

Future Prospects for Sri Lanka's Textile & Apparel Sector

Ananda Abayaratna

Although the performance of the Sri Lanka textile and apparel sub sector has been impressive over the past 10 years, its near total reliance on the export quota system found under the MFA may result in the sub sector being only superficially sound. In order to anticipate the impact of the abolition of the MFA in 2005 more accurately, the value of exports under the quota system must be known and included in discussions on this subject. This paper examines this issue with respect to the major export destination of Sri Lanka's textile and apparel, namely the USA.

The apparel and textile trade is facing a crucial period with the ongoing phasing out of the Multi Fibre Arrangement that covers about three-quarters of the global trade in these goods. In particular the quota system under the MFA could pose problems for policymakers in countries that export apparel and textile items. This would not be as great a problem if the quota system remains. However, this is not the case; by 2005 the system as we know it will end.

One specific problem is that under a quota regime, in the short run, resources tend to get allocated away from their long-term optimal uses. In other words, in the case of textiles and apparel, major restructuring of the sector will have to be undertaken in 2005. This will pose major problems for policymakers if left unattended.

Manufacturers could easily become dependent on the allocation of export quotas and may not focus on exporting outside this protective device. There are short term factors that inhibit the manufacturers in this manner and hence make them vulnerable to sharp adjustments in the longer term. First, at a conceptual level, there is quota rent that accrues to the suppliers. Second, the vulnerability is enhanced by the global context where input costs such as yarn, fibre and fabric have declined partly as a result of the initial phase out of the MFA as well as the East Asian crisis. This situation is augmented by the fact that the quota itself is enhanced during the phase out, and

could give rise to complacency on the part of the manufacturers inhibiting the changes that the sub sector needs.

Another contributory factor to the current predicament of the sub sector is policy prescription that recommends the optimal utilization of the quota in order to ensure the full potential benefits under the existing international trade framework. This could be generally interpreted as maximizing the exports under quota although the essential course of action should be to reduce the quota dependence of this sub sector between now and 2005.

Industrial Sector Performance 1989-98

The basis of Sri Lanka's industrial policy and strategy was the policy reforms of 1978 that envisaged industrialization of the economy led by exports of manufactures. At that time industrial exports accounted for only a mere 3.6 percent of total exports. Since then the transformation of the economy has gradually taken place. In 1987, for the first time the share of industrial exports surpassed that of agricultural exports, which was the major export category till then. It took almost another 10 years before a similar structural change occurred in the economy. In 1996, for the first time real output of the mining, manufacturing and construction sectors together surpassed that of agriculture.

The main features of the industrial sector are summarized in Table I below. Over the period 1989-98, the industrial sector's output grew from \$1.8 billion (26 percent of GNP) to \$ 5.6 billion (36.4 percent of GNP). Value added at current prices grew more slowly, from \$ 0.7 billion (10 percent of current GNP) in 1989 to \$ 2 billion (13 percent of current

GNP) indicating that the sector lagged behind in this respect. Employment in the sector rose from 0.6 million persons (10 percent of the labour force) to 0.9 million persons (15 percent of labour force) over this period. Exports from the industrial sector rose from \$ 0.9 billion (11.4 percent of current GNP) to \$ 3.9 billion (23 percent of current GNP) over the same period.

The performance of the Sri Lanka industrial sector has been influenced considerably by the impressive expansion of the textile and apparel sub sector during this period as seen from Table 2.

The textile, apparel and leather sub sector grew threefold in nominal terms over the period 1989-98. Its share in industrial output rose from \$ 612 Mn (34 percent) in 1989 to \$ 2,484 million (44 percent) in 1998 as seen in Table 2. In value added terms the contribution of this sub sector rose from \$ 159 Mn (22 percent of manufacturing value added) to \$ 735 million (37 percent of manufacturing value added) over the same period. It employed an estimated 315,000 persons or one third of the

Table 1. Sri Lanka's Manufacturing Sector

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Value of Industrial Output at Current Prices \$ Bn	1.8	2.2	2.5	3.1	3.5	3.9	4.5	4.9	5.4	5.6
Share of GNP(%)	26.0	27.6	28.6	32.6	33.7	33.9	35.0	35.8	36.2	36.4
Value Added at Current Prices \$ Bn	0.7	0.8	0.9	1.1	1.3	1.4	1.6	1.7	1.9	2.0
Share of GNP(%)	10.4	9.8	10.4	12.1	12.3	12.3	12.4	12.6	12.7	13.0
Employment in millions	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.8	0.9	0.9
Share in total(%)	10.0	10.0	11.0	11.8	11.5	12.2	14.7	14.8	15.8	15.4
Total Value of Industrial Exports \$Bn	0.9	1.2	1.3	1.9	2.3	2.6	3.0	3.2	3.7	3.9
Share of GNP(%)	11.4	13.2	14.3	18.5	20.5	20.8	22.3	22.0	23.1	23.0

Source: Central Bank of Sri Lanka

Table 2. Sri Lanka's Textile and Apparel Manufacturing Sector \$ Mn

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Value of Textile, Apparel and Leather Production at Current Prices	612	697	818	1,230	1,452	1,636	1,943	2,036	2,411	2,484
Share in total industrial output (%)	34.0	32.2	32.6	39.6	42.1	41.8	43.1	41.5	44.6	44.2
Value added at current prices	159	179	206	334	394	418	485	564	687	735
Share in manufacturing value added (%)	22.1	23.1	22.5	29.0	31.3	29.5	30.4	32.7	36.2	36.7

Source: Central Bank of Sri Lanka

industrial workforce. The closeness of the relationship between industrial output and the output of textile, apparel and leather goods can be seen from Chart 1.

Apart from this, the export sector too has also been significantly influenced in terms of its growth and exports magnitudes from the expansion of the textile and apparel sub sector during the same period.

Total national exports grew by three-fold, from \$ 1,556 million to \$ 4,742 million as seen in Table 3 during the period 1989-98, while the exports of apparels and textiles grew by more than five times, from \$ 489 million to \$ 2,466 million in this period. Thus, the apparel and textile exports share in total national exports rose from 31 percent to 52 percent while the share in industrial exports grew from 62 percent to 75 percent from 1989-98. The share of exported textiles and apparels out of the total industrial output grew from 27.2 percent in 1989 to 40.7 percent in 1998.

Apparel exports alone accounted for \$ 468.6 Mn in exports or 95 percent of all textile and apparel exports in 1989. By 1998 it had increased to \$ 2,203 Mn, but its share in all textile and apparel exports declined moderately to 89 percent. However, during this period its share in industrial exports rose from 59 percent to 62 percent, while its share in industrial output rose from 26 percent to 39 percent.

As also seen from Table 3 the growth rate of the textile and apparel sub sector exceeded that of the growth rates of national exports as well as that of total industrial output. Therefore, by any standard of economic activity the textile and apparels

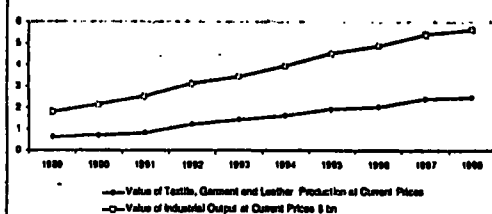
sub sector, especially the latter, has been a significant factor in determining industrial and thereby national output expansion and growth in past ten-year period.

The Multi Fibre Arrangement and Sri Lanka's Position

Restrictions on textile and apparel exports have a history back to the 1930s when the USA and Britain took action to limit textile exports from Japan. In the post war years, the emergence of developing countries that exported apparel items also took place. This led to a series of negotiations or "arrangements." The Multi Fibre Arrangement (MFA) came into force in 1974 replacing the Long term Arrangement in the world textiles and cotton trade. It remained a major departure from the principles of GATT in endorsing quantitative import restrictions (Sodestern and Reed 1994). The MFA has about 40 signatories including the European Community as one member. It covers about 75 percent of the world's trade in textiles. The most notable feature under the MFA is the system of quotas allocated among textile and apparel producing nations.

Following the Uruguay Round, the textile and apparel exports were to be

Chart 1. Industrial Output and Textile and Apparel Exports



integrated into the GATT in four phases commencing 1995 and ending in the year 2004. What this means is that the developing countries will lose their privilege of orderly access through quotas to the developed countries altogether by the beginning of 2005. The schedule for integration is shown in Table 4.

Sri Lanka's textile and apparel exports are largely governed by the MFA (Fernando 1997, Kelegama and Foley 1996). The principal problem that while the MFA gave orderly access to developed country markets, it tended in the short run to guide resources in the exporting countries away from their long term optimal uses in the post quota phase. This is the essential problem that policy makers in these countries are confronted with.

Where Sri Lanka is concerned, 96 percent of these exports will remain under quota, and thus largely unaffected, in the first three phases laid out in Table 4 (Fernando 1997). This also means that the prospect of Sri Lanka being burdened by sharp, rapid adjustments is very likely, unless measures are taken from now on to anticipate accurately the impact of the post quota phase.

To this end there have been studies initiated and a wide range of

Table 3 - Sri Lanka Export Data \$ Million

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total National Exports	1556.3	1912.0	1986.9	2461.8	2862.1	3203.6	3806.7	4103.4	4646.3	4742.0
Total Textile & Apparel Exports	489	628	804	1214	1412	1532	1853	1906	2076	2466
Share Textile & Apparel in total national exports (%)	31.4	32.8	40.5	49.3	49.3	48.4	48.7	46.4	44.7	52
Share of textiles & garments in total industrial exports (%)	61.9	60.6	64.1	68.8	67.2	64.7	64.6	63.3	60.3	69.5
Share of textiles & apparels exports in total industrial output (%)	27.2	28.4	31.2	38.4	40.9	38.1	39	36.1	42.1	40.7
Apparel Exports										
Total apparel exports \$ Mn	468.6	623.3	764.5	1121.9	1292.2	1395.2	1635.2	1697.3	2082.6	2203.6
Share in textile & apparel exports	95.8	99.3	95.1	92.4	91.5	89.9	89.3	89.1	98.9	89.3
Share in total national exports (%)	30.1	32.6	38.5	45.6	45.1	43.5	43.5	41.4	44.2	46.5
Share in total industrial exports (%)	59.3	60.2	60.9	63.6	61.5	58.2	57.7	56.3	59.6	62.0
Share in total industrial output (%)	26.0	28.8	30.4	36.1	37.4	35.7	36.7	34.6	38.0	39.2

Source: Central Bank of Sri Lanka

Table 4.

Textile & Apparel Integration to the GATT

Year and	Phase out by Integrating	Sri Lanka's Quota Enhancement
1995	16%	
1998	17%	70%
2002	18%	87%
2004	48%	11%

suggestions have been made: their observations may be classified as issues related to the macro, micro and enterprise levels.

At the macro level, there is no imminent prospect of cheaper labour or depreciation of currency in order for this sector to gain long run competitiveness. This is an implicit assumption in the studies done recently. At the micro level, following measures have been commented on and in some instances already implemented.

- Productivity improvement
- Improved access to raw materials
- Marketing capabilities.
- Imposing access

At the sectoral level, the following measures have been suggested and in some instances already implemented.

- Free flow of fabric
- Strict monitoring of weak enterprises
- Manufacture of branded products and the use of the Sri Lanka label
- Conformity to shipping schedule to meet client demands
- Seeking and promoting the buyers of Sri Lanka apparel such as the chain stores.

The importance of these suggestions is heightened by the fact that although there are some variations, 80-90 percent of the fabric requirements and 70-90 percent of accessories used in garments, are imported. The bias towards manufacturing garments rather than fabric is premised in the factor proportions argument in trade theory. Apparel manufacture is labour intensive by nature while fabric and textile manufacture is relatively capital intensive (Foley and Kelegama 1996). The factor proportions theory would hold that, in the absence of market distortions, comparative advantage lies in producing commodities using the abundant resource. Typically, labour is the abun-

dant resource in developing countries. Therefore, the production of labour intensive commodities, in this case, apparel items, will yield comparative advantage.

This could also be seen in the manner in which foreign investment flowed into the apparel rather than textile manufacturing sector. Many of these foreign investors were motivated by the availability of unused quotas in Sri Lanka as the quotas in their home countries were fully utilized. This type of behaviour has been described as quota hopping (Foley and Kelegama 1996). While the possibility of exporting under quota was potentially available for both apparel and textile exports, foreign investment has largely been in enterprises that engaged in the export of apparel.

The depressed global conditions after East Asian currency crisis in 1997 and to some extent the impact of the first two phases of the MFA phase out, have given rise to lower input costs of yarn, textile and fabric. Incidentally, this is also borne out by the experience of the domestic textile manufacturers who have experienced adversity after textile and fabric imports were made duty free in November 1997.

Both the currency crisis and the MFA phase out have a potentially favourable impact on the profit margins of the garment producers in the short run. This may well inhibit the adoption of the above suggestions. The declining trend in prices of yarn, fabric and fibre after 1995 gives some credibility to this argument (Table 5). This will once again guide the resources in this sub sector away from their long-term optimal uses.

Direction of Textile and Apparel Trade with USA

The USA is one of Sri Lanka's major export markets and it is the principal export market for apparel. All such textile and apparel exports from Sri Lanka to USA go under the MFA. Total exports of all goods from Sri Lanka to USA between 1989-98 rose from US\$ 400 Mn (25 percent of national exports) to US\$ 1,890 Mn (40 percent of national exports). Out of these, a substantial quantity, in volume terms as well as value terms, was textile and apparel exported to USA under MFA.

The share of Sri Lanka's textiles and apparels in

total exports to USA accounted for 91 percent in 1989 as seen in Table 6. This declined to 79 percent in 1998 indicating greater export diversification to USA. Similarly, the exports of textiles and apparel to USA accounted for 74 percent of all exports of textiles and apparel in 1989. This share had fallen to 60 percent by 1998 as also seen in Table 6. Both these are positive trends that reduce the dependence of exports on the textile and apparel sector upon one destination.

Nevertheless, total exports to USA from Sri Lanka under the MFA more than tripled in volume terms from 129 Mn square metre equivalent (sme) in 1989 to 527 Mn sme in 1998 as seen in Table 7. The value of these exports to USA rose by more than four times, from \$ 362 Mn in 1989 to \$ 1,488 Mn in 1998 and this growth rate was higher than that seen in the volumes of these exports as seen in Table 7.

The gradual increase in the average values (\$/Sq. metre) obtained by exports of textile and apparel can also be seen from Table 8. The unit value of the total exports under MFA to USA rose from \$ 2.74 to \$ 2.82 over the period 1989-98. The unit value of apparel exports to USA grew by 33 percent from \$ 2.93 per sq. metre to \$3.93 per sq. metre while the non apparel exports, under MFA to USA

Table 5. Imports of Fibre, Yarn and Fabric to Sri Lanka

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Quantity									
Fibre (ml.Kg)	13.2	21.6	25.7	29.7	32.9	28.8	29.5	33.4	37.2
Yarn (ml.Kg)	10.9	15.1	22.7	24.2	26.6	25.2	30.0	36.9	38.3
Fabric (ml.Sq.mtr)	269.0	381.1	385.9	466.2	587.7	551.5	651.5	711.9	772.2
Unit Cost \$									
Fibre (\$/ml.Kg)	2.00	2.10	1.91	1.69	1.79	2.08	1.85	1.70	1.59
Yarn (\$/ml.Kg)	3.88	4.63	3.71	3.47	3.59	4.10	3.79	3.61	3.23
Fabric (\$/ml.Sq.mtr)	1.28	1.23	1.68	1.59	1.33	1.53	1.23	1.31	1.19
* Estimated									

grew by just under 33 percent from \$ 0.65 per square metre to \$ 0.92 per square metre.

Out of the share in the volumes of apparel and non apparel, as seen from Table 7, apparel exports have continued to dominate during the period 1989-98 but this share has been gradually diminishing from 92 percent to 63 percent. This also means that over this period non apparel exports to USA have increased to one third of the volume of such exports.

However, when it comes to the share in the value of these exports, the non apparel sector growth is much less impressive. Non apparels exports to USA, which consist mainly of items made up of textile like sheets, pillow cases etc grew from 2 percent to 12 percent of the total value of textile and apparel exports to USA. The apparel sector retained a greater dominance although it declined in the total value of textile and apparel exports to USA during the period 1989-98.

It can therefore be seen that volumes and values of apparel and non apparel exports to USA do not have a one to one relationship and depending on which magnitude is being discussed, the impression of the growth patterns of these exports can be deceptive. It would therefore also be essentially correct to state that apparel exports to USA have retained their dominance while non-apparels exports have remained less significant.

However, the vital pieces of information in attempting to anticipate the impact of the post quota phase the values of exports of textile and apparel from Sri Lanka that enter

USA (or any other country) under the quota. By contrast the volumes of exports that go as quota and non-quota has been commonly published but these do not necessarily correspond to the value associated with these exports.

The details regarding the MFA apparel exports to USA under quota were obtained from the US Commerce Dept and are shown in Table 9. The value of MFA apparel exports to USA under quota grew from \$ 335.8 Mn to \$ 1,192 Mn over the period 1989-98. It accounted for 93 percent of MFA exports in 1989 but declined to 80 percent of MFA exports in 1998. Its share in all apparel exports from Sri Lanka declined from 72 percent to 54 percent.

The average value of MFA apparel exports to USA under quota rose from \$ 2.9 per sq. metre to \$ 3.8 per sq metre over the period 1989-98 as seen in Table 10. In this same period non quota exports of apparel outpaced the average value of quota exports and rose from \$ 4.6 to \$ 6.4 per square metre in this period. This higher average value may generally be ascribed to these exports being up market items

As seen from Table 11, apparel exports under quota are the dominant export category in both value shares and volume shares. These apparel exports under quota accounted for 99 percent of the quantity apparel exports to USA in 1989. By 1998 it still accounted for 94.6 of these exports. In value terms apparel exports to USA under quota accounted for 95 percent of the total value of apparel exports. By 1998 it still accounted for 91 percent of these exports. There was also greater correspondence between volumes and values in respect of exports of apparel

under quota and non-quota, when compared to overall MFA exports to USA, as seen from Charts 3 and 4.

Total exports of apparel accounted for 98 percent of the value of MFA exports to USA while exports under apparel quota accounted for 93 percent of the value of MFA exports in 1989 as seen already. Therefore only 5 percent of the apparel exports to USA went outside the quota at that time. By 1998 this position had altered and apparels exports under quota accounted for 80 percent of the value of MFA exports to USA. Meanwhile, total exports of apparel accounted for 88 percent of the value of MFA exports to USA by this time indicating that the share of non quota apparel exports had increased marginally to 8 percent of this value. Therefore, notwithstanding the growth in the absolute value of non quota apparel exports, as well as its higher average value, the performance of this particular sub sector remains overrated.

Prospects for the Future

The future of the sub sector depends on how it deals with the realities of the world apparel and textile market in the post quota phase. This includes the very strong likelihood of an excess supply in the world textile

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Total Exports to USA (all items)	399.5	494.2	558.3	837.3	1007.2	1115.0	1334.1	1394.9	1666.3	1890.3
As % of total national exports	25.7	25.8	28.1	34	35.2	34.7	35.6	34.1	35.9	39.9
Textile & Apparel Exports by USA under MFA										
Total under MFA	361.5	437.6	505.1	655.2	840.3	892.4	1025	1138.8	1362.3	1487.7
As a share in total exports to USA (%)	90.5	88.5	90.5	78.3	83.4	80	75.7	81.6	81.8	78.7
As a share of all SL textiles & garment exports (%)	73.9	69.7	62.8	54	59.5	57.5	55.3	59.8	65.6	60.3

Source: Central Bank of Sri Lanka & US Commerce Dept

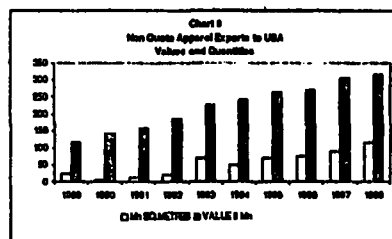
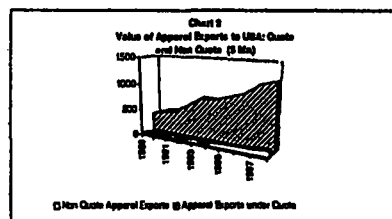


Table 7 Total MFA Exports to USA

	Total MFA To USA		Apparel Under MFA				Non Apparel Under MFA			
	Mn Sq. Meters	Value \$Mn	Mn Sq. Meters	Value \$Mn	Volume Share(%)	Value Share (%)	Mn Sq. Meters	Value \$Mn	Volume (%)	Value (%)
1989	132.0	361.5	121.0	354	91.7	97.9	11.0	7.1	8.3	2.1
1990	160.0	437.6	143.1	425.1	89.4	97.1	16.9	12.5	10.6	2.9
1991	190.6	505.1	160.7	486.1	84.3	96.2	29.9	19.0	15.7	3.8
1992	221.6	655.2	192.2	634.9	86.7	96.9	29.4	20.3	13.3	3.1
1993	285.8	876.2	237.0	841.0	82.9	96.0	48.8	35.2	17.1	4.0
1994	328.1	892.4	254.1	831.9	77.4	93.2	74.0	60.5	22.6	6.8
1995	398.3	1025.0	280.7	928.1	70.5	90.5	117.6	96.9	29.5	9.5
1996	427.4	1138.8	284.5	1006.6	66.6	88.4	142.9	132.2	33.4	11.6
1997	479.4	1362.3	322.1	1203.9	67.2	88.4	157.3	158.4	32.8	11.6
1998	527.6	1487.7	333.0	1308.2	63.1	87.9	194.6	179.5	36.9	12.1

and apparel market as the MFA phase-out takes place. The possible interactions and the dynamics involved within this process have been mentioned in the earlier section.

The consequences of a surplus, by the year 2005, upon the export supply curve of a small textile and apparel-manufacturing nation could be analyzed in two steps. First, a downward intercept shift will be brought about due to the closure of firms. Second, the growth pattern of output that follows the initial decline will also be dampened by the surplus conditions in the market in the post quota phase.

The closure of firms may arise for different reasons. First, firms may cease to operate altogether under the pressures of competition. Second, they may relocate in countries that offer better incentives or they may switch away into other lines of production. The magnitudes of these movements will depend therefore on the ability to withstand competition internationally as well as on the elasticity of substitutability of the industries in apparel and textile with the other sectors.

Table 8

Average Value of MFA Exports to USA (\$/Q.metre)

	Total MFA	Apparel Under MFA	Non Apparel Under MFA
1989	2.74	2.93	0.65
1990	2.74	2.97	0.74
1991	2.65	3.02	0.63
1992	2.96	3.30	0.69
1993	3.07	3.55	0.72
1994	2.72	3.27	0.82
1995	2.57	3.31	0.82
1996	2.66	3.54	0.93
1997	2.84	3.74	1.01
1998	2.82	3.93	0.92

One indicator is the performance of the non quota exports of textile and apparel. As these items are already exported on a competitive basis, their performance so far, will give an insight to the ability of the sub sector to withstand globally competitive conditions. USA is the principal destination once again. Exports to the EEC take place mostly under quota. Exports to Canada are mostly non quota, but account for a very low share of export earnings.

As seen already, the value of exports of apparel outside the quota remained low, in spite of the fact that the latter were up market products. If this area is to be developed it will require considerable policy attention. The necessary policy measures will have to be implemented over the next few years up to 2005 to reduce quota dependence.

Of these categories of exports it was already seen that it was the apparel exports outside the quota that fetched higher average unit values partly due the up market character of these goods. Therefore, this sector is the obvious priority and making it a policy target for promotion is justifiable, as it is the proven export commodity. The specific incentives that should be provided remain to be worked out in detail, but the following measures may be considered for the future.

I. The imposition of a realistic exports cess on textile and apparel under quota. In principle the justification here is that exporters under quota receive an economic benefit in the form of quota rent and part of this is being taxed. The proceeds of this cess will be used to provide or increase the support for implementing the recommendations that emanated from the several studies

that were referred to earlier. At present there is a special quota levy for applicants who intend to export under quota and this may therefore be reviewed in order to arrive at the cess rate.

2. Where enterprises export directly and totally on a non quota basis, further incentives could be given in the form of direct grants for research and development of design, marketing and training of labour, or their enhancement to the extent that such incentives exist. Such incentives will not come into conflict with the WTO requirements, especially if Sri Lanka passes the \$1,000 per capita GNP mark by 2005. Ideally, all non quota exporters should receive this benefit. However, it will not be practically possible to provide such incentives if the same enterprise engages in exporting part of its output under the quota as well as exporting the remainder outside the quota.

3. A potentially beneficial effect of an incentive package, stated in 2 above, is that more enterprises that engage in exporting totally outside the quota arrangements may emerge. The monitoring of enterprises, therefore, must include monitoring the non quota exports it makes and the emergence of solely non quota exporters.

While the parameters are not known with any precision in order to estimate the switching away from textile and apparel exports into other lines of production, the incidence of closure for relocation in other regions is bound to be fairly high for another reason: several of the foreign investors may pull their investment out especially the quota hoppers.

As mentioned already these quota hopping investors were largely moti-



Inside View of a Garment Factory

Table 9 – Apparel Quota Exports to USA \$ Million

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Apparel Quota Exports to USA \$ Mn	335.8	417.3	473.2	613.7	771.0	780.7	859.2	932.3	1113.3	1192.1
Apparel Quota Exports under MFA to USA as share of all MFA exports from SL %	92.9	95.4	93.7	93.7	88.0	87.5	83.8	81.9	81.7	50.1
Apparel Quota Exports under MFA to USA as share of total exports to USA %	84.1	84.4	84.7	73.3	76.5	70.0	53.5	66.8	66.8	63.1
Apparel Quota Exports under MFA to USA										

vated by the availability of the quota in Sri Lanka and may pull out once this incentive has effectively ended. This possibility must be included in the monitoring of enterprises that have been recommended in the studies done on this sector. The incidence of such an outcome would be further reduced if non quota exports rose to a dominant position as non quota exporters, by definition, will not be relying on the incentives of a quota system.

Conclusion

The onset of the MFA phase out and its culmination in 2005 with the total abolition of the quota system clearly poses problems for policy makers in developing countries like Sri Lanka. Such nations have substantial textile and apparel exports, but their performance may prove to be only superficially sound due to several structural features of the domestic as well as the international trade in textile and apparel. This includes, in the case of Sri Lanka, the high preference for apparel manufacture for export and the sector's reliance on imported inputs. More importantly, this includes the sector's

almost singular reliance on export quotas. Consequently, a major policy problem crops up i.e. the short term allocation of resources away from their long term optimal uses.



Finished handloom Products

Incidentally the global textile and apparel trade has a definite framework for identifying the short term, which is the period up to 2005 after which the long term post quota phase begins. It is in this short term that the domestic policy measures have to be implemented with a view to solving the problems of this sub sector. The thrust of the policy measures to be taken is clear; it should reduce the country's quota dependence, rather than exploit the quota system fully in the short term. This is somewhat contrary to popular perception on this subject.

Table 10 Apparel Exports to USA : Quota and Non Quota Breakdown

	Apparel Exports under Q			Non Quota Apparel Exports		
	Mn Sq. Metres	Value \$ Mn.	Average Value	Mn Sq. Metres	Value \$ Mn.	Average Value
1989	117.0	335.8	2.9	4.0	18.2	4.6
1999	141.6	417.3	2.9	1.5	7.8	5.2
1991	158.1	473.2	3.0	2.6	12.9	4.9
1992	186.0	613.7	3.3	6.2	21.2	3.4
1993	228.0	771.0	3.4	9.0	70.0	7.8
1994	241.4	780.7	3.2	12.8	51.2	4.0
1995	265.7	859.2	3.2	15.0	68.9	4.6
1996	270.6	932.3	3.4	13.9	74.3	5.4
1997	305.6	1113.3	3.6	16.5	90.6	5.5
1998	315.0	1192.1	3.8	18.0	116.1	6.4

Source: US Commerce Dept.

In order to formulate an appropriate policy response, account has to be taken of emerging realities in the global textile and apparel trade, principally the phased abolition of the MFA. During the phase out, exporting countries may find themselves more deeply entrenched in the quota system to the extent that it exists.

There are two specific reasons that were identified in this study for anticipating this outcome, apart from other exogenous factors that may aggravate the problem. First, there is the enhancement of the quota in the short term; second, the cheaper prices of apparel inputs like fabric that arise as a consequence of the initial phase out of the MFA. Therefore, the creation of incentives for increasing exports outside the quota, as well as monitoring of such exports, must be accorded priority in policy making for the stable growth of Sri Lanka's textile and apparel sub sector in the post quota period.

Table 11 – Share in MFA Apparel Exports to USA

	Apparel Exports under Quota		Non Quota Apparel Exports	
	Volume Share	Value Share	Volume Share	Value Share
1989	99.2	94.9	0.8	5.1
1992	99.0	98.2	1.0	1.8
1991	98.4	97.3	1.6	2.7
1992	96.8	96.7	3.2	3.3
1993	96.2	91.7	3.8	8.3
1994	95.0	93.8	5.0	6.2
1995	94.6	92.6	5.4	7.4
1996	95.1	92.6	4.9	7.4
1997	94.9	92.5	5.1	7.5

Source : Based on US Commerce Dept. data

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