

## SRI LANKA'S APPAREL PRODUCTS NEW QUOTAS AND EXPORT POTENTIAL

T. B. Karunaratna

*In this note T. B. Karunaratne of the People's Bank Research Department draws attention to the growing dependence of Sri Lanka's apparel product exporters on the US market, while the US authorities have brought in further restrictions. The categories of products under quotas have been increased from an earlier 10 - 15 for the years 1983/85. Products from man-made fibres which local exporters turned to in order to meet unfilled quotas have also been brought within the quota restrictions. This, maintains Karunaratne, is a warning to our exporters of the implications of the anti-surge clause of the Multi Fibre Agreement which puts the brakes on production and shifts towards fast moving new lines of production.*

Sri Lanka's foreign exchange earnings from apparel exports are expected to grow at an annual rate of 26 percent over the five years upto 1987. The Export Development Board estimating the export potential of apparel products has projected a growth in earnings from SDR 129.33 million in 1982 to SDR 403.0 million in 1987. The export targets have been worked out on the basis of marginal growth rates allocated to the items covered under quotas, the investment likely to be made and the development of new markets. The following table gives the projected total volume of exports in million pieces and exports under various categories.

**Table 1** Projected Exports of Garments  
Volume (in million pieces)

	1982	1983	1984	1985	1986
Shirts	13.51	16.96	19.01	21.26	23.92
Blouses	16.55	21.01	23.86	27.31	31.49
Trousers/Jeans	9.02	11.75	13.72	16.19	19.13
Jackets/Anoraks	5.86	7.20	8.05	9.12	10.53
Dresses	2.52	3.81	4.69	6.09	7.92
Gloves*	0.90	1.07	1.22	1.31	1.40
Jersays/Sweaters	1.36	1.82	2.29	2.91	3.09
Others	10.20	10.23	35.40	53.10	79.65
<b>Total</b>	<b>60.00</b>		<b>108.24</b>	<b>137.30</b>	<b>177.83</b>

\* In dozen pairs

The export Plan includes projected exports of non quota items of the G.C.E.C.

According to the export plan the projections for export of garments are based on the assumption that full quotas would be utilized from 1983 onwards. For 1982, in view of the slack conditions in international markets, the exports of quota items has been assumed to be at the 1981 level. An additional export of 18 million pieces of non-quota items from the G.C.E.C. are expected during 1983.

### Importance of US and E.E.C. Markets:

The relative share of major markets for Sri Lanka apparel products excluding G.C.E.C. are given below.

From the beginning of 1980 the importance of USA as a buyer of Sri Lankan apparel products manufactured outside the Free Trade Zone has superseded those exported to other destinations. Of the total apparel products exported (composed of all manufactures) during the year 1981, as much as 51.9 per cent had been disposed in the US market. Although this proportion had dropped to 49.4 per cent in 1982, it still constituted a very high

### EEC Country Quotas on Sri Lanka's Apparel Products Exports and Actual Export Performance against Quotas in 1982

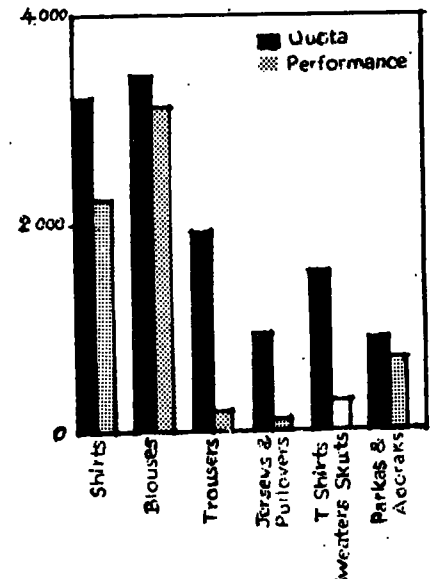


figure in contrast to the 18 per cent and 19 per cent exported to West Germany in the year 1981 and 1982 respectively. Total exports to whole of the EEC during 1981 and 1982 did not exceed 34% and 37.9%.

**Table 2** Export of Non-quota Items from G.C.E.C.

Year	Volume (in million pieces)	Value (in million rupees)
1980	5.59	228.81
1981	12.55	417.22
1982	18.82	625.55
1983	28.33	938.33
1984	42.35	1,407.49

The market share of USA has differed widely, if individual product categories are considered. For instance, in the case of shirts a 50 per cent share in 1981, and 33 per cent in 1982 had gone to the EEC. In the case of blouses 30 percent, and 39 per cent respectively had been destined to the EEC. USA's share of these two items in 1981 had been 32 per cent and 37 percent respectively. In 1982 the proportions amounted to 50 percent and 46 percent.

### Imposition of Quotas

USA for the first time imposed quotas on Sri Lankan apparel exporters in 1979, after the second multi fibre agreement was concluded. At that time the quotas were confined to 10 items such as Woven Cotton

**Table 3** Relative Share of Major Markets for Sri Lanka's Apparel Products

Country of Region	Quantity: Million Pieces					
	1978	%	1981	%	1982	%
U.S.A.	5.8	43.7	16.4	51.9	47.4	49.4
E.E.C.	3.4	25.8	10.0	34.1	35.9	37.4
Scandinavia	1.1	8.4	1.8	5.7	7.7	8.0
Middle East	1.7	13.2	0.6	2.0	2.0	5.1

Source: Ministry of Textile Industries.

Shirts, Woven Cotton Blouses, Cotton Gloves, Cotton Coats for men and women, Cotton Trousers, Cotton Jeans, and Shorts, Woven Synthetic Shirts, Woven Synthetic Blouses and Sweaters for males and females. For all the items imported from Sri Lanka the U.S.A. had allowed an annual growth rate of 7 percent.

The European Economic Community quotas imposed under MFA II were for mens and boys shirts, women and girls blouses, mens and womens trousers, jerseys, pull-overs and T-shirts. The growth rates varied from 1.5 percent per year for the mens shirts and womens blouses, 5 percent per year for mens' and womens trousers, 6 percent per year for jerseys and pullovers and 10 percent per year for T-shirts.

In the quotas imposed under the recent bilateral agreement signed under MFA III (effective from January 1983 upto 1986), the European Economic Community has imposed community quotas on four categories and regional limits on two categories. The respective quotas for the years 1983-1986 and the growth rates connected with them are given in the Table 4 below.

EEC has allowed the same 1.5 per cent per annum increase as under the previous agreement, for mens shirts while the growth rate for mens and womens trousers is reduced from 5 per cent per annum to 4 per cent per annum.

The 1.5 per cent growth on womens blouses is increased slightly to 2 per cent. The limits for jerseys, pull-overs and T-shirts are eliminated from the new quota. For UK there is a special limit for mens and womens underwear. Their quota is measured in terms of tons (not pieces). France has asked for a limit on woven and knitted dresses, the product which has always been regarded a threat to her local industries.

Categories of products on which quotas have been imposed by the A. and the quota limits on such categories for the years 1983/85 (April to

March each year) are given in Table 5. In the earlier arrangements only ten categories were under quota. This time the number of categories brought under quota have increased to fifteen. Man made fibre products (synthetic) of some of the previous categories have been put under the new quota, mainly because manufacturers who were earlier producing such items and were unable to increase pro-

duction owing to quota constraints had shifted to synthetic cloth based products to fill the vacuum in capacity. This has increased manufacture of man made fibre based clothing products in the categories of gloves, male's cotton coats, female's cotton coats, male's woolen sweaters, females' woolen sweaters and trousers substantially during the year 1981, both of factories within and outside the Katunayake Free Trade Zone. The new quotas are a warning on possible action regarding the anti-surge clause of the MFA intended to check the manufacturers moving fast towards new lines.

An examination of the US quotas for the period upto 1988 reveals many features of interest. In all products the quota for the year 1984/85 is about 2.2 percent less than quotas for 1983/84. This situation could cause difficulties for manufacturers whose products are exported to the US market as they will be compelled to cut down on output and face the resultant adverse effects.

**Table 4** European Economic Community Quotas on Apparel Products 1983-1986  
Quantity -000 pieces

* Community Limits	1983 Q	1984 Q	% Growth	1985 Q	% Growth	1986 Q	% Growth
<b>Mens and Womens Woven Trousers &amp; Mens Shorts &amp; Breeches</b>	Pcs 2200	2288	4.0	2379	4.0	2475	4.0
<b>Womens woven &amp; knitted blouses</b>	Pcs 3350	3417	2.0	3485	2.0	3555	2.0
<b>Mens woven shirts</b>	Pcs 3500	3552	1.5	3606	1.5	3660	1.5
<b>Parkas, Anoraks Windcheaters and the like woven</b>	Pcs 2250	2340	4.0	2434	4.0	2531	4.0
<b>Regional Limits</b>							
<b>UK-Mens woven underwear other than shirts</b>	Tons 125	130	4.0	135	4.0	141	4.0
<b>France-woven and knitted dresses</b>	Pcs 208	216	4.0	225	4.0	234	4.0

Source: Ministry of Textile Industries

Table 5

## Quotas Imposed on Sri Lanka's Apparel Products Exports by USA 1983 to 1988 March with Annual Growth Rate

Quantity/Volume: pieces

Category	Category No.	1983/84		1984/85		1985/86		1986/87		1987/88
		Volume	Growth rate	Volume	Growth rate	Volume	Growth rate	Volume	Growth rate	
Cotton Gloves	331	11147892		10907784	-2.15	11562252	6.0	12255984	6.0	12891344
Mens & Boys Cotton Coats	334	2173020		2126208	-2.15	2253780	6.0	2389008	6.0	2532348
Womens & Girls Cotton Coats	335	1592556		1558248	-2.15	1651740	6.0	1750848	6.0	1855896
Mens & Boys Cotton Shirts	340	5730228		5606808	-2.15	5943216	6.0	6299808	6.0	6677796
Womens & Girls Cotton Blouses	341	5733192		5609712	-2.15	5946288	6.0	6303072	6.0	6681252
Mens & Boys Cotton Trousers	347	4295652		4203132	-2.15	4455324	6.0	4722636	6.0	5006004
Womens & Girls Cotton Trousers	348	3185112		3116520	-2.15	3303504	6.0	3501720	6.0	3711816
Mens & Boys/Womens & Girls Woolen Sweaters	445/446	1174356		1094856	-2.15	1105812	6.0	1116864	6.0	1128036
Synthetic Gloves pairs	631	3380004		3307200	-2.15	3505632	6.0	3715968	6.0	3938928
Mens & Boys Synthetic Coats	634	1299996		1272000	-2.15	1348320	6.0	1429224	6.0	1514976
Womens & Girls Synthetic Coats	635	2145000		2098800	-2.15	2224728	6.0	2358216	6.0	2499708
Mens & Boys Synthetic Shirts	640	1117766		1093692	-2.15	1159308	6.0	1228872	6.0	1302600
Womens & Girls Synthetic Blouses	641	5733192		5609712	-2.15	5946288	6.0	6303072	6.0	6681252
Mens & Boys/Womens & Girls Synthetic Woolen Sweaters	645/646	570000		1144800	-2.15	1213488	6.0	1286292	6.0	1363476
Womens & Girls Synthetic Trousers	648	1950000		1908000	-2.15	2022480	6.0	2143824	6.0	2272464

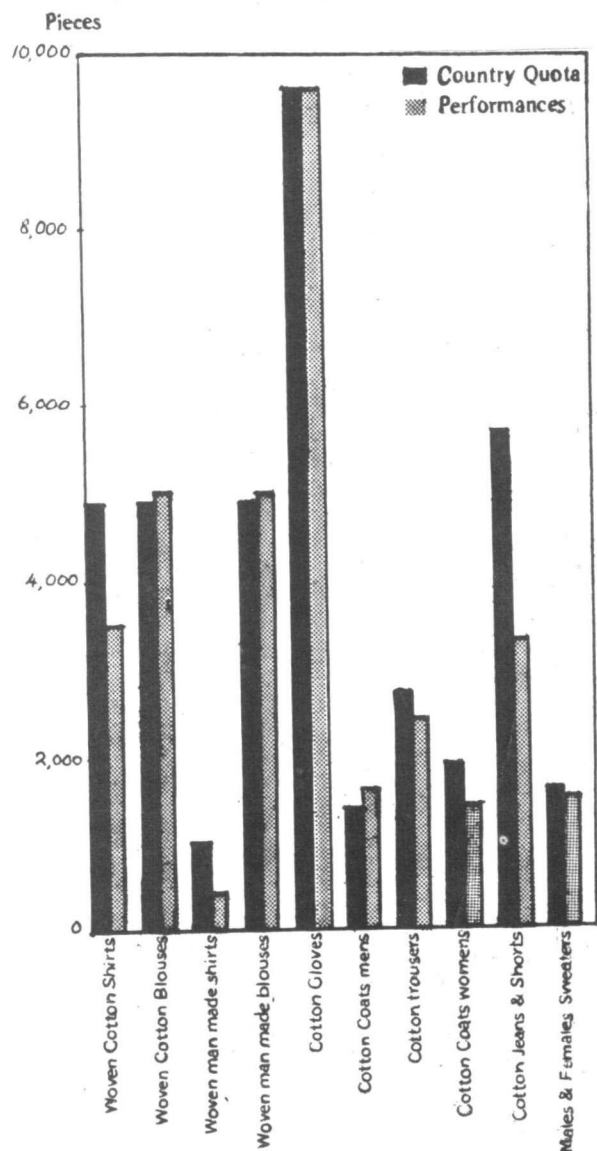
Source: Ministry of Textile Industries

Table 6

**USA Country Quotas for Sri Lanka and Export Performance in 1982**  
Quantity: pieces

Item	Country Quota	Performances	Performances percentage of quota
Woven Cotton Shirts	4943400	3519792	71.2
Woven Cotton Blouses	4945968	5186856	104.9
Woven man made shirts	964284	417792	43.3
Woven man made blouses	4945968	5080908	102.7
Cotton Gloves	9617160	9616152	100.0
Cotton Coats mens	1373880	1649436	120.1
Cotton Trousers	2747760	2425452	88.3
Cotton Coats womens	1874640	1445172	77.1
Cotton Jeans & Shorts	5700000	3338952	58.6
Males & Females Sweaters	1620000	1479840	91.4

**US Country Quotas on Sri Lanka's Apparel Products Exports and Actual Export Performance against Quotas in 1982**



### Utilisation of US quotas

Table 6 shows how the quotas allocated for the year 1982 compare with actual performance. This table shows that of the ten items allocated quotas, performance on four items — namely, woven cotton blouses, woven man-made blouses, cotton gloves and men's cotton coats — the quota was either fully met or exceeded in the year 1982. Woven cotton shirts, cotton trousers, cotton coats and wollen sweaters for males and females (items 445/446) reached high levels of performance although they could not completely fulfil the quotas allocated.

Table 7 gives a comparative picture of performance in the US market during 1981/1982. It may be seen that in the six selected items the proportion of quotas fulfilled in 1982 had grown considerably over that of the previous year (in categorising these six items it should be noted that cotton and man made fibre products are merged.) The slow growth in the quota performance for shirts is due to a low performance in the man-made fibre shirts, where quota performance amounted to only 43 percent.

### Performance on European Economic Community Quotas

Total quotas imposed by the EEC and quotas for individual community members, together with the export performance against these quotas, during 1982 are shown in table 8. The percentage of actual performance for specific categories of products against quotas are also given in this table.

Considering the community as a whole the product which recorded the highest level of performance was blouses where exports amounted to 90 percent of the allocated quota. The next highest performance was for parkas and anoraks (76%); followed by shirts (69%). Performance on the other three items was as low as 20 percent for T-shirts, sweaters and skirts; 12 percent for trousers; and 11 percent for jerseys.

Actual exports of shirts to France exceeded the allotted quota in 1982; while exports of blouses to UK exceeded the quota. Exports of both shirts and blouses to Denmark and Italy also reached considerably high levels. The lowest levels of performance for shirts were Benelux and Ireland, while for blouses it was France and Ireland.

Exports of parkas and anoraks to Benelux exceeded the limit; while export of these items to France was considerably high, reaching 78 percent of the allotted quota.

In the case of both trousers; and jerseys and pullovers, actual performance

has been very low — the highest percentage being against Denmark's quotas, namely 58.3 percent for trousers and 57.3 percent for jerseys and pullovers.

The other group of items where actual performance was extremely low was T-shirts, sweaters and skirts; the sole exception for these items being West Germany where exports reached 59.4 percent of quotas.

Among the individual countries of the EEC the highest export quotas granted for Sri Lanka's apparel products has been from West Germany. The West German quotas have been twice as much as the next highest country quota, namely, that of the United Kingdom. An interesting feature in these two countries may be noted in the quotas and performance for shirts - while the West German quota was doubled that of UK, actual exports to UK were more than those to

West Germany. This situation is even more exaggerated in the case of jerseys and pullovers. Exports of blouses to West Germany reached 86 percent of the quota while exports of this item to UK went 4.8

percent above the full quota. The exports of blouses to all the EEC countries has been considerably high, with the result that the highest level of performance for the entire EEC was for this item.

**Table 7 Proportions of Quotas Fulfilled by Sri Lanka's Products in the US Market in 1981 and 1982**

	percentages	
	1981	1982
Shirts	54.8	57.2
Blouses	70.1	107.9
Trouser	65.6	88.3
Jerseys & Sweaters	15.4	91.4
Gloves	59.7	100.0
Coats	65.7	120.0

Source : Ministry of Textile Industries

**Table 8**

**European Economic Community Quotas for Sri Lanka and Export Performance in 1982**

Quantity: pieces

Category of Products	Total E.E.C.	West Germany	United Kingdom	Benelux	France	Denmark	Ireland	Italy
Shirts - Quota	3,226,000	1,286,000	611,000	607,000	224,000	56,000	28,000	414,000
Performance	2,227,346	675,107	690,056	210,820	229,238	46,975	14,586	360,504
Percentage	69.0	63.2	112.9	34.7	102.3	83.9	52.1	87.1
Blouses Quota	3,392,500	1,312,500	655,000	307,000	476,000	82,000	14,000	546,000
Performance	3,055,369	1,127,311	686,295	300,644	332,243	78,888	9,884	520,104
Percentage	90.1	85.9	104.8	97.9	69.8	96.2	70.6	95.3
Trousers Quota	1,945,000	906,000	400,000	219,000	111,000	68,000	18,000	223,000
Performance	238,226	72,824	22,556	102,759	460	59,627	-	-
Percentage	12.2	5.6	5.6	46.9	0.4	58.3	-	-
Jerseys & Quota Pullovers	884,000	396,000	177,000	53,000	114,000	33,000	8,000	103,000
Performance	99,386	4,652	51,406	10,800	13,618	18,910	-	-
Percentage	11.2	1.1	29.0	20.4	11.9	57.3	-	-
T-shirts Quota	1,464,000	340,000	367,000	369,000	167,000	48,000	15,000	158,000
Sweaters Performance	292,744	201,840	45,212	15,488	29,404	800	-	-
Skirts Percentage	20.0	59.4	12.3	4.2	17.6	1.7	-	-
Parkas & Quota Anoraks	443,500	-	263,000	339,000	341,500	-	-	-
Performance	719,096	-	110,522	341,768	266,806	-	-	-
Percentage	76.2	-	42.0	100.8	78.1	-	-	-

**Table 9 Utilisation of Quotas Allocated by EEC on Sri Lankan Apparel Product Exports in 1979-82**

	percentages			
	1979	1980	1981	1982
Shirts	102.8	128.9	86.9	69.0
Blouses	68.3	100.2	87.7	90.1
Trousers	91.1	90.8	21.6	12.2
Jerseys and Pullovers	—	14.1	7.4	11.2
T-Shirts, Sweaters and Shorts	—	16.0	17.5	30.1
Parkas	—	86.2	44.2	76.2
Anoraks	—	—	—	—

**Table 10 Potential Export Expansion in US Market in 1983 (Country Quota 1983 - Performance 1982)**

Category	Category No.	Performance 1982	Quantity : Pieces	
			Country Quota 1983	Difference
Woven cotton shirts	340	3518792	5730228	2210436
Woven cotton blouses	341	5186856	5733192	546336
Man-made fibre shirts	640	417792	1117764	699972
Man-made fibre blouses	641	5080908	5733766	652858
Cotton gloves	331	9616152	11147892	1531740
Cotton coats	335	1649436	1592556	56880
Cotton trousers	348	2425452	3185112	759660
Cotton coats	334	1445172	2173020	727848
Cotton Jeans & Shorts	347	3338052	4295652	957600
Wool sweaters & Jerseys	445/446	1479840	1174356	305484
Synthetic Gloves	631	5899200	3380004	2519196
Synthetic coats	634	1135812	1299996	164184
Synthetic coats	635	2043672	2145000	101328
Synthetic		Sweaters		
Jerseys	645/646	604428	1170000	565572
Synthetic Trousers	648	1939116	950000	10884

**Table 11 Possibilities for Expansion in Apparel Exports to EEC in 1983**

Category	Category No.	Performance 1982	Aggregate Country Quota 1983	Difference
Shirts	8	2,227,346	3,500,000	1,272,654
Blouses	7	3,055,369	3,350,000	294,631
Trousers	6	238,228	2,200,000	1,961,774
Parkas and Anoraks	21	719,096	2,250,000	1,530,904

The level of quota utilization for various categories of items over the four years 1979 to 1982 may be observed in table 9. This table reveals a deteriorating performance for certain items in recent years, particularly shirts and trousers. Specific items are dealt with in the next table. The biggest drop recorded is in the export of shirts, where quotas were exceeded by almost 29 percent in 1980 and then kept declining till it reached only 69 percent of the quota in 1982. Blouses also dropped to 87.7 percent in 1981 and showed slight improvement to 90.1 percent in 1982. The most regular drop was recorded in the exports of trousers which fulfilled around 91 percent of the quota in 1979 and 1980 but thereafter the drop was precipitous. T-shirts, sweaters and shorts is a group of items where level of performance has been consistently low.

#### Export Potential in US Market

The differences between performance in the year 1982 and the quota limits set for 1983 are an indication of the growth possibilities for apparel products in the US market. As seen in table 10, in three items, namely, cotton coats; wollen sweaters and jerseys; and synthetic gloves, the 1982 export performance had exceeded the quotas allocated for 1983. In these three items Sri Lanka's exports would need to be cut down below the 1982 levels. It was observed earlier that the US had imposed new quotas on several items made from synthetic textiles. It is apparent that in bringing more such items within quota limits the U.S. was eager to discourage Sri Lanka's producers from switching over to any new products they could produce and promote viably. According to the existing levels of production on such items there was very little room for expansion in 1983.

#### Export Potential in EEC Market

There were two groups of items where exports to the EEC markets were comparatively insignificant and these items had therefore been released from quota restrictions in the EEC. The items are jerseys and pullovers; and T-shirts, sweaters and skirts. The potential for increased exports in these two groups of items is quite clear. The possibilities for the other items still under quotas are shown in table 11. This table indicates that, with the exception of blouses all other items had very high potential for exports to the EEC markets during 1983. The item where greatest expansion was possible is trousers, followed by shirts. The specific markets (see table 8) where potential existed for export of trousers were West Germany, UK, France and Italy; while for shirts the markets were available in Benelux, Ireland and West Germany.