still in an early stage of development.

There are altogether 17 merged categories under restraint in the new Agreement, including eight already existing and nine new mergers. The base-level quotas under the new Agreement, i.e. for the first year, were expected to have a built-in growth rate of at least 2 percent for wool categories and 12 percent for others; though the allowed growth proved to be 1 percent for wool categories and 6 percent for most of the others. Another disappointment is that the sub-limits of 200,000 dozen yarn-dyed shirts for Category 340 and 250,000 dozen yarn dyed blouses for Category 341 fall below the levels of actual performance.

Projections For Sri Lankan Apparel Exports and Areas of Potential Concern

Projections for apparel exports upto 1992 have been made by the EDB in terms of both quantity and value. These projections show a moderate rate of growth for exports. The pattern of increased growth rates ending by 1992 indicates that the operational period of the Multi Fibre Arrangement and consequent bilateral agreements have been taken into account. In these projections emphasis has also been placed on exports to Japan and Australia. Throughout the projected period USA will remain the major outlet for Sri Lanka's apparel exports as it has been in the past. The US contribution will be about sixty-five percent of total rupee value of exports. Total exports are estimated to be worth Rs. 16,561 million by 1992. By this year Sri Lanka is expected to export 250 million pieces one of which USA is expected to buy 162 million pieces, or about 65 percent of the total. The next largest buyer will be the twelve EEC countries and during the plan period this block of countries is expected to accommodate twenty six percent of total rupee value of exports, and quantity-wise too the percentage will be almost the same. Exports to Japan are expected to increase more rapidly dur-

APPAREL EXPORT TARGETS 1989 & 1992

Country	1989			1992		
	Quantity Mn Pcs.	Value Rs Mn	%	Quantity Mn Pcs.	Value Rs Mn	%
U.S.A.	132.20	8,725.2	64.7	162.0	10,688.33	64.5
EEC	53.91	3,558.05	26.4	68.04	4,358.64	26.3
Canada	6.56	432.96	3.2	7.15	472.56	2.9
Sweden	1.09	71.94	0.5	1.33	87.73	0.5
Norway	1.09	71.94	0.5	1.33	87.78	0.5
Japan	3.04	200.97	1.5	6.03	398.01	2.4
Australia	0.063	4.16	0.1	0.084	5.34	0.1
Other	5.24	411.8	3.1	7.0	462.63	2.8
Total		13,477.0			16,561.2	

ing the projected period, sustaining an annual increase of 25 percent. On the one hand, Japan has no quota imports and on the other hand Japan has shown preference for apparel products from Asian countries. Another factor is that from 1986 Japan has been encouraging a high level consumer imports; and since the Japanese currency has been increasing in value it could be to Sri Lanka's advantage if she could increase exports. Nevertheless exports to Japan are no easy task, as very high and exacting standards are expected by Japanese buyers. The Australian market has also become competitive and attracted Sri Lankan exporters. Australian importers are in an advantageous position since quotas are handled by them. Australia is a global quota country, where importers are given allocations to import from any source they wish.

The vital importance of the Ready Made Garments industry in Sri Lanka's economy was highlighted at the outset, while attention was drawn to the current problems and future threats that confronted this industry. In the survey and analysis that followed several of these issues were brought into focus. The most important of these were the uncertain prospects of 1991 and beyond when the Multi Fibre Arrangement is expected to lapse; and the extent to which Sri Lanka could gear its industry to meet the anticipated challenges. The National Export Development Plan 1988/92 drawing attention to the lack of competitiveness of the Sri Lanka's garment sector has emphasised that the quota system with all its inherent problems has nevertheless provided a certain degree of protection for the Sri Lankan garments sector in the form of an assessed market of some significance. In this

sense, a greater danger lies in the total jettisoning of the quota system and throwing open the international apparel markets to the world's most efficient suppliers. Should this happen Sri Lanka is certainly ill equipped to face the challenge from more competitive suppliers such as Hong Kong.

There is no doubt that though non quota exports have been on the increase from 1984 the development of Sri Lanka's markets will require a far more aggressive and many pronged approach involving a positive shift from low value to high value items in the

quota markets; an expansion of the non quota sector in quota markets; and the development of new markets for Sri Lanka's garments. These aspects of marketing are now receiving due attention.

An equally great threat is the introduction of Microelectronics-based Innovations (MRIs) into the industry which can make Sri Lanka's labour intensive garment industry lose its competitive edge if it does not move with the times.

The threat of computerisation seems to be real and we

Japanese Aid for Apparel Exporters

Sri Lanka's apparel exports have benefitted from the expertise of a Japanese fashion business coordinator Ms Oka with 30 years experience in the fashion industry and years of research at the famous Bunka Fashion College. She has come to Sri Lanka to assist local apparel exporters. Her visit was arranged by the Japanese External Trading Organisation (JETRO). Ms Oka formed her own independent company 6 years ago. She has established numerous contacts among prominent apparel manufacturers to her advantage for carrying out merchandise planning and marketing of garments, and she passed on the benefit of this experience during her mission in Sri Lanka.

A JETRO reports states that in 1987 on the recommendations of Sri Lanka's Textile Council, Ms Oka began working on a Sri Lanka apparel export promotion project of the Sri Lanka Export Development Board (EDB). In Sri Lanka, rather than merely operating as a technical advisor, she instead chose to work as a member of a group of Sri Lankan manufactures. She held seminars to introduce the Japanese apparel industry and visited apparel factories to look for areas for improvement. On her first visit to Sri Lanka, she brought samples from Japan to show Sri Lankan apparel makers. She gave them to makers who made up sample merchandise in their factories. Ms Oka exhibited several dozen sample design guides,

from which they choose samples for trial manufacture. Data was collected on manager profiles, conditions of merchandise production, sales (exports), and a listing was made of the Sri Lankan companies she was working with.

Ms Oka again visited Sri Lanka in May 1988, one year after her May 1987 visit, to conduct follow-up work. She was surprised at the changes in the conditions of the Sri Lankan apparel makers after only one year. Previously, they would adopt any kind of fashion apparel information from Japan. Most were operating on a "We'll make anything" basis. On her second visit, however, she showed slides of the latest fashions and trends from Tokyo, and many of them said, "No thank you", explaining that if they tried to make these items, concrete technical problems would certainly arise.

Ms Oka explained it this way. "They consider basic things more important than chasing aimlessly after fashion, and they want a solid system for producing merchandise. There is a fundamental need to build a workable system capable of selling merchandise to foreign countries, and this calls for the establishment of manufacturing technology, which is the basis for apparel goods, and the establishment of a final merchandise quality control system".

have a warning that there is an emerging shift in international competitive advantages, according to a study carried out in 1985 by Kurt Hoffman of the University of Sussex on the "Impact of Micro Electronics on the Garments Industry". He argues that a combination of factors is responsible for this, the most important among them being the application of micro-electronics to clothing technology in a way that is bringing about integration of a once divisible production process. The use of Micro-electronics-based Innovations (MRIs) in the North is reducing production costs and, as this happens, the economic rationale for the current international division of labour in the sector is being undermined. At the same time, changes are occurring in two other equally important areas. The first is a long delayed but now rapidly evolving structural transformation of the sector in the OECD countries. The second is the virtual disappearance of the liberal trade regimes that facilitated the earlier internationalization of the industry. Due to the interaction of all these three factors, technology and scale-related barriers to entry are emerging for the first time in the clothing industry. The study concludes that these barriers could pose serious problems for the ability of developing countries, particularly the smaller, newer entrants, to improve or even maintain their current position in the sector.

The clothing industry all over the world has been characterized by relatively easy access for new entrants to the industry. This stems from the nature of the product and the basic production technology involved in the assembly of clothes. The assembly of clothes from soft, 'limp' fabrics requires consider-

able manual manipulation of the material by machine operators at all stages of production. Historically, this materials handling function has been difficult to mechanize. As a result, the production process remains highly labour intensive and materials handling has accounted for about 80 percent of the total time required to manufacture a garment. The industry everywhere relies on a combination of highly dextrous, but low-paid operators and robust, flexible and relatively inexpensive sewing machines as its basic unit of production. The underlying product and process technology has changed little in more than 50 years and has been easily assimilated by all who have sought to enter the sector.

Hoffman shows that the most important change so far has been the entry of electronics-based firms into the business of supplying technology to the clothing industry. This is furthest advanced in the area of pre-assembly technology where it is primarily electronics-based firms that are involved in the supply of automated inspection, colour sorting and Computer Aided Cutter systems. He states that these firms have had a major impact on the industry and will continue to be a strong force for technical change in the sector.

capital cost of flexible manufacturing systems could decline substantially towards the end of the 1990s due to the use of automation and the attainment of scale economies in their production. Implicit in this forecast is a strong assumption that the rate of productivity growth enjoyed by the industry will rise to historically unprecedented levels particularly in the 1990s. How quickly this will happen, he says, is difficult to predict.

Hoffman concludes that if his assessment of the future is correct, the future development and more wide-spread diffusion of MRIs in the North will create the potential for a substantial shift in the structure of competitive advantage against developing countries in the long term. The net long-term effects of this shift will depend largely on the manner and effectiveness of the response of Third World governments and clothing manufacturers. Faced with the prospect of stronger price competition from the North and restricted access to markets, developing countries must seek ways to enhance their ability to compete and maintain market share through increasing their own levels of productivity and by improving the quality of their products. To do this, Third World clothing manufacturers

".... developing countries must seek ways to enhance their ability to compete...."

From the mid 1990s onwards, however, the type of technology coming into the market could begin to change in fundamental ways. Flexible manufacturing systems will start to become available for use in assembly, accompanied by computer-based innovations in inspection, finishing and production control. The unit

must tackle the problem of persistently rising production costs that has characterized their past performance. In a sector as fiercely competitive as the clothing industry, there is a clear a priori argument that whatever has happened in the past, all developing countries will need to improve their competitiveness in the future.

SRI LANKA'S APPAREL EXPORTERS' VIEWS

Mr. LYN FERNANDO,
Chairman of Sri Lanka Apparel Exporters Association and Vice President of the Federation of Exporters Associations of Sri Lanka, discussed with the *Economic Review* some leading issues concerning the local production situation and the exports of the ready made garments from Sri Lanka. Some excerpts from the discussion.

The MFA is due to expire in 1991. In this situation the USA would wish to go for global quotas allowing their importers to decide on who their suppliers should be, while the major Asian exporters would welcome this opportunity of increasing their dominance in the global apparel export sector. How prepared would Sri Lanka be to compete in such a situation?

Over the last few years the Export Development Board together with our Association has been working on several measures to gear Sri Lanka's apparel exports to meeting the challenges of 1991 and beyond. This is what we have been clamouring for; the need to restructure our industry to meet these challenges. You may be aware that in the United States there is an enormous pressure to move out of the present Multi Fibre Agreement. Even if the MFA could be renegotiated or a new Agreement signed in 1991 the chances are that it would be totally different in form and structure from that of the present one. For instance, the importers would have a bigger say regarding which country they intend purchasing from. Again, in US there is pressure for auctioning quotas within the US. Now we have already lost virtually the ultimate advantage we had on labour. What we should now try to do is to build up our own competitive edge. We still have the entrepreneurs, we have the wherewithal to put our industry right. Our major problem now, if we were to make comparisons with our competitors, is that while on the one hand our labour is still cheap it is unproductive, partly because we do not use more modern techniques. We have enormous wastage in our cutting rooms. I think in nearly every other country they have computer aided design systems installed. We have only one factory of such a nature. We ourselves, as a company, are trying to get one, but it is very expensive. In a situation where the country's conditions are somewhat unstable and facing the difficulty of not knowing when one has to close his factory, one is a little reluctant to invest that sort of money in machinery and equipment. But, at the same time if we are to survive beyond 1991 in this industry we would have to instal new machinery, and it is very necessary to change the rules and regulations under which the industry operates at the moment, to make it more responsive to market demand.

What I mean by that is, at the moment most of our raw material is imported, and there are enormous delays in importing - to get licences, open letters of credit, sailings from the Far East are not that regular, so that our lead times can go up to as much as six months; and as against that I think, the technique which is being adopted in the developed world is to change patterns, styles, colours etc. frequently whereby they try to cut a dash.

Would Sri Lanka find it difficult to compete in such a situation?

We would, unless we start now. We got three years; and I believe we can if we apply ourselves to change the system and restructure our industry to meet these challenges.

Upto now what concrete steps have there been in this direction, either from your Association or from the authorities to meet these challenges.

From the Association we have had a lot of discussions with the relevant authorities - the Customs and the Ministry of Textile Industries. It is more difficult with the new changes, and with a new set of officials coming in it takes a while to induce changes, particularly when they are not sure of why these changes are being suggested, and also in the framework of so many errant manufacturers being there. At the same time there has been a very positive response starting from the Minister himself, the Minister of Rural Industrial Development and Textiles, who has fully agreed with our suggestions for simplification of procedures which should assist the industry enormously.

In what specific areas does the Association help the garments export industry?

Our Association comes to the assistance of exporters on specific issues as well as helping the overall interests of the industry and its long term growth. We liaise with the Ministry of Textile Industries and the Ministry of Trade and Shipping and also other official institutions. The Association has worked very closely with the Customs in the preparation of the procedures and implementation of the Customs Bonded Warehouse Scheme. It continues to have regular dialogue with the Customs to ensure the smooth operation of this scheme. Our members are on the Advisory Committee of the Export Development Board and have taken an active part in preparing medium to long-term plans for the future of our industry. Our members together with officials of the Export Development Board have undertaken market studies which have resulted in subsequent buyers/seller meets and one-to-one business meetings.

We have representation on the board of the Clothing Industry Training Institute, and thus contribute towards the training and technological improvements of the industry. We also have a fairly comprehensive code of ethics for our members so as to ensure a concept of social responsibility and ethical conduct.

Have there been any initiatives by your members on specific aspects of marketing?

On the marketing side the emphasis has been on better utilisation of quotas, in making a better quality of upmarket garments and thereby obtaining a higher income on the available quotas. I believe the success of this has already been apparent by many of our firms manufacturing under prestigious brand names and selling to the more expensive - upmarket or what is called moderate to better sector in the stores. Again the regular missions to Japan and Australia both non quota markets - (Australia has an importers quota) - have already been successful and many firms are now exporting to these countries. So I believe that in the marketing aspect we are moving from an industry merely selling production capacity and quotas to one of selling garments. We have encouraged specialisation in product categories and arranged with the Ministry of Textile Industries for easy transfer of quotas to enable firms to specialise. Our major drawback is the lack of fabric and ancillaries available locally and the consequent advantage of quick response to market demand. The Minister of Textile Industries has already commissioned a study on what they call backward linkage requirements and our own Association had made representation as to how some of these proposals could be implemented.

Do you think we could successfully enter the fashion market, or the quality market and also compete cost wise, or are there constraints?

Yes. We certainly can do fashion garments, and in my own company, we do quite a lot. I think a good test is a company that can export successfully to Japan, can very definitely make fashion garments and sell them successfully in Europe or in the United States.

The major constraint in fashion garments is that lead times are very short. One doesn't sort of prepare fashion garments or sketches six months in advance. A buyer places an order and expects the goods to be delivered within two or three weeks which unfortunately we cannot do here.

I suppose the bigger Asian exporter countries like Hong Kong, Taiwan and South Korea are more geared to that.

Yes, because they have the fabric at their doorstep. This is an advantage of course. Even in Sri Lanka, the Free Trade Zone manufacturers have an edge over those outside; because they are able to import fabrics and keep it in bond and then produce to the specifications of the buyer. We also do that to a lesser extent where we import grey cloth, we keep it in stock, and then dye it to different colours that are in vogue. But really if you look at it strictly in terms of the rules and regulations it is not permitted so we need to have a dummy ordersheet. Now if little things like that can be streamlined it would definitely assist the manufacturers of and exporters of fashion garments.

Doesn't the bonded ware house scheme help to solve a lot of these problems?

Certainly it does, but at the same time many people have taken advantage of the bonded ware house scheme to leak fabrics into the local market and that I think is a big problem that the government has.

Does this buying houses factor apply to a large number of factories or to a particular factory?

Well, it does to the majority of small firms who are totally under the control of the buying houses.

But the buying houses offer them certain facilities?

Of course, they do provide a service, but at the same time we had become a industry just selling quotas and production capacities, and not selling garments. They don't sort of go out and sell. Many of these factories don't even know who their buyer is, they have never gone out and met them. They only have contact with the buying house which is bad.

While on the quota system itself; there have been various suggestions about quotas and we were recently told that there was even a suggestion that they auction quotas.

Well, to our relief the President himself intervened and then squashed that. It was lucky that the World Bank people came here just before and went through our entire factory and made a study of that and they totally agreed that the auctioning of quotas would be the death knell of the industry, because our position is unlike other countries, and no country auctions quotas in that sense. In our case we have got an organised labour sector here. There is maternity leave, there is EPF and ETF. We cannot lay them off as and when depending on the quotas we get. Quotas by itself came as a result of a firm's performance. People do not seem to understand that even today there are many areas where there are non-quota items. Unfortunately no body

looks at that area and concentrates attention on it. Why other companies, and even we, built up quotas was purely because we sought out areas where there were no quotas and we went out, contacted buyers, and sold these items and we built up performance so that when quotas came we had a track record. Now that is how quotas were obtained. But what others are trying to do is they want to grab these quotas.

The other most fundamental thing is we have to plan production. If we are not going to be certain of our markets this will upset all our schedules. Otherwise, even with the existing buyers if by chance, if we do not succeed in getting the quota that we have been performing them what happens? Because now more importantly the fact is that if again we are looking at 1991 and beyond we see the need to specialise. Earlier when we were trying to build up our quota levels we did everything that came out way. But now as far as the US market is concerned there are no non-quota areas, so it is a good time now to exchange quotas and enable firms to specialise in certain categories.

Is there any specific basis for allocating quotas between the FTZ exporters and those outside the Zone?

The Free Trade Zone is certainly an important area for garment exports from Sri Lanka. As you may know when the zone was originally established there were no US quotas and the understanding was clearly that they would be entitled to not more than 40 percent of the quotas allocated to Sri Lanka.

But about 30 manufacturers within the Free Trade Zone continue to get a growth factor which manufacturers outside the Zone do not get; simply because outside the Zone we also need new blood coming into the industry and we have allowed the Ministry to take that 6 percent growth factor for new comers or whatever policy uses they may have, like relocating of industries in other provincial areas etc. I think, following a recent decision, that the FTZ growth factor will also be considered for such purpose.

Weren't there also issues arising about exporters not fulfilling the quotas allotted to them?

Well it is due to the seasons and the fact that in certain times of the year and in certain years we have certain categories of garments selling very well. I think that more important is the fact that firstly the distribution of quotas was bad. Last year, for instance, certain people got quotas for reasons other than their ability to perform; there again our Association has held discussions with the Ministry of Textiles Industries in order to evolve a system whereby we could have a proper monitoring; the Ministry has already taken action, though they do not yet have the personnel, the Minister has agreed to get a simple computer facility and the same software as used for monitoring in the FTZ where they could monitor the quota performance. It was also agreed to have the Assistant Secretaries to get more involved in the industry. None of these persons in the Ministry of Textiles visits a garment factory and what they intend to do is to get them to come out and have a look at the operations, see what it is all about, and then formulate a scheme that is practical and workable.

There was another issue that needed to be resolved and on which you made representations. That was the proposed tax of 3.06 percent on apparel exports to the US, announced by the Minister of Finance in his recent Budget Speech. Does the proposal still stand?

That was unfortunate and much has happened on this proposal since then. Sri Lanka made a request to the US authorities to withdraw the 3.06 percent countervailing duty and suggested that we impose this tax here. But fortunately for us the Ministry of Trade and Shipping summoned a meeting of all those connected with the industry. I had an opportunity of expressing my views, which basically revolved on

Mr. AJIT DIAS, President of the Sri Lanka Free Trade Zone Manufacturers Association, discussed with the *Economic Review* the position of the apparel factories in the Zone and their business operations.

the difficulties the Sri Lankan Government would have in extending this tax to those in the Free Trade Zone. Now if you take the 3.06 percent countervailing duty imposed in the United States, 2.0 percent is as a result of assistance provided to those in the FTZ. The balance, as far as the Investigating Committee that recommended the tax was concerned, was on the assistance to those outside the Zone. So the Zone exporter had a bigger subsidy. Now all the factories in the FTZ have an agreement with the GCEC which specifically prohibits the imposition of any taxes, development cesses, or whatever, by the Sri Lanka Government. The only way the Sri Lanka Government could impose a tax on them would be to bring in legislation with retrospective effect. That, in this current climate where Sri Lanka is keen on attracting foreign investment, is totally impossible. So the Government accepted our view and we have now withdrawn the request for a review as it was not feasible.

But I think a more significant fact about these countervailing duties is that at the time it was imposed on Sri Lanka similar taxes extending to as much as 22 percent were imposed on many other countries. Bolivia, Indonesia, Venezuela, Taiwan all had higher duties.

So there is a likelihood that the tax itself will not be imposed?

Yes, because it is not practicable. You cannot impose it for only one sector, like in the case of the existing Rs 1/- per piece quota fee; where only those outside the Zone have to pay this levy of Rs 1/-.

What about new markets. It appears that there have been moves to cultivate the Japanese and Australian markets. How much success have we had on these initiatives?

I have been on those missions to both Australia and Japan. The Australian market is somewhat difficult because the population is small and the quotas are with the Australian importers. It is a global quota. Also, the Australian Government has now found, that this quota system has resulted in the quota holder making a lot of money. Yet aggressive marketing has enabled Sri Lankan exporters to penetrate these markets.

The main difference in the Japanese market is that unlike the US or the EEC, Japanese can buy from where ever they wish. Consequently, the prices must be very competitive, the quality extremely high and delivery absolutely on time. My own company spent a large amount of money in the first two years in taking samples to Japan, and only on the third visit did we meet with success. The market also needs careful cultivation and a very prompt response system.

But why is it that we concentrate so much on the traditional items where there is so much competition, and quotas, while we still produce so little on the less 'sensitive' items?

Well for one thing it is the traditional items that have a very large run. Any factory that can run profitably can do so only when it has such large runs. When you get on to smaller runs it becomes more expensive and your profitability is much reduced. But that does not mean that exporters are not going for smaller runs because I think the trend in the future will be a change from mass production to producing on shorter runs of varying styles.

Q. The Katunayake Export Processing Zone has been in operation for more than 10 years. The facilities and concessions offered at the KEPZ were intended to attract a wide range of industries, but more than 1/3 of the number of industries and over 80 percent the value of KEPZ exports are from the garments sector. Why is it that there has been a concentration in this type of industry?

A. All Export Processing Zones in the Asian region, in most instances, started off with Garments, as was the case in Sri Lanka. This was basically due to countries wanting labour intensive industries to start off operations in the respective Export Processing Zones. However, in Sri Lanka today there are around 27 - 28 Garment factories out of a total of 77 Enterprises at Katunayake. The GCEC has not been encouraging Garment Industries in recent years and is presently trying to attract investment in areas where higher technology is used. In fact the last few projects have been in Electronics, Ceramics, Carnival Rubber Masks, Ski Gloves and Rubber 'O' Rings.

Q. In 1980 the Minister of Finance told a Select Committee of Parliament that the only attraction in Sri Lanka for investors from Hong Kong, South Korea and Singapore was to collar the quotas still available for Sri Lanka. Is this position correct and what is the position today?

A. This is totally incorrect for when the Zone was started, there were quotas imposed only on a few items and that too for the EEC market. Quotas to USA were imposed after production started in the Zone, and all Companies inside and outside the Zone were allocated quotas based on their performance at the time quotas were imposed.

Q. A wide range of infrastructure facilities were provided by the Sri Lankan government with the hope that it would greatly benefit Sri Lanka's economy. Could you say that these hopes have been realised?

A. I think its best I quote from *the Asian Wall Street Journal* of February this year "in which part of the World can Five Hundred Million Rupees (15 Million Dollars) be invested, which yields a return of Rs. 7 Billion, a thirteen fold increase in 10 years? It may be any capitalist's dream but it is not a fairy tale. The Sri Lanka Export Processing Zone Authority the Greater Colombo Economic Commission achieved just that"

Q. The local industrialists have been of the view that the country would have benefitted far more if local industrialists had a monopoly of this export business. What are your views on this?

A. There is a basic misconception that all factories in the Zone are owned by foreign companies. This is far from the truth and there are many local industrialists who have factories in the Zone, and in some instances outside as well. Similarly some of the Garment Factories outside the Zone are FIAC approved, which means they too have foreign investors. Basically, if one looks at the whole industry, the greater share of the business is probably in the hands of local industrialists.

- Q.** In the early stages and even more recently the equipment and machinery brought into the KEPZ by foreign investors were said to belong to a past generation. Is it possible to face the growing global competition with such facilities? Would these factories not require more intensive modernization?
- A.** There were some industries that started off with second hand equipment and machinery, and these factories never really got off the ground and in fact some of them have since closed down. The present policy of the GCEC is not to encourage any secondhand machinery and some of the factories that started off with used machinery have since purchased new machines and carry out business successfully.
- Q.** There are complaints that the KEPZ apparel industries have not established backward linkages within the country and hence the value added is comparatively lower and foreign exchange earnings are being re-routed back to the investor's country. Why is it that none of these investors considered re-investing in a textile industry in Sri Lanka?
- A.** The KEPZ investors in garments, do not necessarily have the experience or business interest in manufacturing items needed for their trade. However, there is one large factory in Biyagama which manufactures their own cloth, dyes and finishes the fabric for the manufacture of their end product. The reason why Sri Lanka does not have any modern textile Mills is due to the vast amount of capital that is needed, and I think it is extremely unlikely that anyone in Sri Lanka will be interested in investing such large sums of money especially at the present moment, due to the prevailing problems we have in the country.
- Q.** When the MFA expires in 1992 and if quotas are lifted will the KEPZ industries be able to survive global competition?
- A.** I think the KEPZ factories are very capable of surviving the problems in the event of the MFA expiring in 1992. This has been accepted by the Authorities in Sri Lanka, and they are encouraging factories outside the Zone to prepare themselves as well.
- Q.** Various incentives have been offered by the government to investors in the KEPZ. Are there any dis-incentives which obstruct the smooth functioning of the apparel industry? Also, is there a time limit on incentives offered to each investor within the Zone and how will they adjust when this time limit expires?
- A.** The major incentive offered to Zone factories has been the tax holiday period. This has since expired in most cases, and some factories have opted to pay a percentage of their turnover as a tax, whilst others have opted to pay the income tax rates applicable to all companies in Sri Lanka.
The biggest problem we have is with telecommunications i.e. telephone, telex and fax. When the Zone started a special exchange was put up for the Air Port and the Zone, but unfortunately several connections have been given to people along the way and the exchange is jammed and this is causing a serious problem to the investors.
- Q.** There have been various complaints about wages and other welfare conditions of the workers in the KEPZ. How has this affected the workers in the apparel industry?
- A.** It is a well known fact that wages for all grades inside the Zone are much higher than the wages elsewhere in the country.
We all understand and appreciate that our greatest asset is our work force and we are very unhappy about the type of lodgings that are available to our staff. This is a very serious problem and we have brought this to the notice of the Government on many occasions. Basically, the people around the Zone have exploited the situation by over crowding boarding houses and charging exorbitant rates from our workers. The Government at long last is looking into this problem and as a first step the GCEC is trying to work on a scheme of approved boarding houses, and there are some organisations which are putting up or willing to put up hostels etc. In fact the ILO is also trying to help our Government by starting a pilot project, and based on the success of this project they are hoping to start several large dormitory/hostel type facilities for our staff.
- Q.** How do the terms and conditions offered to employees in the KEPZ compare with those in the newly industrialising countries in the Far East? Also, how does labour productivity of labour in the NICS?
- A.** My experience is that the working conditions offered to our employees are far superior to those in the NIC's. However I feel our productivity is much lower.
- Q.** What is your view of the future of Sri Lanka's apparel industry over the next three years, particularly with regard to competition?
- A.** I feel the Sri Lanka Apparel Industry can take on the future with confidence, provided the problems we are encountering in the country are settled in the very near future. Most factories have gone through difficult times due to the closures they were subjected to in the recent past, and some major buyers have lost confidence in the country's ability to ship goods on time.
- Q.** How would you foresee Sri Lanka's garment industry by the end of this century and are we gearing our industry to adapt to conditions that will exist 11 years from now?
- A.** Everyone involved in the garment trade must look towards modernisation and new methods of production if we are to keep up with our competitors. This may well mean that at the turn of the century this industry need not necessarily be as labour intensive as today.
- Q.** There are reports that our investors in the GCEC have also opened apparel industries in the Middle East and Bangladesh? What is the reason for this move?
- A.** There are investors both in the GCEC and outside who have established factories in the Middle East, Bangladesh and other countries. Most of these factories are employing Sri Lankan labour and management, and have been established with a view to obtaining quotas as and when they are enforced by the various foreign countries.