

# INDUSTRY

## READY MADE GARMENTS AND FOREIGN INVESTMENT

Sri Lanka's ready-made garments and textiles have emerged as the second most important item of exports by 1982. With modest beginnings in the mid-1960's; export earnings went up to Rs.5 million by 1970. But by 1982 the value of garment exports had reached Rs 3.1 billion and accounted for over 15 percent of the total value of exports from Sri Lanka. Three significant factors responsible for the dramatic change in this sector of exports over the last decade were: firstly, the rising cost of labour in the industrialised countries and relatively large and cheap labour force available in Sri Lanka; secondly, the inability of major Asian exporters such as Hong Kong, South Korea and Singapore to further expand exports from their countries and the need for these exporters to shift the scene of their operations elsewhere; thirdly, the introduction of a liberalised trade policy at the end of 1977 which permitted a completely free flow of raw materials and other inputs; that have enabled this industry to flourish locally.

There are at present over 100 firms directly engaged in the export of garments and a considerable number offering feeder services to the major garment exporters on a sub-contract basis. It is estimated that this sector has a capital investment of over Rs 1,000 million and provides direct em-

ployment to about 61,500 persons. The rate of growth of exports in this sector averaged almost 75 percent in the five years upto 1980, but slowed down thereafter. Fears have been expressed that recession in the industrialised world was taking its toll on what appeared to be Sri Lanka's most promising export industry and pessimism has been expressed about its future.

Sri Lanka's garment exports faced further quota restrictions from its leading markets in the USA and the EEC countries. Effective lobbying by Sri Lanka has helped to relieve the situation slightly in the EEC but the USA has tightened quotas for 1984. While the EEC has imposed limits only on six categories of items USA has extended the limitations to fifteen categories under new quotas, though under the earlier agreement only five categories were under quota limits.

There are signs, however, that the recession is receding. Exporters in the Katunayake Industrial Processing Zone who enjoy a substantial slice of the country's export quota to USA are of the view that the situation can now change for the better; and the Chairman of the KIPZ Exporters Association Stephen Tong states here the future is by no means bleak. He predicts that the investment climate in Sri Lanka should now improve and investors could go ahead and finance their venture with no fears.