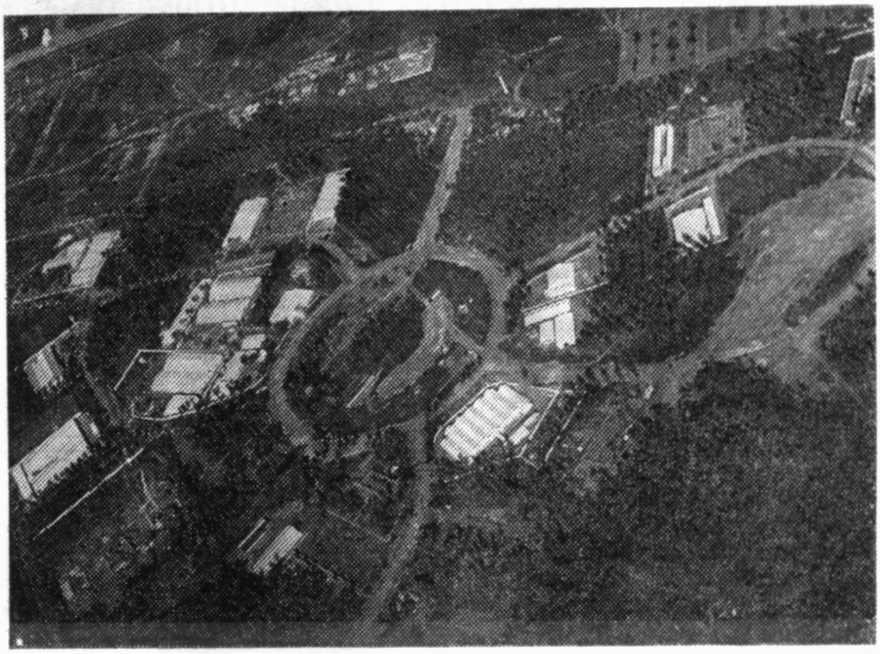
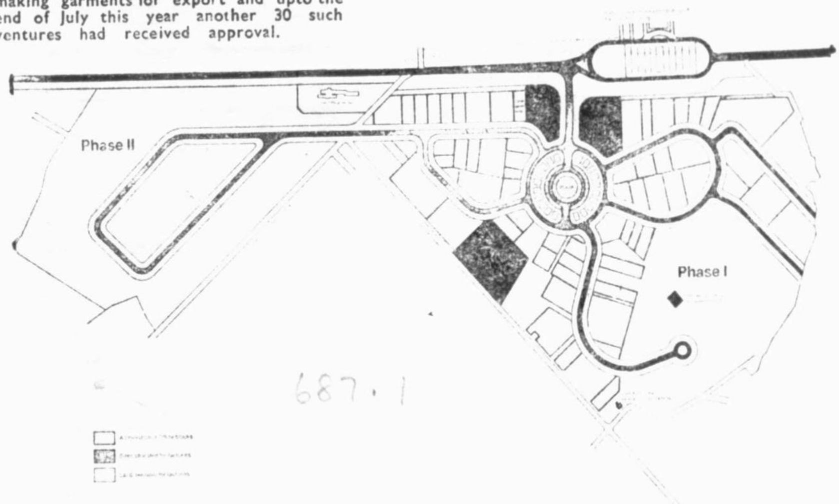


The IPZ seemed to provide the spring board for the new leap forward in Sri Lanka's garments export drive. Nine of the first 13 factories in production were making garments for export and upto the end of July this year another 30 such ventures had received approval.

The Katunayake Investment Promotion Zone



READY MADE GARMENTS DEVELOPMENT BEYOND CONTROL

The British Government decided by mid-July to impose new import restrictions on several low-cost Asian textiles. One of the countries seriously effected by this was Indonesia. The Indonesian Trade Minister threatened retaliation against Britain but finally President Suharto intervened to stave off what appeared to be the dangerous possibility of a trade-war over the currently sensitive 'textiles issue'.

The British government's explanation was that plagued by 'crippling unemployment in the textile industry' and pressures from both unions and manufacturers it had no alternative but to slash imports of Indonesian jeans, blouses and woven shirts to less than half their current levels and also impose similar restrictions on several items of clothing from other Asian exporters such as Hong Kong, Taiwan and Macao. In this instance the issue surfaced with the angry reaction of the Indonesians, but it is only one more sign of what has been going on in many Western countries, both European and American, where deepening recession has aggravated their unemployment problems and added strength to their protectionist cries. While buyers contemplate more restrictions on demand for textiles and garments from Asian producers, fledgling industries of many suppliers are now coming on stream and face not merely more competition among themselves but also restricted demand in the major Western markets. Still another significant factor in the supply situation is the entry of China into the international markets and her agreement with the US at the end of July, which permits her a substantial increase in exports to the American market over the next three years; while the US is now making a strong bid for entry into the specialised European fashion market.

In the light of these developments Sri Lanka's ready-made garments industry will no doubt have to go through a critical phase in the two or three years ahead. The American authorities restricted Sri Lanka's exports to the US from May this year and half the quotas it permitted Sri Lanka have been allotted to manufacturers in the G.C.E.C's IP Zone. Protests were raised that these manufacturers were being given favoured treatment over the long-time local manufacturers who spearheaded the country's garments export drive. But, the local manufacturers were told they had still to fulfil their EEC quotas and even the US quotas were comparatively large. If capacities installed in this country were held at the 1978 level this reasoning may have been tenable; but with approved capacities today of over 1000 million pieces and a maximum possible export market of about 100 million pieces, (as shown later in this discussion), the position is bound to grow far more competitive and less optimistic. Other critical issues that arise from Sri Lanka's point of view are that the major thrust of the IPZ has been through the garments industry and its future hangs very much on this sector. Again, the highest priority in the programme of the Government is the providing of employment and the growth of the IPZ and the garments sector is due to play a vital role here. It is in the face of this situation and the most recent crisis in the international garments trade that we attempt to explore the position both locally and abroad.

Development of the Clothing Industry

Clothing has come next to only food and shelter as a pre-requisite for the sustenance of human life. Although the prime purpose of clothing has been safeguarding the body from climatic hazards, many people have worn clothing more for decoration, fashion and prestige rather than for covering the body. But no one knows exactly why or when man first wore clothes. It is probable that from the very inception clothes were worn for the same reasons why we wear clothes today; and as for the period when people started wearing clothes, it has been dated back to nearly 100,000 years by various authorities.

Evidence is available to prove that man started to use the needle by the end of the old stone age, i.e. about 25,000 years ago.

Upto the years of the industrial revolution, about the 19th century, man had not used machines for stitching clothes. Once the use of the iron needle came to be known a change in clothing manufacture occurred. The iron needle was easier to handle, faster, and enabled smooth and intricate stitching to be done. Still most families made their own clothing.

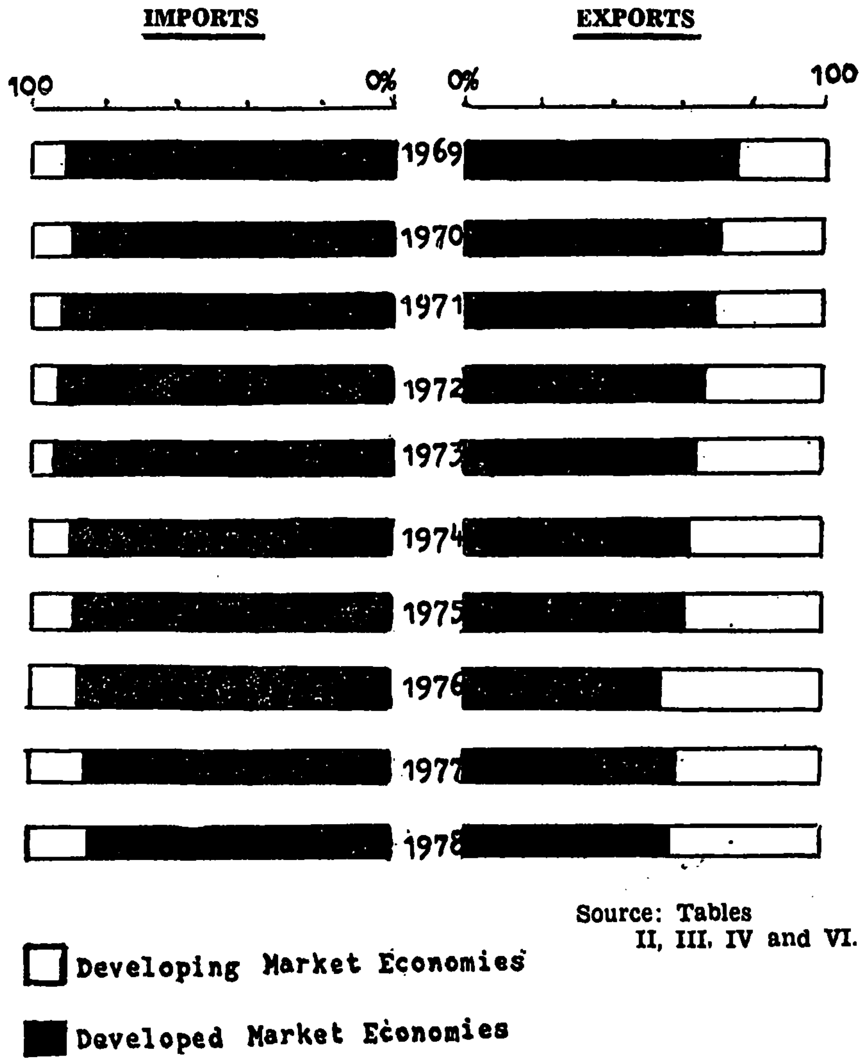
Until the second half of the 19th century individual tailors had been stitching considerable volumes of clothing. They had worked either alone or with the assistance of a few apprentice tailors or journeymen. The goal of every apprentice was to learn to stitch a complete garment as soon as possible and to become a master tailor.

From the initial stages specialization seems to have been a feature of the industry; and the craftsmanship of a tailor would often be limited to specific men's and women's garments. Journeymen sought to learn as much as possible from the specialised master craftsmen.

Change to Factory System

During the latter part of the 18th century and early 19th century the invention of several machines brought the clothing industry out of home and into individual workshops and factories.

CHANGING PATTERNS IN INTERNATIONAL CLOTHING TRADE



Source: Tables II, III, IV and VI.

TABLE 1 A SAMPLING OF THE MADE-UP GARMENT EXPORT SCENE BETWEEN 1967 AND 1972

Value in Million Dollars

	1967 Value	1967 % of world	1972 Value	1972 % of world	% Growth
World	3,209.2	100	8,364.4	100	21.2
Developed Market Economies	2,639.4	85.3	5,608.8	66.1	18.4
Developing Market Economies	569.8	14.7	2,004.9	23.9	28.6
Hong Kong	398.8	12.4	1,059.7	12.7	21.6
Korean Rep.	59.2	1.8	439.5	5.2	49.3
Singapore	16.0	0.5	79.1	1.0	37.7
India	12.0	0.4	67.3	0.8	41.4
Thailand	0.9	0.03	13.0	0.2	69.2
Iran	3.5	0.1	22.7	0.3	45.5
Egypt	3.4	0.1	19.4	0.2	41.7
Lebanon	3.0	0.1	16.7	0.2	41.2
Morocco	1.2	0.1	12.7	0.2	51.9
Israel	19.4	0.6	73.6	0.9	30.5
Brazil	0.4	0.01	29.5	0.4	137.0
Mexico	4.3	0.1	19.1	0.2	35.0

Source: UNCTAD Handbook of International Trade & Development

TABLE II. WORLD TRADE IN READY MADE GARMENTS 1974-1978
(In US $ millions)

	IMPORTS					EXPORTS				
CLOTHING COMMODITY	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
Mens Outerwear notknit	2,628	2,976	7,735	4,425	5,268	2,226	2,537	3,303	3,855	4.486
Womens Outerwear notknit	2,674	3,256	4,218	4,984	6,501	2,369	2,883	3,730	4,181	5,605
Mens Underwear notknit	974	1,016	1,320	1,442	1,716	797	827	1,108	1,100	1,421
Underwear Nonelastic knit	1,341	1,544	1,898	2,168	2,620	912	1,046	1,318	1,421	1,825
Outerwear Nonelastic knit	3,539	3,910	4,685	5,203	5,903	3,194	3,644	4,292	4,760	5,319
Total Value ($ million)	11,156	12,702	15,856	18,222	22,014	9,498	10,937	13,752	15,317	18,656

TABLE III. WORLD TRADE IN CLOTHING (NOT OF FUR) 1977-78
Percentage share of world's leading exporters and importers

EXPORTERS	1977	1978	IMPORTERS	1977	1978
1. Hongkong	15.7	14.8	1. West Germany	20.3	21.1
2. Italy	13.7	14.7	2. USA	18.7	20.4
3. South Korea	10.8	11.2	3. Netherlands	8.0	8.3
4. West Germany	9.1	9.1	4. U.K.	6.0	6.6
5. France	7.8	7.5	5. France	5.7	5.4
6. U.K.	5.5	5.6	6. Belg-Lux	5.1	5.0
7. Belg-Lux	4.0	3.6	7. Japan	3.7	4.3
8. U.S.A.	3.2	3.0	8. Switzerland	3.4	3.7
9. Netherlands	2.8	2.7	9. Sweden	3.9	3.2
10. Yugoslavia	1.0	2.2	10. Austria	2.4	2.3
11. Japan	2.5	1.8	11. Canada	2.7	2.2
12. Finland	1.9	1.8	12. Norway	2.2	1.8
13. India	1.8	1.8	13. Denmark	1.6	1.4
14. Austria	1.6	1.7	14. Italy	1.5	1.3
15. Portugal	1.2	1.4	15. Saudi Arabia	1.5	1.1
16. Singapore	1.1	1.3	16. Hongkong	0.5	1.0

TABLE IV. WORLD TRADE IN CLOTHING (OF FUR) 1977-78
Percentage share of world's leading exporters and importers

EXPORTERS	1977	1978	IMPORTERS	1977	1978
1. Hongkong	9.3	14.3	1. West Germany	42.6	42.6
2. West Germany	10.0	10.8	2. Japan	10.1	12.2
3. Canada	8.6	9.7	3. Switzerland	7.5	7.7
4. South Korea	7.0	8.2	4. USA	5.5	6.8
5. France	7.1	6.7	5. France	6.0	6.1
6. Uruguay	5.7	6.0	6. Netherlands	5.8	4.6
7. Italy	5.1	4.9	7. U.K.	3.6	3.8
8. U.S.A.	4.9	4.7	8. Sweden	3.5	3.3
9. U.K.	4.1	4.5	9. Austria	3.6	2.8
10. Denmark	4.2	4.3	10. Belg-Lux	3.2	2.7
11. Finland	2.4	3.0	11. Norway	2.5	2.1
12. Brazil	2.9	2.9	12. Denmark	1.3	1.1
13. Switzerland	2.4	2.5	13. Spain	1.1	1.0
14. Netherlands	2.4	2.3	14. Hongkong	0.6	0.8
15. Yugoslavia	2.8	2.2	15. Italy	0.6	0.5
16. Greece	3.1	2.0	16. Canada	0.8	0.5

Source: 1978 Yearbook of International Trade Statistics. Vol. II UN N.Y. 1979

With the introduction of the sewing machine came the mass production of apparel and rapid changes in manufacture and marketing of clothing. Today people in most parts of the world can buy ready-to-wear garments of their choice, made in large clothing factories. The clothing industry is a giant business in many countries. Clothing materials are important items of trade between nations. Shoppers in many lands buy Italian knitwear, Australian wool and Japanese silk. Stores throughout the world sell clothes designed in London, Paris and Rome; or Hong Kong. As a result many people in different countries can wear similar styles and fashions of clothing during the same season. The clothing industry as we shall see took firm root in the US and West European countries over the first half of this century though in the 1960's and 70's the Far Eastern manufacturers were able to make a major dent into the mass market in these countries.

Expansion of the Industry in U.S.

Throughout the first half of the 20th century the apparel industry remained largely centralised in the U.S., the U.K. and Western Europe. In US. the industry received an enormous impetus from World War II. The U.S. industry was divided among six types of firms i.e.,

1. Contractors, who produced apparel from raw material for a jobber or manufacturer;
2. Jobbers, who purchased raw materials they supplied to contractors to make into garments;
3. Manufacturers, who bought materials and designed, made and sold the products wholesale;
4. Manufacturer - , distributors who sold their products through their own retail outlets;
5. Vertical mills, which performed all operations from yarn to finished garments under one corporate roof, and locally one plant roof; and
6. Vertical mill - distributors, who marketed their products through their own retail outlets.

Made-up of about 29,000 firms producing apparel and accessories, the clothing industry is one of the last strong holds of the small businessmen in the United States. In the 1960's, however, there developed an unprecedented trend to 'giantism' — a moving into the ranks of big business in the form of diversification of products, mergers, acquisitions and public stock issues. Many women's ready-to-wear and accessory firms ventured into additional lines or even into men's wear, and some men's wear firms entered the women's ready-to-wear fields. The changes tended to refute a tradition that fashion oriented traders do not lend themselves to the large scale operations and the impersonal management policies of an organised industry.

In this period more than a dozen companies in general apparel production surpassed the $100 million mark in commercial sales, while those companies with annual sales of over $10 million were gradually raising their share of total industry value.

Entry into garment manufacturing required comparatively little capital. In the US men who started small have grown substantially. However, few houses remained in business for several years, with about 17 percent of all apparel companies going bankrupt, merging or re-organizing under another name each year. Records reveal that in the US the average ready-to-wear company has survived seven years.

The large firms in the US began increasingly to use electronic data processing and computers in warehouse and office operations. Scientific methods helped to gear the giants for quality and continuity of deliveries, to gain widespread acceptance for seasonal style changes and minimize inevitable uncertainity in the highly risky fashion business. Moreover, diversification and financial strength often helped to rescue these big firms from the styling and other failures of one division. New York city is the leading clothing manufacturing centre, accounting for about 70 percent of the total value of national production for women's dresses, coats and suits. Other important manufacturing centres are Chicago, Los Angeles, Philadelphia, Baltimore, Kansas City, Dallas-Fortworth, Miami and Pennsylvania.

Clothing has been regarded as one of the least changed, and least changeable, trades in America. It is said to be loyal to particular places (listed above) but especially to 10 or 12 blocks around Seventh Avenue in lower Manhattan where the garment makers are for the most part Jewish or Italian family concerns which employ women and Hispanics and do not pay them much above the minimum wage. These companies can still exert a degree of political influence and are behind the protectionist lobby in the US. With increasing costs of production the US industry has been shrinking and moved its investment out into areas, particularly in Asia, where labour costs are more competitive.

In addition to their purchases from domestic manufacturers, a growing number of American stores have been buying apparel all over the world. After 1975 imports of clothing into the US from the Far East have doubled in value and today account for about half the US market in shirts and blouses.

In 1978 the US continued to be the world's second largest importer of clothing (after West Germany) and its imports of textiles and apparel amounted to $4.8 billion, mostly from Asia, which has raised protests from the American garments industry (See Box).

US Clothing Imports

It is estimated that imports may already account for half the American market in shirts and blouses. In place of the $400 suit, which every respectable manufacturer would expect a respectable client to buy at least once in a lifetime, the largest stores are tending to offer suits from Korea or Poland at half the price. Since 1972 the federal government has negotiated bilateral agreements with 18 countries to keep clothing imports at a limited growth rate of no more than 6 percent a year, well above the growth of the domestic market. But these quotas have been largely exceeded. Imports of casual and dress trousers, for example, rose by almost 70 percent in the first half of 1978. At the same time, domestic production of trousers fell by almost 20 percent from its level in 1977.

Yet the brunt of the export deluge from the less-developed countries has been taken by Europe (where ldc imports account for 30 percent of final consumption) rather than America, where they account for 10 percent. The American clothing industry has survived, until now, behind an average tariff rate of more than 30 percent, higher than for any other category of imports. Woollen skirts and dresses, knitted dresses and trouser suits, over which there is a high degree of trade jealousy, sometimes carry tariffs of 57 percent. In short, the industry has been well protected. Although the 1978 trade deficit in clothing, $4.2 billion, was surpassed only by oil and car exports this year have even begun to rise and imports to fall. The weakening dollar has helped; so, too, has a deliberate shift towards sending good products abroad rather than bulk-loads of the double-knit which American women no longer want to wear.

For these reasons, the health of the industry is probably better than admitted. A long run of a standardised item which is common and indeed desirable in a textile mill, is something American garment-makers tend to beware of. This gives them an important edge over the present flow of clothes from overseas, for these are both standardised and, in more cases, several months behind the fashion. The most successful recent tactic by clothing makers has been to strike agreements with fashion designers to use the name as a label, thus appealing to domestic snobbishness that cannot, they trust be copied in Taiwan.

The fact remains, however, that the clothing industry is hardly attractive to workers. An agreement at the end of May 1978 raising the wages of 130,000 seamstresses and floor-workers in the North-East, still guarantees them only $4.50 an hour. The average hourly manufacturing wage, by contrast, is $6.47. Conditions of work, though they are better than in many southern textile mills, are sometimes appalling; the recent widespread conversion of lofts in Manhattan, for example, has caused the eviction of whole companies of workers. In Miami, clothing companies have found their emigre Cuban workforce slipping steadily away to more respectable jobs. Over the country as a whole, 76,000 jobs were lost in the garment industry in 1977. Yet California gained 28,000 — perhaps, as many suspect, because companies in the south of the state are filling their sewing shops with illegal aliens.

SOURCE: The Economist, July 14, 1979.

Progress in other countries

By the 1950's other countries in Western Europe were beginning to expand their apparel industries. Besides, the U.K., the Netherlands, Canada, South Africa, Japan and Australia also expanded ready made clothing manufacture Another development of the 1950's was the expansion of many firms inside the industry into other areas, for example men's clothing manufacturers entering the women's wear field.

United Kingdom

Traditionally Britain has been

in the fore-front of the textile and clothing industry for several decades. In more recent years however, it has found difficult to keep pace with the newer and more aggressive competition and today ranks as the fifth largest importer and sixth largest exporter of clothing in the world. Its domestic industry has also been steadily on the decline and a spate of factory closures has been making headlines in the UK in recent months. The clothing industry in the United Kingdom which has only marginally increased its production in the last five years, is lately concentrating its attention on exports, thereby creating a gap on the domestic market. Approximately 40 per cent of apparent consumption of knitwear is accounted for by imports, mainly originating in the Far East, principally Hong Kong. The knitwear sector (outer garments and other articles) has particularly felt the impact of import penetration, especially in the man-made fibre sector. The largest position of imports is aimed at lower and middle market levels.

Imports from developed countries more than doubled in value during 1974-1978. In 1978, approximately 45 percent of knitwear imports originated in developed countries. Italy was the largest supplier of these garments, with 17 percent of the market, mainly for good quality mid-market goods Other main suppliers were Ireland (6 percent) and Portugal (4 percent).

While imports from developing countries, which accounted for 54 percent of total imports in 1978, rose 70 percent in value during the same five-year period, yet the share of the United Kingdom market held by these countries has steadily declined. Major suppliers from these countries include Hong Kong, with a market share of 25 per cent and the South Korea with 11 per cent. Other Asian countries accounted for 7 per cent. The table below summarises the position in 1978 by quantities and sources of supply.

SOURCES OF UK CLOTHING IMPORTS, 1978 BY VOLUME

Source	Clothing (U.S.) million Items
EEC	51
Other developed countries	25
Low cost countries	290
Total	366

A revised Multi-Fibre Agreement (MFA) has been in effect since January, 1, 1978. This agreement, negotiated between the EEC and over 30 low-cost supplying nations under MFA, places import restrictions on cotton yarn and fabrics, spun synthetic fabrics, knitted shirts and T-shirts, jerseys and pullovers, trousers, woven shirts and blouses, which together account for 60 per cent of the low-cost imports of the United Kingdom.

There is a general feeling among the textile and clothing sectors in the UK that the MFA which imposes restrictions varying in severity on the growth in low cost imports of more than 100 items has worked tolerably well in its first two years of operation. The industry nevertheless points to a number of loopholes which it claims have limited the effectiveness of the overall protection afforded to the industry, and discouraged forward planning and investment. The industry points out that though global ceilings set by the UK have been maintained, the EEC countries were prepared to overturn these arrangements to suit some of their trading partners.

Britain has also been much less adept than the French or Italians, for example, in developing non-quota methods of protecting its textile industry, and has been reluctant to follow the Germans or Dutch in exploiting the possibilities of outward processing. For all these reasons control of low-cost imports through EEC mechanisms assumes a much greater importance in Britain than other Community countries.

The share of the home market taken by UK clothes manufacturers is likely to decline further by 1982, according to the latest report of the industry's economic development committee. It says the industry's share will be down to 67 percent by 1982 compared with 79 percent in 1975.

The projection — heavily dependent on future UK developments, world economics and enforcement of the GATT multi-fibre arrangement — assumes a 40 per cent rise in imports between 1978 and 1982 at 1975 prices.

Exports in the same period are expected to increase 18 per cent in value and production to decline 1 per cent.

Priorities for the industry, says the report, are effective marketing and creative design so that its products are right for its markets.

France

France concentrated on the production of high fashion garments, especially in the form of selected original designs sold to manufacturers abroad to be copied and mass produced locally. During the year 1976 there had been 1,400 firms producing men's and boy's outerwear. Of these 420 had accounted for 90 percent of the turnover of these items. The total value of manufacturers' sales of men's and boy's outerwear in 1978, including exports, was put at 8,700 million francs (at manufacturers' selling prices, excluding value added tax), representing an increase of 11.5 percent over 1977. In volume terms, sales on the domestic market remained static in 1978. Retail turnover in men's and boy's outerwear grew by slightly over 9 percent which is equivalent to the increase in prices. Particularly noteworthy in 1978 was a renewed interest in town wear. Suits with waist coats sold best and there was lively demand for cloth windcheaters. In the leisure wear sector, velvet garments were very popular and sales of denim jeans remained at the high levels previously recorded.

The workforce in the entire textiles industry during the year had come down to 350,000 from about 500,000 and in the garments sector it amounted to about 79,000 of which 85 percent consisted of women. West Germany has been the traditional best market for French men's and boy's outerwear.

We observe that more recently Belgium turned to be a good market. Trousers and jeans are the most valuable export item of the country and a considerable part of these exports are re-exports of countries, especially of South-East Asia. Almost half of all cotton trousers sold in France originate from abroad.

During the year 1975 nearly 2,600 firms were manufacturing women's and girl's clothing in France. Forty six percent of the firms had accounted for 93 percent of the total turnover while 6 percent accounted for 44.6 percent. The bulk of the industry was centralised in the Ile-dé-France where 1,570 firms in the area had been producing 63 percent of the domestic turnover. Women's town and sports clothing has accounted for 78 percent of total turnover in 1976, and girls clothing 10 percent. Nearly 63 percent of the total exports of these items had been disposed off to other E.E.C. countries. Overall production was export - led, demand from abroad increasing by close on 15 percent during 1978 to result in French manufacturers' export sales of 2,979 francs. Demand from EEC countries in particular was buoyant, with sales rising to 1,810 million francs (+ 16 percent). Belgium remained France's single best customer for women's and girl's outerwear and sales rose to 705 million francs (+ 18.4 percent). Other main buyers were West Germany, Switzerland, the Netherlands and the United Kingdom. The United States is currently France's third best customer for women's and girl's apparel. Prospects for French garments have improved among Middle Eastern countries, which took up 168 million francs worth of French made women's and girl's outerwear in 1978, 35 percent more than in the previous year.

The French industry complains, however, that foreign imports of low-priced goods into the French market-with the added worry that the large part of these have come from inside the EEC, has caused it considerable damage. This year French textile and clothing producers face the possibility that for the first time over half their domestic market will be in the hands of non-French suppliers. The aim of the industry is to weld the more efficient of the 3,000 companies in textiles and clothing into a logical and complementary industrial framework. By the mid 1980's the French hope to have reshaped what is still a traditional, 19th century based industry into the textiles equivalent to their motor industry. In line with its strategy of concentrating on adding value to textile products, the French industry is now involved in attempts to double the value of its exports.

Netherlands

The Dutch clothing industry underwent difficulties from the beginning of the decade of the 70's and declined at a faster rate than in any other country of Europe. The downward trend in production of clothing in the Netherlands continued throughout 1978, albeit on a more moderate scale. The total value of manufacturers' sales was thought to have remained static in 1978 at around 1,850 million francs.

The Netherlands has been a considerable re-seller of clothing items. Around a fifth of Dutch imports of clothing is re-exported to neighbouring countries; notably Belgium and West Germany. These shipments consist largely of products originating from the EEC and Asian countries with the Netherlands maintaining its position as the world's third largest importer of (non-fur) garments.

Imports of clothing (excluding knitwear) increased from 2,378 million francs in 1977 to 2,674 million francs in 1978 (+12.4 percent). Exports rose to 786 million francs from 764 million francs in 1977 (+2.9 percent). Imports from low-cost countries reached around 480 million francs of which 421 million francs came from Asian countries (mainly Hong Kong, Taiwan, India and Thailand). Germany has been the Netherlands main trading partner — the share of West German industry in total Dutch clothports in 1978 was 45 percent and its share in total Dutch clothing exports was 32 percent (in both cases by value). Imports from Belgium, the second trading partner, rose to 320 million francs in 1978, accounting for 12 percent of the total value, and close on 45 percent of Dutch clothing exports went to Belgium/Luxemburg in the same year. Approximately 30 percent of Dutch exports to Belgium are of Asian origin. Italy made up 7 percent of Dutch imports in 1979 and the United Kingdom 6 percent.

The level of import of these low-priced products (mainly knitwear T-shirts, blouses and shirts), has been giving both domestic and neighbouring manufacturers cause for alarm and the Dutch industry has asked the Government to take measures to limit these deliveries.

While the Dutch manufacturers' subsidiaries in Eastern and North African countries (mainly Tanzania) were prospering, there has been a notable decline in the amount of clothing finished within the country and in Belgium for Dutch industry. The low-wage countries have undercut inefficient Dutch producers, while even West Germany has taken a large share of the Dutch quality textile and clothing market.

Belgium

The Belgium clothing industry is represented by two distinct trade associations. The Comite Central de las Bonneteri Belge (CCBB) represents the knitting industry though some of its members have diversified into clothing, made up from knitted fabrics. The other trade association is the Federations Belge des Industries de l'Habillement (FBIH), whose members buy woven (warp and weft) or knitted fabrics for the manufacture of clothing items. All companies are members of one or the other trade associations according to their main activities.

Belgium has retained its position in recent years as the seventh largest exporter of (non-fur) clothing and also the sixth largest importer, only after Germany, USA, Netherlands, UK and France.

Total sales by Belgian clothing manufacturers (ie. those who are members of the FBHI trade associations) fell by 3.6 percent in 1978, from 103.2 million units to 99.5 million units. In value, sales rose by 0.7 percent from Belgium francs (BF) 30,635 million in 1977 to BF 30,847 million in 1978.

Belgium's foreign trade deficit widened from BF 5.2 billion in 1977 to BF 6.9 billion in 1978 as the result of a 4.4 percent increase in imports and a 2.3 percent decrease in exports during that year. The trend in foreign trade in 1978 may be summarised as follows:

- A deterioration of Belgium's competitive position in the EEC, which is essentially due to the growing gap in the balance of trade with West Germany and the Netherlands. The rise in imports from West Germany and the Netherlands is mainly due to these countries' re-exports of low-cost imports of finished or partly finished goods originating in Eastern Europe.
- A decrease in direct imports from Eastern Europe;
- A stabilisation of imports from South East Asia due to the multi fibre agreement (MFA);
- Increased imports from Malta whereas imports from other Mediterranean countries remained static.

Apparent consumption of clothing rose by 5.3 percent in value to BF 37,743 million in 1978. Belgium manufacturers' share of the home market increased from 24.8 percent in 1977 to 25.5 percent in 1978.

Italy

Italy became a major producer of knitted outerwear and all types of women's wear, especially panty hose. The export of goods varied between 15 and 20 percent of total production. Production of knitted outerwear accounts for nearly three quarter of the total output of the country. The annual growth in production in terms of value has ranged between 2 percent and 3 percent and value-wise the growth rate has varied between 11 to 12 percent. The largest buyer has been West Germany purchasing about 40 percent of Italy's exports. France, U.S., Nethehrlands, Japan, U.K Switzerland, Belgium and Luxemburg have been the other key importers. Exports to these countries have amounted to about 85 percent of the total exports of the country. Italy imports about 10 percent of its domestic garment requirements, importing mainly from Eastern European countries. In 1977 the overall production of clothing grew by 2 percent in volume, as a result of an increase in demand abroad, which pushed exports up by 14 percent despite static demand in the home market.

On the whole, there is an excess of production capacities in particular in the field of traditional men's outerwear and men's shirts, brought about by the boom which took place in this sector in the early 1960's, which promoted many manufacturers to effect a rapid expansion of their production programs. In the 1970's, however changing fashions caused a fall in demand for classical men's wear, in favour of more casual clothing.

In 1978 the general level of production is estimated to have fallen by 5 percent in volume, orders from the home market fell by 16 percent from 1977 levels, while those from abroad showed a growth of 20 percent.

As in the case of many other Western Europe producers Italy too has encountered problems in facing up to lower priced textiles and garments imports, and there have been regular reports of factory closures.

Exports of clothing continued to move ahead in recent years and in 1977 the value of exports increased by 44 percent over the previous year, whereas in 1978 the increase was 40 percent. Outerwear accounted for 69 percent of the total export in 1977 and for 72 percent in 1978.

By 1979 Italy is reported to have ousted Hong Kong from first place. to emerge as the world's largest exporter of clothing.

TABLE V. Total turnover by West German Clothing Industry 1972-1978 (DM million) (a)

	1972	1973	1974	1975	1976	1977	1978	change 77/78%
Men's outerwear ...	4,024	3,927	3,807	3,947	3,772	3,957	3,840	–3.0
Women's & children's outerwear (b) ...	6,987	6,798	6,736	7,148	8,302	8,587	8,813	+2.6
Lingerie foundations garments ...	1,948	2,002	2,115	1,963	2,245	1.650	1,657	+0.4
Workwear, sportswear other clothing & accessories ...	4,153	4,206	4,388	4,295	4,536			
Total (c) ...	16,956	16,787	16,802	17,047	17.949	19,141	19,328	+2.0

West Germany

The production of clothing in West Germany is undertaken by two different industrial sectors: the clothing and the knitwear industries respectively. The distinction between the two is mainly in manufacturing techniques. Clothing manufacturers are members of the "BUNDESVERBAND BEKLEIDUNG INDUSTRIE" while the knitwear producers are grouped in the "GESAMTVERBAND DER DEUTSCHEN MASCHEN INDUSTRIE".

Germany is the world's largest importer of ready made garments and sometimes production statistics include considerable imported items. Over 40 percent of the world's imports of fur-based clothing and over 20 percent of non-fur clothing are imported by Germany. As an exporter too West Germany ranks among the four leading nations in the world accounting for about 10 percent of the total global exports.

About 80 percent of the employees in the industry are composed of women and one sixth of them are salaried personnel while the rest are wage earners.

Consumer surveys have established that around 30 percent of German women make their own clothes.

(a) At manufacturer's selling prices, excluding value added tax;

(b) Prior to 1976, boy's included with men's outerwear; from 1976, boy's outerwear with women's and children's outerwear;

(c) Total adjusted downwards to take account of double counting among preceding industry segments; 1976 total for companies with 20 or more persons employed: DM 17,919; revised. Source: Bundesverband Bekleidungsindustrie (BB).

The total turnover of the West German clothing industry (sales by industrial enterprises with 20 or more employees on domestic and foreign markets, including items finished-off abroad) grew by 1 percent in 1978 compared with 1977, from DM 19,141 million to DM 19,328 million. Since manufacturer's prices rose during the same period by an average of 3.5 percent, real turnover actually declined between 1977 and 1978.

Foreign trade figures for 1978 indicate that both imports and exports moved further ahead during that year. The total value of imports (excluding hats) rose from DM 5,914 million to DM 6,413 million, an 8.4 percent increase, whereas exports rose by only 5 percent from DM 2,615 million to

TABLE VI. PERCENTAGE OF TOTAL VALUE OF WORLD'S GARMENTS TRADE 1969-1978
(Shares of Developed Market and Developing Market Economies over 10 year period)

	IMPORTS		EXPORTS	
	Developed	Developing	Developed	Developing
1969	92.24	7.76	74.04	25.96
1970	92.08	7.92	72.72	27.28
1971	93.08	6.92	70.66	29.34
1972	93.48	6.52	69.18	30.82
1973	93.66	6.34	65.46	34.54
1974	92.30	7.70	62.90	37.10
1975	91.12	8.88	60 92	39.08
1976	91.08	8.82	54.04	45.96
1977	89.34	10.66	57.84	42.16
1978	89.34	10.66	57.70	42.30

Source: Yearbook of International Trade Statistics N.Y. 1979.

THE CHANGING FACE OF ASIAN TEXTILES

Textiles has in the past three decades become Asia's most important export industry and, apart from agriculture, its largest provider of jobs; so it is hardly surprising that the sector has also become one of the major interfaces between industry and government. More surprising is the lack of cohesion and the ineffectiveness and impracticality which characterise many governments' attempts to regulate their most important industry.

In Taiwan, government incentives have pushed parts of the synthetic fibre industry into massive over production in the face of slack demand, while cotton manufacturers have been coerced into retiring machinery while demand increased. Bangladesh, a country well suited to cotton production, currently imports more than 97 percent of its cotton and has only just begun a major expansion programme. In Thailand, the problems of synthetic fibre manufacturers faced with cost increases of 100 percent a year were exacerbated by a 30 percent surcharge on synthetic yarn which was only partially lifted last year. In India the recently ousted Janata government's attempts to decentralise economic power and reduce unemployment led to efforts to expand and diversify handloom textile production by artficially restricting the mechanical sector at an enormous cost in efficiency and lost production.

Despite its growth and present size, Asia's textile industry is not particularly healthy. Seen in the 1950s and 1960s as the easy path to industrialisation for what were then called underdeveloped countries, textile manufacturing became the cornerstone of most Asian countries' attempts to move their populations out of the fields and into the factories. It had many attractions: the level of technology required was within the grasp of most nations; raw materials such as cotton and jute were often grown locally; the capital expenditure needed was low in relation to other forms of industrialisation; the industry was enormously labour intensive, promising to solve unemployment problems; demand appeared almost infinite and textiles foreign earnings potential in terms of much-needed dollars, pounds, marks and francs seemed assured by the inefficiency of the European and American textile industries.

For many years these optimistic projections were borne out in practice. The textile industry became the engine of industrialisation in many Asian economies and has remained preeminent in most of them. But its very success had led to two major problems.

The first, and most obvious, is the rise of protectionism in the West. No longer are the developed countries prepared to take unlimited quantities of low-priced goods. particularly when these can be seen to create unemployment in domestic industry. Political realities dictate trade restraints. The second problem is that the success of the industry in less obvious, but more insidious, underdeveloped countries has led to a preponderant reliance on textiles, both as an employer and a source of foreign exchange, to the detriment of the development of more sophisticated industrial processes. But as the success of the industry raises income levels and standards of living within the economy, the country gradually becomes less competitive in low-technology, labour intensive industries such as textiles.

Until the breaking point occurs there is little incentive for the industrialists to forsake textiles for a more capital intensive, higher value-added product. Nowhere is this trend more apparent than in Hongkong, where the textile idustry provides 33 percent of manufacturing jobs and 46 percent of the territory's export revenue.

At the other end of the scale — as far as continuing development is concerned — is Japan, where the textile industry was once the major industrial export sector. Now it is called "structurally depressed" and its ships only 7 percent of Japan's exports by value as more technologically-advanced electronic and engineering products have taken over.

Paul Wilson in the Far Eastern Economic Review of 28. 3. 1980

DM 2,748 million. The negative foreign trade balance widened to DM 3,665 million or by 11 percent, and the proportion of 1978 turnover accounted for by sales abroad was put at 14.2 percent for the whole of the clothing industry, a slightly higher proportion than the 13.7 percent in the previous year.

World Trade in Garments

In the 1960's the garments industry in almost all of the Western producing countries underwent a rapid development but more significant was the nature of the changes taking place at the time. New countries which entered the industry sustained the most speedy growth. A major part of the export trade shifted to the Far East during this period.

In a large number of industrialized countries producers in Europe, North and South America, Australia, New Zealand, South Africa and Israel had turned to be self supporting. In addition there was a tremendous expansion in world trade. (See Tables I-IV). At the initial stage goods produced in U.K., France, Italy, Spain, Sweden and West Germany held a significant position in world trade. From Table I (on page 4), it is observed that during 1967, seventy five percent of the world trade comprised exports from these industrially developed countries. There occurred a high value of international trade among developed nations because each country concentrated on specialized production of particular categories of garments.

During the late sixties and early seventies however, the products of Asian countries too began to be progressively directed into the world garments trade. At first, Japan came onto the scene followed by Hong Kong, South Korea, Taiwan and later by the Philippines, Singapore, Indonesia, Thailand, Malaysia, Pakistan, India and new producers like Sri Lanka.

It is evident from Table II that by the year 1972 the developing nations share of the world garments trade rose to 23.9 percent from 14.7 percent in 1967. The growth rate of developing countries reached 28.6 percent while that of developed countries stood at 18.4 percent.

The increasing significance of the developing countries is apparent from the data in Tables I, III and IV. The figures are given at 1975 current prices.

The percentage value of apparel exports which stood at 75 percent for the developed countries and 25 percent for the developing countries in 1969 changed dramatically over the next ten years. In 1978 the developed countries share of the value of exports had come down to 57.7 percent while that of the developing countries now stood at 42.3 percent. (See Figure 1). The average growth rate of Asian countries and Latin American countries had undergone very rapid increases. For instance Ecuador 78.7 percent, El Salvador 34.8 percent, Malaysia 51.5 percent, Philippines 136.7 percent, Thailand 127.5 percent etc.

Over the 1960's and 70's some of the Asian countries which took to the textiles industry not only became substantial suppliers of garments but also became increasingly dependent on the garment trade. The export oriented development strategies of these countries opened their economies to the full impact of world trade and investment, with their expanding Free Trade Zones, which kept confidence high in this industry. The textiles industry had established itself during this period as Asia's most important export industry, and apart from agriculture, also the largest provider of jobs. It is clear from the data that during the period between 1973 and 1979, Hong Kong became nearly 50 percent, India nearly 25 percent, South Korea nearly 36 percent and Pakistan approximately 55 percent dependent on export of textiles and garments for their total export income. More than any industry, textiles was said to be responsible for Asia's progress in industrialisation and rapid inflow of foreign exchange earnings. But this very factor has urged the West to put up its protectionist barriers, forcing Asian textile manufacturers to put on a new face — abandoning cheap, low quality lines and substituting high quality fashion goods. (See Box "The changing face of Asian textiles" and "Furs Help Hongkong").

It is ironic that only a century earlier the cheap textiles mass produced in the then industrialising western world should have swamped the markets of the colonies. The industries of the West then ruined the textile industries of what are today the Third World countries, but these very same nations have reversed the role today. The efficiency of their industries is wrecking havoc among those of the

FURS HELP HONG KONG IN THE FASHION MARKET — Dog Furs

Hong Kong realised by the end of the 1970's that the utility apparel market was getting too tight. South Korea and Taiwan too had entered in a big way and new producers like Singapore, Philippines, Thailand, India and Indonesia were moving in rapidly, while quotas and other barriers were coming up in the West. With labour and other costs also rising Hong Kong realised that the most profitable way out was to expand into the more sophisticated but exacting fashion market. In looking for a higher-value product Hong Kong seems to be finding it in fur, according to an interesting account by Anthony Spaeth in the Asian Wall Street Journal. He writes (from Hong Kong):

A "three dog night" is one so cold that the only way to sleep warmly is to invite three dogs into your bed. Such a night is rare in Hong Kong, but the idea is serving exporters here well.

Workers in steamy factories are tugging and sewing stiff dog hides into fluffy coats and jackets. "China wolf", the garments are selling by the truckload in Europe's colder capitals. Thousands of Europeans are weathering their winters with the aid of well over three dogs — 18 skins are needed for one jacket. And Hong Kong is getting a big boost for its newly prosperous fur export industry.

Fur is not just a fad here. It's another illustration of Hong Kong's shuffle to survive. With higher labour costs, garment manufacturers in Hong Kong can no longer compete with Taiwan and South Korea in exports of cheaper garments like white shirts. Everyone is looking for a higher-value or upgraded product and some have found it in fur.

Take Yick Fung Garment Factory Ltd. Seven years ago it was selling $20 nylon ski jackets. Now it's shipping dog skin jackets for $200. And Yick Fung is on the low end. More than 50 percent of the furs exported from Hong Kong last year were of animals like mink, which wholesales for more than $1,000 a garment. And, unlike ski jackets or most other garments, fur products are free from import quotas world-wide.

But these manufacturers run the risk of every businessman who jumps on a bandwogon: a sudden shift in demand or supply can topple the cart. This lesson is a familiar one in Hong Kong, where small factories often enter a business just in time to see the demand for their product evaporate. While orders are still good for furs, especially the cheaper dog and rabbit coats, the supply of animal pelts is drying up.

With no native skin supplies, Hong Kong imports all the skins it needs.....

When Japan started subcontracting fur garment work to Hong Kong in the early 1970's, Hong Kong manufacturers began to see their chance. By 1977 exports hit $48 million; they grew by 75 percent and 80 percent in the next two years, reaching $147 million in 1979.

Japan is still the most important market: 50 percent of the total exports, mostly the expensive furs like mink and fox, go there. And the Japanese are good customers. They pay 20 percent more for furs than the Europeans and prefer the more conservative styles, saving Hong Kong from the fur fashion race...

In the past three years, the growth in fur exports has been fueled by the cheaper furs: rabbit, lamb and dog, sold usually in Europe and the U.S. A rabbit jacket may wholesale for only $50, but there are hundreds of thousands of rabbit jackets going out. The dogskin jacket which wholesales for $200, has been the biggest growth item. The demand for fox garments was strong in Europe three years ago but the price of the skins was too high. Dogskin was the solution.

"It looks like fox", says Jimmy Kar, managing director of Peking Fur Factory (H.K.) Ltd., "but it's only 10 percent the price".

Half the dog pelts, and the best ones, are imported from North Korea; the rest come from China. "It's very strong," says Mr. Kar. "You can wear it for 10 years compared to one or two years for a rabbit skin".

Squeamish consumers are a problem. 'We never tell them these are dogs", confides one furrier. The coats are labeled "China wolf" or "gae wolf" (*gae* in Korean means dog). "But whatever the name is it doesn't make any difference" shrugs another exporter.. "They're dogskins anyhow".

(Asian Wall Street Journal 19-6-80)

Growth and Regulation of Exports

HONG KONG

Over the past two decades the textile industries of Hong Kong have proved to be the backbone of this territory's industrial and economic growth. From a comparatively small producer of textiles and clothing in the early 60's the British colony moved into position of Asia's leading exporter of ready made garments by the end of that decade. By 1973 Hong Kong had overtaken Italy as the world's leading supplier of clothing exports. By 1975 garments had become the biggest money spinner in the colony accounting for nearly 45 percent of Hong Kong's exports of all products during that year; and Hong Kong was ranked as the world's biggest exporter. Hong Kong's reputation as a producer of garments built up largely from the massive volume it exported in the latter part of the 70's though the quality of its garments has also become a leading factor in recent years. The garment manufacturers in the colony launched a drive to upgrade quality which resulted in a greater sophistication of its finished goods. Hong Kong's Trade Development Council also launched aggressive promotion campaigns and began turning out ready made garments from the designs of France's Pierre Cardin and Balmain; Britain's Ossie Clark and Hardy Amies; Italy's Emilio Pucci and the United State's Cathy Hardwick

By the end of 1975 there were more than 6,500 factories in Hong Kong employing over 200,000 persons, who turned out ready to wear garments mainly for export. The United States was by far the largest single market accounting for 30 percent of Hong Kong's global knit wear exports. Other large markets were Britain, West Germany, Australia, Canada, the Netherlands, Sweden, Switzerland, Japan and Nigeria; while markets were growing in Middle Eastern states such as Libya, Saudi Arabia and the United Arab Emirates.

The rapidity of its growth and its ruthless efficiency gave Hong Kong's textile industries a definite competitive edge over the established industries of the Western world whose limitations were now being bared. The protectionist cry from these countries grew stronger and by 1974 came the regulation of the international textile trade in the form of the Multilateral Fibre Agreement (MFA), which by its nature is restrictive to Asian exporters. The clothing and textile industries in Hong Kong have continued to grow despite the MFA's restrictions and comparatively feeble competition from other Asian producers. In 1979, however, Hong Kong moved down to position of the second largest exporter of clothing — having been ousted from first place by Italy. Yet the value of its exports in 1979 was 28 percent higher than in 1978, although in real terms the increase was a far more modest 5 percent. The major markets remained the U.S., which accounted for 35.8 percent of Hong Kong's $5 billion worth of garment exports, West Germany with a 17.9 percent share and the UK with 14 percent.

MULTI FIBRE AGREEMENT

Yet, as the London Financial Times reported in July, Hong Kong's clothing and textile manufacturers are finding themselves under growing pressure on a number of fronts. Their opportunities for growth are being squeezed by agreements made under the Multi-Fibre Agreement (MFA); competing countries such as Taiwan and South Korea are eating into their markets particularly in the field of cheap, bulk clothing, where Hong Kong has traditionally been strong; and they face rising costs, falling world demand because of the economic downturn in the West plus what some of them see as a serious labour shortage.

Perhaps the chief cause of concern — certainly the one that rouses most indignation — is the working of the MFA. Most of Hong Kong's clothing and textile producers recognise that the import quotas imposed by the US and the European Economic Community countries offer them a stable and guaranteed market with some in-built element of growth.

But they believe the character of the MFA has been slowly changed over the past three or four years so that it increasingly operates to the disadvantage of manufacturers in the colony. Recently Miss Lydia Dunn, of Hong Kong's Swire group speaking in Brussels to a conference on international trade in clothing and textiles, claimed there had been "a systematic erosion of the spirit and the letter of the MFA". It was being transformed into "an instrument of discrimination practised by the developed countries against the developing countries".

Miss Dunn listed some of the Hong Kong manufacturers' chief complaints against the working of the MFA as follows:

* Importing countries can impose restrictions on textile and clothing suppliers on the grounds of actual or threatened disruption to their domestic markets. Hong Kong producers claim they often act without giving adequate proof of disruption.
* Importing nations introduce restrictions against a number of supplying countries on the grounds of market disruption. They fail to make a case for restraint against each one individually-as is required under the MFA.
* European countries and the U.S. restrict imports from developing nations but not from other industrialised states. Hong Kong claims that the latter do far greater damage to the importing countries' domestic markets.
* Importing nations are cutting back the quotas for more advanced developing countries — such as Hong Kong — so as to give the less developed states more access to their markets. The practice was describd by Miss Dunn as "charity to developing countries by developing countries"
* Importing nations are sometimes by-passing the terms of the MFA altogether by making tough bilateral agreements under its "reasonable departures" clause.

India, on behalf of all developing countries, has maintained that the Third World is determined that the "reasonable departure" clause should not become a permanent feature of the multi-fibre arrangement (MFA). This clause permits any country to completely halt growth of textile and clothing imports if they damage the interests of local producers. The clause was included in the MFA on the understanding that it would be used only by the EEC against imports from very dynamic Third World exporters such as Hong Kong, South Korea, Taiwan and Brazil.

However, a study prepared for GATT shows that the clause has been used by almost all industrialised countries, including the Scandinavians, Canada and the U.S., to impose various kinds of restrictions against textile imports from a large group of developing countries.

From the point of view of the longer term, Hong Kong is trying to develop new, unrestricted markets such as South America and the Middle East. It appears to be having some success in terms of export growth rates. Last year the colony's exports to Saudi Arabia for example — nearly all clothing — were £20.3m as compared to £15.2m in 1978. Exports to Saudi in the first quarter of 1980 were £18m.

A more pressing worry for some of Hong Kong's textile and clothing producers is the difficulty of attracting and retaining an adequate labour force. Despite higher wages, improved working conditions and a variety of incentive schemes, there are companies which say their employees still desert them for other industries — especially electronics where the hours tend to be shorter.

The impact of the recession in the West was beginning to be felt in Hong Kong in 1979-80, but the most recent reports show that Hong Kong's garments firms are weathering the world-wide economic slowdown. During the first half of 1980 garments exports rose 22 percent from the year before the HK$ 10,59 billion (US$2.16 bn). Another yardstick to measure the health of the textile business is the utilization of textile quotas. Trade figures show the value of exports; when the value rises, it reflects, in part, inflation and the shipping of more costly goods each year. But trade agreements restrict exports quantitatively, by pieces or square yards. If a country uses all of its quotas, it has exported as many textile products as in the previous year — more, usually, because most trade agreements have growth allocations.

In the first seven months of 1980, garment exporters used 52 percent of the total quota for the U.S., Hong Kong's largest export market. A year earlier, 49.88 percent of the U.S. quota had been used. For the colony's second largest market, West Germany, the midyear quota utilization for all textile exports was slightly ahead of the year before. For Britain, the third-largest market, utilization had slipped, from 54 percent in mid-1979 to 43 percent this year.

Traditionally, garment exports pick up in the second half, and, although observers say that growth could still flatten out this year, many people in the industry say that Hong Kong's garment business has weathered the recession and speedily adopted.

SOUTH KOREA

The textiles industry in South Korea accounted for nearly one-third of its export earnings in 1979 and was proudly regarded as the fastest growing sector among its fast growing export industries. South Korea's textile policy has favoured synthetic fibre production as an offshoot of its petrochemical industry development and as a result man made fibre production is reported to have risen 306 percent in the five years to the end of 1979. Its phenomenal growth in the apparel exports sector has been held up as an outstanding illustration of South Korea's 'export miracle'. From clothing exports worth US$ 171 million in 1969 the value of this country's exports had almost reached the US$2,000 million mark in 1979. Over the five years from 1973 to 1978 export values increased almost three fold. These export values for the years 1974-78 are an indication of the rapid upward movement.

South Korea's Apparel Exports (In US$ million)

1974	—	740
1975	—	869
1976	—	1,464
1977	—	1,579
1978	—	1,940

In terms of the total share of the value of world exports South Korea accounted for 12.3 percent of the total value in 1978 as compared with only 4.3 percent in 1974. By 1978 almost 25 percent of men's underwear (non knit) and 13 percent of mens outerwear (non knit) of entire global exports originated from South Korea.

This element of success through its 'export miracle' and understandable reliance on this strategy has now come to be regarded as a cause for a possible faltering in South Korea's economy in the 1980's. To quote the London Financial Times, Far East Editor, Charles Smith's comment in June this year on this phenomenon. "The weak points of S. Korea's economic performance in the years from 1975 to 1979, or perhaps throughout the decade of the 1970's, were an over-reliance on exports as the engine of growth, a pre-occupation with quantity rather than quality and an inability to deal with the bottlenecks and distortions that were bound to result from a 12 per cent real GNP growth rate. More generally, Korea's economic managers, as well as its businessmen, can be criticised for simple and sheer over-confidence.

When problems arose in the textile and light industry sectors because of the declining competitive strength of S. Korea in world markets, it was assumed that the nation could "invest its way" out of the difficulties by massive development of heavy industry. The investments were made (by the leaders of big business groups who were usually personal friends of the President and who therefore had good reason to believe that their projects would not be allowed to fail).

But markets frequently failed to match production capacity (as in the case of the S. Korean motor industry where capacity utilisation is now well below 40 per cent) and technology and infrastructure often proved harder to accumulate than the optimistic planners had expected.

The economic problems which confront S. Korea in the aftermath of its period of high economic growth includes serious balance of payments weakness (generated by high oil prices but also due in part to weakening exports), high inflation (caused initially) by production bottlenecks and subsequently by oil prices, and unemployment (caused by a deliberately created recession designed to get rid of inflation).

In the coming months the Government will face the unenviable choice of letting the recession deepen further and seeing unemployment rise above its already disturbingly high levels, or of reflating and allowing prices to start rising faster than ever.

western world. The difference, however, is that a century ago the colonies had no alternative but to accept the cheap mass produced goods from the West while their raw materials were ceaselessly drained out, today the West can still dictate the terms and raise their protectionist barriers without the slightest notice.

The main form of regulation of the international textile trade was through the Multilateral Fibre Agreement (MFA), which by its very nature has been restrictive to Asian exporters. This agreement, originally negotiated between the EEC and over 30 exporters mainly from Asia and South America, placed import restrictions on knitted shirts and T-shirts, jerseys and pullovers, trousers, woven shirts and blouses. It set a ceiling of at least 6 percent on the growth of exports from these newer producers. The quota limits placed on the exports of the bigger Asian producers made the market prospects for their zooming production seem bleak. Meanwhile, many new producers such as Thailand, the Philippines, Indonesia and Sri Lanka were yet not in a position to fully utilize the quotas available to them.

In the 1960's the garments industry of the whole world underwent rapid expansion, but more significant were the changes taking place at this time. The newer producing countries were showing spectacular increases in output and exports in the 1960's and the greatest volume of the export trade shifted to the Far East during this decade. This trade was shared principally among four producers: Japan, Hong Kong, Taiwan and South Korea. The value of apparel exports of these four countries in 1969 was Hongkong $680 million; Japan $451 million; Taiwan $295 million; and South Korea $171 million, while Japan moved away from textiles and garments, over the 1970's, Asia's 'Big Three' manufacturers (Hong Kong, South Korea and Taiwan) established themselves as leading suppliers of apparel exports in the international market. The phenomenal rise of Hong Kong and South Korea within the space of the last decade is particularly striking (see box on pages 12 and 13).

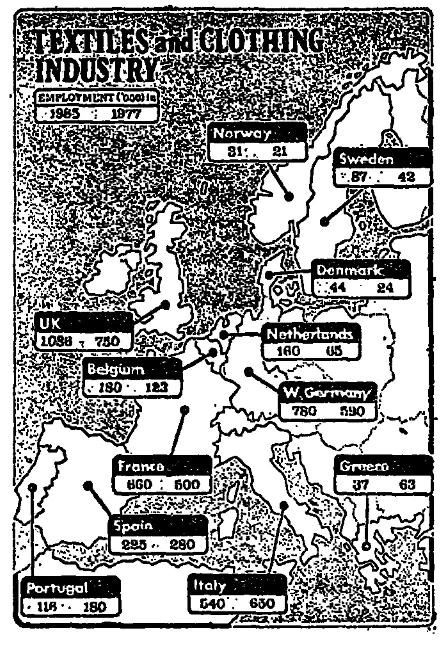
Another significant trend of the 1960's and 70's was the expansion of US and West European firms into some Asian and South American countries such as Hong Kong, South Korea, Taiwan, Singapore, Philippines, Brazil and Mexico. In addition to partnerships or outright ownership, many US and European firms expanded their operations, by selling their franchise or exclusive styles and names of their fashion houses.

In some of the Asian countries the textiles and garments industries developed so rapidly that they had become a major source of their export incomes. These countries turned to mass manufacture of garments to feed the leading markets of the world. This inflow of relatively cheap products had an impact on the garments industries in the countries of the Western world. Manufacturers in these countries soon realised their non-competitive position and expressed fears of a shut down of factories and mass unemployment in this sector. (See map). Most of the industrially developed countries in the West, from USA, Canada, to UK the Scandinavian and EEC countries, all felt the impact. A series of tariff and non-tariff barriers were put up against imports of the new Asian prducers. These restrictions continued to be tightened over the 1970's while some of the major producers, not to be outdone, began resorting to various devices to get over these restrictions.

Protectionist Barriers

The fact is that the clothing industry is heavily labour intensive, which is no longer suited to conditions of the market economies of the industrialised world. The resistance however, keeps mounting against low priced producers, particularly with the MFA due to come up for renewal next year. The cries of loss of jobs in the textile industry of the West keep growing louder.

"The spate of factory closures is more than an unpleasant foretaste of worse to come," states Giles Merritt writing in the Financial Times from Brussels. He maintains that many of those collapses are being caused by the flooding of markets in UK and Italy with artificially low-priced man-made fibres that result "from cheaper energy in the U.S." He emphasises, however, that the underlying trouble is that the structure of much of the European textile industry has become too shaky to withstand a real push. If the textile industries of Western Europe are to survive at all, however, it is now widely agreed that they must shed jobs on an alarmingly scale."



Source: *Financial Times*

Many economists are agreed on a conservative estimate that 3.5m-4m people are employed in West European textiles industries and it has been said that the livelihood of one EEC citizen in eight depends on textiles.

The chances of a 1983-87 MFA that is as protectionist as the present agreement are being debated now. Pressure from developing countries for markets for their own textile industries, which are labour intensive and give a valuable boost to an unsophisticated economy, is becoming increasingly hard to resist. European analysts now reckon that by 1985 as much as 25 per cent of all EEC textile activity will have been "transferred" elsewhere and that 50 per cent of all their clothing manufacture will have been suppressed by imports.

While EEC producers complain loudest about imports from low-wage developing economies — which to the tune of about 40 per cent in fact means Hong Kong, Taiwan and South Korea — that pressure is arguably as significant as the threat posed by mass production in the East European countries and the U.S. One commentator states that:

"In international terms, EEC textiles and clothing producers are caught between the pincers of U.S., and Eastern European economies of scale and the low wages of the Third World. To compete with both, the wage content of items produced in Europe must drop from the present level of around 35-40 per cent to 10-15 per cent".

The industry's answer to the crisis they so greatly fear has centred on demands for tighter import controls. The EEC's plethora of trade associations continue to insist that the solution to their members' problems is the blocking of community markets to outside producers.

The UK industry is demanding, for the next MFA, much tighter global ceilings by setting limits on the level of allowable imports of sensitive products; a recession clause enabling the average rate of growth in imports (currently 6 per cent per annum) to be varied; controls to be applied immediately when previously uncontrolled products reach trigger levels; and tightening of flexibility provisions which allows developing countries to switch between quotas and to carry forward unused quotas (A device Sri Lanka has contemplated availing of.)

Western capital invested in the textile industries in the East seemed to be largely responsible for Asia's rapid industrialisation and the rapid growth of the export economies of the developing world. But as a Hong Kong garments exporter complained "we are being penalised for our success", the protection barriers were put up against the most aggressive of the new producers. Quota limitations and other restrictions were imposed but these moves have not stemmed expansion of the already established producers. They saw an opportunity out of this situation by starting ventures in those countries where no limitations existed of where existing production was far behind the possible quota limits of these countries. Listed among such countries are the Philippines, Thailand, Indonesia, Malaysia, Pakistan, Bangladesh and Sri Lanka.

It was this factor that brought them in a big way to Sri Lanka in the latter part of the 70's.

In these countries there always existed a small scale clothing industry to cater largely to the specialised needs of the domestic market. But then the demand on these industries began to grow rapidly with import substitution becoming an essential aspect of most of their economies, which in turn led to an upgrading of their industries, and then with increasing costs of production in the western world (where the largest segment of the market lay) they began looking outwards towards the export markets. This was the general pattern of the progress of the garments industry in most Asian countries, and (as we shall see) the case of Sri Lanka was no different.

SRI LANKA'S GARMENTS INDUSTRY

Sri Lanka has been a producer of ready-made garments from about the mid 1950's when the output from this industry first began to cater to the demand of the local market. Throughout the 1950's the economy continued to be dominated by foreign trade, while a laissefaire type of economic policy was pursued and the private sector was therefore reluctant to engage in industrial investment in the face of foreign competition at that time. However, with the deteriorating terms of trade and increasing demand for consumer imports Sri Lanka's economy began to face a foreign exchange crisis. There was then a reversal in policies and by the early 1960's, constrained by foreign exchange resources, the economy moved towards an intensive programme of import control and also a policy of import substitution in industry began to be pursued. While major basic industries were reserved for the State; a wide range of consumer goods industries were left open to the initiative of the private sector which was provided with various investment incentives and a protected market. This resulted in a marked import-substitution-led growth and during the 60's Gross Domestic Product by the manufacturing sector at constant prices (1959 prices) almost doubled and during the decade its relative share in the GNP moved up from 11.6 percent in 1959 to 13.8 percent by 1970.

Numerous light consumer industries sprang up during this import-substitution phase of the early 60's and the foremost position among them came to be held by the ready-made garments industry. The largest single item produced by these industrialists was shirts and among the pioneer manufacturers were 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 around the mid 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 the Soviet Union and a leading local manufacturer was exporting upto Rs. 2 million worth of shirts annually to Russia under a bi-lateral trade agreement between the two countries.

By 1966 there were nearly 250 manufacturers (most of them small) specialising in various forms of wearing apparel, mainly for the local market, while a few major manufacturers exported in that year to the value of Rs. 327,375 to markets in the USSR, France, Pakistan, Maldives and Thailand. The total value of output from made-up garments almost doubled in the two year period, from about Rs. 25 million in 1965 to Rs. 46 million in 1967.

But the industry had to depend entirely on raw materials and accessories which were imported. Local manufacturers performed very little more than the tailoring duty. With the aggravating foreign exchange situation towards the end of 60's, the raw material component for the industry had to be reduced. The industry went through a recession phase and acute under utilization of capacity during this period; while, the prices of products shot up. Prices in the local market had even to be controlled at various intervals.

The futility of such a programme was realised in the early 1970's and in 1972 an attempt was made to re-structure the entire pattern of industrial growth, within the constraints of purported self-reliant policies under the limited foreign exchange available. This time attempts were made to cast aside the existing policy for certain sectors and to adopt an export oriented approach for certain industries. A number of incentives for export such as raw material rebates, fiscal and tax incentives, larger allocations of raw materials, CRA benefits, and special foreign exchange allocations were made available more liberally to export oriented industries under the package of the early 1970's.

A policy decision was taken in 1972 to provide a comprehensive incentive package of fiscal and tax incentives and tariff concessions and liberal foreign exchange for the industrial enterprises manufacturing for export. Earmarked for these incentives were 17 product groups and ready-made garments featured prominently among the priority products selected in this programme. These facilities

TABLE VII

Sri Lanka's Ready-made Garments Exports —Quantity and Value 1972-76

Year	Value in '000 Dozs	Percent Growth	F-O-B- Value (Rs- Million)	Percent Growth
1972	60		6.1	
1973	100	67	14.1	131
1974	180	80	29.3	108
1975	190	6	30.7	5
1976	300	58	71.8	13

Source: Export Development Division, Ministry of Industries.

and concessions encouraged a few of the leading garments producers to divert their attention more fully to external markets, even though they often had to starve domestic demand. The fact that they made full use of the incentives offered came out clearly in the rapid growth rate registered in their exports over the five years, beginning from 1972. Next to seafoods this sector was the largest contributor towards industrial export earnings. The rate of growth is evident in the table above.

It is significant that in the approval of new units from the end of 1971 the industries approved were largely those producing textiles and textile based products. (See Table below). Several factors were responsible for the steady growth of this sector, apart from the various incentives that were offered to exporters. There were also new units being established with foreign capital/marketing collaboration: the production in existing units being upgraded through newly imported machinery and equipment and modernisation of plant: the wage/price inflation and imposition of trade quotas on traditional Asian suppliers of made up garments such as Hong Kong, Taiwan, South Korea and Singapore by some western countries; and the comparatively low cost of manufacturing in Sri Lanka.

A notable feature of the export oriented industries during the early 70's is that investment moved mainly into the food and textiles sectors, and in the latter, particularly wearing apparel and ready-made garments. Even at that stage, however, it was found that the raw material consumption of the textiles sector was quite high; in 1975 it accounted for over 63 percent of its value of production. What was more disturbing was that the import content of this material was also high in 1975, more than 70 percent of material requirements in the textiles. A 1976 UNCTAD study commenting on this aspect stated "Since new industries that have sprung up in pursuance of the export-led growth strategy are highly import-dependent, the linkage effect for secondary growth in the economy is likely to be minimal, and the net foreign exchange saving to the country by encouraging such industries is unlikely to be substantial. On the other hand, it may be suspected that the domestic resource cost of the pattern of industrialization is high".

The Export Development Division of the Ministry of Industries had mapped out in the early 1970's a methodology to identify and select priority products for export development. This approach took into apparent consideration the need to develop a strong diversified export supply base in the medium and long term; at the same time it encouraged those products with export potential and capabilities which could be developed in the short term. The then Director of the Export Development Division writing about this programme in a recent issue of the ITC journal FORUM states that this approach **"was necessary both for the psychological reason of creating an impact in the shortest possible time and thus establishing the credibility of the export development programme,** and for quick economic gains from the world market situation for several items that were available for export at the time."

"Examples of how the different aspects of these policy issues were taken into consideration can be seen in the following cases. Readymade garments were selected because they were labour intensive, requiring few skills, and exports sales could be increased quickly, **thereby lending credibility to the export drive;** although, because the materials had to be imported the net foreign earnings were only approximately 20 percent to 25 percent. On the other hand, bicycle tyres and tubes and rubber products were selected because in addition to generating quick returns, the raw material was indigenous and their development would help the country in three ways: the utilization of resources would be increased, technical skills would be developed and greater added value through processing into finished products would increase the net foreign exchange earnings."

It could be seen from this statement that a primary consideration in promoting ready-made garments, despite only a 20-25 percent net foreign exchange earning, was **"to lend credibility to the export drive".**

The series of policy changes introduced after 1977 resulted in an initial sharp increase in industrial output, because of availability of imported inputs although by last year the initial spurt was petering out. In 1977 the Central Bank estimated that industrial output had increased in real terms by as much as 11 percent as compared with 1 percent both in 1976 and 1977; while in 1979 the real rate of growth was estimated at about 4 percent. Capacity utilisation too which was about 61 percent in 1977, and had been below the 50 percent level prior to that year, is estimated to have reached 70 percent in 1978. But it was the industrial exports which showed the biggest increase in value terms doubling in value to reach Rs. 1,963 million in 1978 and again almost doubling to Rs. 3,701 million in 1979. The major increases were recorded in textiles and ready-made garments, ceramic products and processed foods. Furthermore, the share of exports in overall industrial production increased from 22 percent in 1978 to 35 percent in 1979; indicating that over one-third of the country's industrial production was exported last year.

TABLE VIII. New Local Private Industries Approved by the Ministry of Industry 1971-1975
(No. of units)

	1971	1972	1973	1974	1975 (Jan.)
1. Food and beverages	23	37	33	23	21
2. Textile and textile-based industries ...	8	194	402	1,059	195
3. Chemicals and chemical products ...	16	41	26	27	20
4. Leather, rubber and wood products	16	45	44	27	16
5. Non-metallic products	14	34	12	6	5
6. Base metal industries	15	11	22	27	6
7. Transport equipment and machinery	16	29	42	23	5
8. Electric goods	4	6	8	2	1
9. Miscellaneous manufacturing Industries	2	13	30	11	1
Total	114	410	619	1,206	276

Source: Information supplied by the Ministry of Industries and Scientific Affairs, quoted in report of UNCTAD mission on "Transfer and Development of Technology in Sri Lanka".

Marketability, Capacity and Approvals

The 1978 export target set by authorities for all types of ready made garments was 10 million pieces. At the end of that year the target was well exceeded by the industry which had achieved an export level of 13 million pieces. More and more industrialists were anxious to enter what seemed a lucrative market and a stream of applications were coming in for financing of these ventures. The People's Bank Research Department therefore undertook a study in 1978 and estimated that the marketability of the popular items of manufacture (on which quotas had been applied for exports of leading Asian producers) was 16.1 million pieces in 1979 and would be 18 million pieces by 1982. (See table below). Some officials, however, were sceptical of these forecasts, and estimated marketability as at least 2 or 3 times more than the 18 million forecast.

TABLE 1
Estimated Marketability and Capacities (in million pieces)

Year	Projected Marketability	Total Capacities (Based on existing and newly approved capacities)
1979	16.1	649.2
1980	16.7	671.8
1981	17.9	693.1
1982	18.0	716.4

(Estimates from Report on "Capacity, expansion and market potential in the export oriented made-up garments industry of Sri Lanka — the situation for 1979").

Still on existing capacities approved at that time (and some not yet in production) it was possible to produce over 700 million pieces by 1982. The People's Bank Study therefore, cautioned as follows:

"Clearly there has been a degree of over investment. Most of the foreign collaborators both within and outside the FTZ are from Asian countries which have reached saturation point in their quotas. Our study strongly suggests that there has been an unplanned growth of investment in ready-made garments manufacturing. The general impression is one of a lack of centralised coordination over the contracted for and existing capacities. Our projections of future demand are based on certain assumptions. Even if these assumptions were to change so as to increase the market potential in certain key areas (say for instance in the U.S. market) we still feel that there has been over capacities in the garment sector. Consequently caution has to be exercised in any further investment in the industry."

This estimate has been revised upwards, considering the progress made in exports during 1978 and 1979, but still the 1982 figure only doubles to 36 million pieces. (See Table 3).

This report was circulated at the end of 1978, but as the table 2 below shows approvals continued unabated in 1979 and 1980.

Between 1979 and June 1980 nearly 1,100 projects had been approved by the LIAC (several of them ultimately hoping to break into export sometime); 20 projects had been approved by the FIAC (with foreign collaboration and to be set up outside the GCEC area) all of which are export oriented; while 23 projects were approved by the GCEC to be set up within the IPZ. Many of these may hope to produce non-quota items but here too limits can be reached and competition among them can grow unhealthy.

If the capacities of these newly approved projects are also taken into account the projected total capacities could well exceed 1,000 million pieces. Although in the meantime the established big Asian producers were resorting to various devices to bypass their quota restrictions and the newer Asian producers were expanding fast, authorities were still optimistic that Sri Lanka's manufacturers could well switch over to 'non-sensitive' or non-quota regulated items and that there were ever expanding markets in areas like the Middle East. (Hong Kong, however, discovered this in the 1970's and was exporting £15.2 million worth of clothing to Saudi Arabia alone in 1978. In 1979 Hong Kong raised its value of exports £20.3 million). The argument also runs that though quotas were fixed by some European countries and the USA for certain categories of items Sri Lanka's existing production was still not capable of meeting these limits. Proof of the growth potential is always shown in the export values of this sector as given in table 4 above. However, projected capacity of already approved industries are of a magnitudes much higher than these figures. Once (and if) they come into production marketing will be an acute problem.

Table 3
Estimated Exportability in terms of quotas and growth rates possible under the Multi Fibre Agreement

	1980	1981	1982
EEC ...	9.78	10.11	10.47
Sweden ...	1.07	1.07	1.07
Norway ...	0.56	0.56	0.56
Switzerland	0.72	0.76	0.81
U.S.A. ...	17.4	18.59	19.89
Canada ...	0.86	0.91	0.96
Socialist Rep.	1.04	1.10	1.17
Middle East	1,16	1.24	1.31
Total ...	32.59	34.34	36.24

TABLE 4
EXPORTS OF MADE-UP GARMENTS AND OTHER TEXTILE ARTICLES 1977-1979 (By Value — Rs. million)

	1977	1978	1979
Made-up Garments	139.7	47.5.3	1,094.3
Other Textile Articles	1.2	1.4	1.6
Total Textiles Articles	284.6	734.0	1,430.8
Made-up articles exports (Percent)	49.5	64.9	76.5

Source : *Sri Lanka Customs Returns*

Table 2 Ready Made Garments Units Approved and Value of Investment

	1978	1979	1980 (Jan-June)	78-80 (June) (Total est. investment)
1. Local Investment Advisory Committee (LIAC)	822	982	116	Rs.mn.177
2. Foreign Investment Advisory Committee (FIAC)	7	28	1	Rs.mn.759
3. Greater Colombo Economic Commission (GCEC)	16	9	14	Rs.mn.641

Source: *Ministries of Textile Industries LIAC; Ministry of Finance & Planning FIAC; & GCEC*

During 1978 and 1979 nearly 4,500 industrial units were granted approval by the various authorities of which about 4,200 were essentially local investment. From among these as many as 2,013 received approval from the Local Investment Industrial Committee for setting up of establishments to manufacture textiles and wearing apparel of which about 1,800 were for the manufacture of garments A further 82 industries received approval during these two years (for setting up with foreign collaboration outside the GCEC) from the Foreign Investment Advisory Committee. Here too nearly 30 are for the manufacture of garments, mainly for export. The most significant level of investment and production, however, was to come in the form of investment within the Greater Colombo Economic Commission or Industrial Processing Zone (IPZ) area. Over the two years 1978 and 1979 as many as 83 IPZ projects had received approval and agreements had been signed on 43 of them. Of the 43 as many as 25 were for manufacturing ready-made garments. By December 1979 only 13 were in actual production, but of these as many as 9 were manufacturing ready-made garments. Nearly 6000 persons were employed in these 13 IPZ ventures and over 90 percent or 5500 were employed in the ready-made garments industry. The total investments in these 13 ventures was Rs. 197 million of which over 85 percent or Rs. 164 million was from IPZ investors in the ready-made garments sector. Of the 69 foreign investors due to come into the IPZ as at December 1979 as many as 19 or over 70 percent are from Hong Kong and 8 from the USA. Investments in the ready-made garments industry followed almost the same pattern. It was these investors who were largely responsible for the doubling of the value of exports over both 1978 and 1979 and who gave Sri Lanka's ready-made garments a major thrust into the US market in 1979.

During 1980 still more projects for manufacture of ready-made garments were being approved by the GCEC authorities. Upto July 31, 1980 there were 14 more added, bringing the total number of GCEC approvals for garments projects at this date to 39. By the end of 1978 when the first 16 projects for garment manufacture in the IPZ were approved a People's Bank study, which was widely circulated, cautioned of possibilities of enormous overcapacity as compared to the market potential. Despite this warning a further 9 projects were granted approval in 1979; and as many as 23 more projects have been approved since 1979. (See Box on page 17).

Garments and the GCEC

The Katunayake IPZ has largely depended on ready - made garments for its initial growth and in 1979 a major part of its earnings were from these industries. A view has been expressed that leading Asian clothing manufacturers who had exhausted their quotas were moving into areas like Sri Lanka where there was still scope for exports of certain items restricted to them. A member of the G.C.E.C., himself was of this view and felt that if similar incentives were given to local industrialists then 'all the garment industries would have done very much better than anyone else'. In January last year a member of the G.C.E.C. Mr. A. Y. S. Gnanam who appeared before the 'Select Committee which Examines Suitability of Candidates for Posts' stated as follows when questioned on this aspect by the Hon. Minister of Finance Mr. Ronnie de Mel

Hon. de Mel: For how many industries have you signed agreements?

Mr. Gnanam: 51 have been approved. So far agreements have been signed in respect of 31. Out of that nearly 13 will be garment industries.

Hon. de Mel: In other words, up to date the only attraction in Sri Lanka is to collar the quotas which are still available to Sri Lanka. Korea has exhausted her quota, Hong Kong has exhausted, Singapore is exhausting, so the only thing they found attractive in Sri Lanka is to collar Sri Lanka's quota. Do you agree?

Mr. Gnanam: I agree.

Hon. de Mel: Could Sri Lanka industrialists not have got this quota and done this industry without any foreign help?

Mr. Gnanam: If you had announced your offer of a five-year tax holiday to industrialists in your last but one Budget, then all the garment industries would have done very much better than anyone else, because Sri Lanka has got the best garment industries. The one run by Mayura garments is equally good as a foreign garments industry. If they were allowed to export, they would have done without the Free Trade Zone.

Hon. de Mel: In other words, the Free Trade Zone has only deprived the Sri Lankan industrialists.

Mr. Gnanam: I do not want to talk against my own conscience.

Hon. de Mel: You will have to tell us. We are a fact-finding Committee

Value Added in Garments

No accurate estimates could be made of the actual value added in the textiles export sector, though this sector has been constantly held up as an example of Sri Lanka's "booming industrial exports" in recent years. The table below of imports and exports of textiles and textile articles gives some indication, but two other important factors that have to be taken into consideration, (when viewing this data) is that a considerable part of imports goes into domestic consumption, while there has been an enormous illegal import market for textiles and garments officially estimated by the Customs authorities at about Rs. 1.2 million per day.

TABLE IX

IMPORTS AND EXPORTS OF TEXTILES AND TEXTILE ARTICLES 1977-79

	IMPORTS (Rs. mn)	EXPORTS (Rs. mn)
1977	458.7	248.6
1978	1,217.6	734.0
1979	2,323.0	1.430.8

Source: Sri Lanka Customs Returns

Growth of Exports

Taking an overall view of Sri Lanka's ready-made garments production and exports in the 1970's we observe that spectacular growth rates were recorded from around 1976. The average growth rate for the period 1975-1979 was about 103 percent, giving ready-made garments the fastest growth in output for any single industrial product manufactured in this country over a sustained period. In 1975 garment exports amounted to only 4.9 percent of the total value of exports of all manufactured goods In 1976 and 1977 these exports rose to 9.6 percent and 10.6 percent respectively of the proportion of total industrial exports. In 1978 and 1979 it was ranging between 20 and 30 percent. Tables X - XII illustrate how the growth rate for particular products has ranged, between a minimum of 36 percent and a maximum of 150 percent.

Over the last several years shirts have been the leading export item and in 1973 accounted for nearly 57 percent of the total quantity of ready-made garments exported. There were only two other major items being exported at that stage; namely, blouses and jackets (34%), and tee-shirts (9%). Between 1974 and 1979 nearly 20 items of ready-made garments came to be exported. From 1974

Table X. Quantities of Garments Exported 1975-1979 (Number of Pieces)

		1975		1976		1977		1978		1979	
		Q PCS	%	Q PCS	%	Q PCS	%	Q PCS	%	Q PCS	%
1.	Shirts	662,468	38.2	1,361,090	35.3	1,800,247	35.4	3,677,019	28.2	6,106,823	23.1
2.	Tee-Shirts ...	297,324	17.2	319,704	8.3	148,489	8.0	134,589	1.1	514,469	1.9
3.	Boy's & Gent's trousers	410,704	23.7	805,764	20.9	654,284	12.5	2,344,098	17.9	3,202,955	12.1
4.	Shorts	—	—	63,939	1.7	551,794	10.5	1,440,805	11.0	2,866,107	10.8
5.	Bikini Briefs ...	—	—	124,478	3.2	111,670	2.2	12,780	0.1	521	
6.	Jeans	—	—	—	—	311,548	5.9	—	—	—	—
7.	Skirts	—	—	—	—	29,626	0.7	489,357	3.7	1,009,189	3.8
8.	Blouses & Jackets ...	361,860	20.9	1,235,346	29.4	1,287,334	24.6	8,500,000	26.8	8,173,736	30.9
9.	Pantaloons ...	—	—	—	—	—	—	296,685	2.3	109,849	0.4
10.	Dresses ...	—	—	—	—	—	—	455,241	3.5	713,543	2.7
11.	Children's Garments	—	—	—	—	—	—	—	—	946,527	3.6
12.	Others	—	—	48,916	1.2	65,023	1.2	710,794	5.4	2,817,660	10.7
	Total	1,732,356	100.0	3,856,232	100.0	5,230,015	100.0	13,061,476	100.0	26,461,379	100.0

Sources: Ministry of Industries & Scientific Affairs
Ministry of Textile Industries.

Table XI. Values of Garments Exported 1975-1979 (Value in Rs. Million)

		1975		1976		1977		1978		1979	
		Value	%	Value	%	Value	%	Value	%	Value	%
1.	Shirts	8.7	34.9	22.0	31.7	35.6	38.1	80.6	9.12	222.2	24.7
2.	Tee Shirts	0.8	3.3	1.2	1.8	1.7	1.9	3.0	0.7	13.8	1.5
3.	Boy's and Gents' Trousers	11.7	47.0	30.4	43.8	22.0	23.6	120.0	28.5	196.5	21.8
4.	Shorts	—	—	0.6	0.9	5.8	6.3	32.4	7.7	33.2	3.7
5.	Bikini Briefs	—	—	0.2	0.4	0.2	0.1	0.3	0.1	0.0	
6.	Jeans	—	—	—	—	6.5	6.9	—	—	—	—
7.	Skirts & Maxies ...	—	—	—	—	0.2	0.3	22.5	5.3	38.3	4.3
8.	Blouses & Jackets ...	3.6	14.8	14.2	20.5	19.7	21.2	106.8	25.3	306.2	24.0
9.	Pantaloons	—	—	—	—	—	—	18.0	4.3	6.8	0.7
10.	Dresses	—	—	—	—	—	—	13.8	3.3	24.7	2.7
11.	Children's Garments ...	—	—	—	—	—	—	—	—	20.4	2.3
12.	Others	—	—	0.7	0.9	1.6	1.7	24.8	5.7	33.0	3.7
	Total	24.3	100.0	69.3	100.0	93.5	100.0	421.5	100.0	900.0	100.0

Sources: Ministry of Industries and Scientific Affairs,
Ministry of Textile Industries.

Table XII. Exports of Garment Products other than shirts, blouses and jackets, jeans and trousers (Quantities) by destination 1979

	Tee-Shirts	%	Children's garments	%	Bikinies panchoes	%	Maxi-skirts	%	Pantaloons	%	Dresses	%	Others	%
E.E.C.	124,655	4.3	334,520	35.3	370	71.0	299,891	29.7	97,987	88.2	230,084	32.5	212,804	7.6
U.S.A.	2,698,854	94.22	485,736	51.3	—		43,440	4.3			393,426	55.1	2,486,590	88.3
Norway	—	—	—	—	—		45,812	4.5	—		172	0.0	34,575	1.2
Sweden	2,510	0.5	28,994	3.6	—	—	84,194	8.3	6,749	6.1	26,998	3.8	10,142	0.4
Canada	—	—	—	—	—		—		—	—	19,366	2.7	—	—
Others	42,598	1.0	97,327	12.9	150	29.0	532,151	53.2	5,001	4.7	44,689	6.1	63,367	2.2
Total	2,866,107	100	946,527	100	521	100	10,091,189	100	109,849	100	713,534	100	2,817,660	100

to 1977 shirts accounted for about 35 percent of the quantity exported. In 1978 shirts took up only 29 percent and in 1973 23 percent of total exports. By 1979 blouses and jackets, which have always been a major item of export, moved into leading position and accounted for nearly 31 percent of the total quantity of garment exports. The other significant export item has been boy's and gent's trousers which in 1975 took up nearly 24 percent of total exports, and in 1978 accounted for 18 percent and in 1979 for 12 percent of the total quantity of garments exports. The other main item has been shorts which has accounted for around 10 percent of total garment exports. A notable feature in the pattern of Sri Lanka's garment exports has been the position of shirts, blouses and jackets which taken together, have always accounted for over 50 percent of the total exported.

In considering the growth of exports in the ready-made garment sector we observe that the increase in values has been faster than the increase in volume. The average growth rate for the period 1975-1979 has been about 170 percent, as revealed in Table XI. The unprecedented rise in 1978 to Rs. 420 million from about Rs. 94 million in the previous year was largely the result of the devaluation in the currency that year. It is clear, however, that the quantity exported shot up from 5.2 million pieces in 1977 to 13.1 million pieces in 1979, and even well exceeded the export target of 10 million pieces set by the Ministry of Textiles that year. The growth for 1979 has been considerably higher, with exports of GCEC projects also joining in. In terms of value the increase was from Rs. 422 million to Rs. 900 million and in terms of quantity it moved from

13.1 million pieces to 26.5 million pieces. The nagging question has been how far could this rate of growth be maintained.

The highest proportion of exports both quantity-wise and value-wise was going into the EEC countries. But by 1979 GCEC exports moved into a dominant position and the US market became very significant. The IPZ has so far depended heavily on garments for its growth and nearly half its earnings have come from the U.S. Meanwhile the US government, in its desire to curb Asian textile exports, decided to clamp down quotas on Sri Lanka's garment exports from 1980; which is posing a threat to garment exporters both within and outside the GCEC area.

Quota Impositions

For the present the E.E.C., Sweden, U.S.A. and Canada have imposed quota restrictions on Sri Lanka's garments. The details of EEC quotas are given in table XIII.

Table XIII

Quotas imposed on Sri Lanka garments by E.E.C.

(Quantity: Million pieces.)

Item	Quota	Allowed annual rate of growth %
1. Men'shirts	3.10	1.5
2. Women's blouses	2.75	1.5
3. Men's & Women's Trousers	1.60	5.0
4. Jerseys, Pullovers	0.70	6.0
5. Tee Shirts	1.00	10.0

Source: Dept. of Commerce.

In addition to the above E.E.C. quotas, the Federal Republic of Germany offered a bilateral trade agreement quota of 1 million pieces each for shirts and blouses.

Products of other groups were to be dealt with separately, under a "basket" treatment, which meant that if the export of these products to the E.E.C. exceeded a certain specific proportion over the previous year's exports, the E.EC. would inform the supplier country to negotiate immediately and agree on quota requirements. This programme is named an "automatic trigger mechanism" which could bring such items under the quota system once they reach big proportions. Under this system the permitted growth rates of exports to the E.E.C. are as follows:

Group I — 0.2 percent
Group II — 1.5 percent
Group III-V — 4.0 percent

An agreement to give this effect was signed in December 1977 to be effective from January 1978, extending for a period of 4 years.

In 1977, at the time of the signing of this agreement, 20.1 percent of our garments exports went to E.F.T.A. countries. Among them Sweden was the largest purchaser of Sri Lanka garments; while Norway held third position. Both these countries have attempted agreements with Sri Lanka. Second position was held by Switzerland which purchased heavy quantities of men's and boy's outer garments. The Swedish Government announced that they were prepared to accept the renewal of the Multi Fibre Agreement only after they conclude as many bilateral agreements as possible. Sri Lanka had a trade agreement in regard to garments exports with Sweden for a one year period from August 1977 to July 1978, which embraced only some items; namely, shirts and blouses with a quota of .44 million and .55 million pieces respectively.

In order to renew this bilateral agreement a Swedish negotiating team arrived in Sri Lanka in June 1978, for talks. Sweden divided the 14 categories of textile products for which they had requested consultations, into two separate groups. Three products; namely shirts, blouses and trousers (excluding shorts), were included in the first group, and on these items the Swedish negotiators were unable to increase the existing quotas.

However, trousers (other than shorts) were not subjected to quotas, but the Swedish side stated that due to increased imports of this item from several sources they might have to impose quotas in the near future. A quota of 180,000 pieces for trousers was negotiated.

The balance 11 (named the 'rest' group) products included 8 garment items and three textile items. Among these only tee-shirts and costume dresses were of interest to Sri Lanka. In these items there was agreement to allow 60 tons of the "rest group" to be exported to Sweden. The agreement with this country was only for another one year, from August 1978 to July 1979.

Sri Lanka had an agreement with Norway for two years, extending from May 1976 to April 1978. Sri Lanka had to voluntarily limit exports of shirts to Norway during the first twelve months to 65,000 pieces. During the second twelve month period this quantity was increased by 5 percent.

The Norwegian government as well as the other governments of the Nordic group, decided to agree to a renewal of the Multi Fibre Agreement only after they had negotiated bilateral agreements with a number of exporting countries. A delegation from Norway visited Sri Lanka in January 1978 and after, negotiations a pact was signed with Norway to be effective

Table XIV

Export quotas imposed by Norway, under 2 Groups

Group I	Items	(Quota (Pieces)
1.	Woven shirts & blouses	130.000
2.	Knitted shirts, blouses and tee shirts	120.000
3.	Knitted jackets, pullovers	100,000
4.	Woven slacks, jeans, trousers	60,000
5.	Knitted stocking, socks etc.	48,000 (pairs)
Group II		
6.	Woven skirts	30,000
7.	Woven dresses, house coats, frocks	30,000
8.	Knitted costumes, dresses, suits	25,000
9.	Knitted night garments, overalls, woven shorts, swim wear etc. ...	20,000

from January 1978 upto December 1982. Under this agreement there were two groups of items which were classified as most sensitive and less sensitive. Of the 25 categories covered, Group I consisted of 10 items and the other 15 were included in Group II. All items in Group I and some items in Group II were brought under quota as shown in the Table XIV on page 20).

The items in Group I were to be subjected to a 0.5 percent annual growth and Group II to an annual growth of 2.5 percent. The items of Group II, which were considered sensitive items in the Norwegian market, were treated as under the "trigger mechanism" system. Items not yet selected for export by Sri Lanka were also to come under this system. If any items of Group II exceed 2.5 percent of the previous years total exports of that item, immediate negotiations should take place and quantitative limits established

The other export quotas to the USA and Canada permitted to Sri Lanka at present are as below:

CANADA

Items	Quota (No. of Pieces)
Shirts	3,072,000
Blouses & Jackets ...	5,580,000

USA

Items			Quota (No. of Pieces)	Growth Rate
Cotton Shirts	...	...	4,200,000	7%
Cotton Blouses	...	...	4,320,000	7%
Cotton Coats	...	...	1,200,000	7%
Trousers & Jeans	...	...	2,400,000	7%
Synthetic Shirts	...	...	960,000	7%
Synthetic Blouses	...	...	4,320,000	7%

In addition to this cotton blouses upto a limit of 840,000 pairs has also been allowed.

The U.S.A. quota has been distributed among exporters within the F.T.Z. and outside the FTZ (local industrialists) as in the table below. Quotas for other countries are reserved for domestic producers only.

This quota which came into effect from May, 1980 had to be shared by FTZ and local industrialists.

Items		Quota (Doz. pieces)	FTZ (Doz)	Local (Doz.)
Cotton Shirts ...	...	350,000	175,000	175,000
Cotton Blouses	...	360,000	120,000	240,000
Cotton Coats ...	...	100,000	30,000	120,000
Trousers & Jeans	...	200,000	60,000	140,000
Synthetic Shirts	...	80,000	38,000	42,000
Synthetic Blouses	...	360,000	240,000	120,000
Cotton Gloves	...	700,000	425,000	275,000

The Trade Minister who headed the negotiating team to Washington to discuss the US regulatory move stated on his return, according to the Ceylon Daily News of May 7, that the imposition of quotas by US on seven of the 17 locally made items to the US will not disrupt the local industry and that there will be no displacement of labour.

The problem of displacement of labour, on account of this issue of US quotas, gained much publicity and the Ceylon Observer of June 24 reported.

"Shock waves have rippled through the garment manufacturing industry following appointment of the U.S. export quota between IPZ factories and production units outside. The quota has been roughly split fifty-fifty between the IPZ and outside and the Ministry of Textile Industries has already farmed out the quota allocated for non-Zone factories. The GCEC, meanwhile, is working out the Zone distribution. The immediate fear is that retrenchment, at least in the short-term will become inevitable with some factories who have programmed production schedules on the basis of orders in hand for which fabrics have been imported, taking a crippling blow."

The Secretary of the Garments Manufacturer's Association, Mr. K. Wignarajah, was reported as saying "manufacturers outside the zone appreciated the priority the government has given to attracting foreign investment and therefore had no quarrel about the need for giving some special consideration to IPZ units.

But 60 factories in production outside the IPZ had 27,000 employees (22,000 trained workers plus 5,000 trainees) against 9 IPZ units employing 5,400 girls and 4,000 trainees. Five more IPZ factories were also due to come on stream shortly."

He argued that in terms of performance the IPZ should have got only 10 per cent of the quota and the balance allocated to factories outside; but added.

"We are not saying give them just 10 per cent. We say give them more than twice that for the current year on a loan basis. But we also say that the factories outside must be given a better deal"

Comparison of Quotas with Actual Exports

In the following table (Table XV) the actual 1979 export performance of those categories of garments on which quotas are imposed is compared with quotas for the year 1980. The objective here is to examine how far the exports could be expanded, and for what items markets are saturated.

(a) For the year 1980 marketable quota limits of cotton and synthetic shirts to the EEC, allowing for the growth rates, is 3.19 million pieces. During 1979 a quantity of 3.2 million pieces were exported, over 27,000 pieces in excess of this year's quota. It is evident from this situation that the market in the EEC for shirts from Sri Lanka is saturated. There is some hope, however, in the extra one million pieces offered by West Germany.

(b) The quota for blouses and jackets to the E.E.C. for 1980 is 2.83 million pieces and a total of 1.90 million pieces was exported in 1979. Here there is scope for the export of another 0.7 million pieces of this category in 1980. A further opportunity is available in the additional one million pieces offered by West Germany.

(c) The jeans and trousers quota for 1980 to the same region has amounted to 1.76 million pieces and actual exports in 1979 have been 1.53 million pieces. Here a further 0.23 million pieces could be exported in 1980.

(d) A notable feature of the quota for jerseys and pullovers is that it has never been met. The full amount of 786,520 pieces could be exported in 1980.

(e) While there is a 1.21 million pieces quota for Tee Shirts our performance has been 0.17 million pieces. Here a substantial quota of over 1 million pieces has not been met.

Table XV

Relationship between Quotas for 1980 and Actual Performance/of Garments Exporters during 1979

Area			Shirts	Blouses Jackets	Jeans Trousers	Jerseys Pullovers	Tee Shirts	Coats Gloves
EEC quota	...	1980	3193690	2,833,115	1764000	786520	1210000	
Achieved	...	1979	3220726	1,905,185	1530688	—	175987	
Difference	...		27036	917,930	233312		1034013	
USA Quota	...	1980	5160000	8640000	2400000	—	—	1,200,000
Actual	...	1979	2256479	5603431	833384			
Difference	...		2903521	3036569	1566616			
Canada Quota		1980	256000	465000				
Actual	...	1979	149252	100077				
Difference	...		106748	364923				
Norway Quota		1980	230000	100000	60000			
Actual	...	1979	20837	88333	4166			
Difference	...		209168	21667	55834			

U.S.A.

The U.S.A. has brought 7 items under quota though they are actually reduced to five items, when cotton and synthetics are put together It must be noted however. that these 5 items are the most popular and fastest expanding for local manufacturers; and though nearly 10 of the 17 items exported to the US have no restrictions future growth in the US market will be seriously effected by the quotas placed on exports of the popular items. Exports of shirts during 1979 relative to the 1980 quota was less than 50 percent. In the case of blouses another 3.04 million pieces can be exported. Much larger quantities in the case of jeans and trousers can also be exported. A considerable balance for coats and gloves remains to be met in 1980.

Sweden

During 1979 a little more than half of Sweden's quota for shirts for 1980 was exported. A relatively larger amount of blouses and jeans were exported. From the jeans and trousers quota too nearly 60,000 more pieces had to be exported.

Canada

Canada has allowed for export of 256,000 pieces of shirts but only 149,000 were exported in 1979. The difference in the quota and performances in blouses and jackets is very much larger and considerable expansion is possible here. Canada has released all other items from the quota restrictions.

Norway

A very small proportion of the quota set for 1980 for shirts was exported to Norway last year. Blouse exports have less scope for expansion while exports of jeans and trousers could be increased a considerable extent.

It is apparent from (Table XVI below) that 96 percent of the total exports of shirts: 99 percent of exports of blouses and jackets; and 78 percent of the exports of jeans and trousers have gone to those areas where quotas are in force. We observed earlier that growth rates allowed on existing quotas are very low. In these circumstances we cannot expect the same growth rates of ready made garments exports to countries where quotas have been imposed.

Future Possibilities

Three possibilities emerge from the foregoing discussion.

1. Export quota levels have to be met for some countries on particular categories of items. There are immediate possibilities for industrialists to divert into these lines.
2. There are several other products which have not been very popular among local industrialists, and are regarded as non-sensitive products. This potential needs to be explored.
3. There are other European, African and Middle East markets where quota measures and import barriers have still not come up. The greatest possibilities for the newly expanding production appears to be in these areas.

There are many reasons why we have not been able to fulfill the outstanding balances of quotas allotted for some countries. One is that the factories with large rated capacities are not in full production as yet. Several approved factories were expected to be completed by the end of 1979 but are still not commissioned. The traditional garment manufacturers in the Asian region have resorted to various measures to circumvent the quota restrictions placed on their exports, while comparatively new Asian producers such as the ASEAN group of countries have moved in aggressively into the US and European market in recent years. This has created a degree of saturation in the market. Meanwhile, producers in some of these importing countries are bringing pressures on their governments to put up more protectionist barriers. Both these factors are making greater penetration in Sri Lanka's existing markets more difficult. Further, local producers have at times not been able to service the markets as demanded by importers. There are other reasons such as political relationships, transport, marketing, management and general competitiveness which have to be given close consideration if the existing investment in Sri Lanka's garment industry is to be well utilized and other crucial factors in the economy are to gain support from this industry.

Table XVI

Export Quotas and Actual Exports of Major Apparel Products to Quota Countries-1979

(1) Category		(2) Quota for 1980	(3) Total exports 1979	(4) Exports to Quota Countries'79	(5) Proportion of 4 to 3
Shirts ...	...	9,279,690	6,106,823	5,879,484	96.3
Blouses & Jackets	...	12,483,115	8,173,736	8,110,039	99.2
Jeans & Trousers	...	4,406,000	3,202,955	2,489,406	77.7