

Prospects and Challenges to Garment Industry in Sri Lanka

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ABSTRACT

Sri Lanka's garment manufacturing industry is the most significant and dynamic contributor to Sri Lanka's economy. It contributes for more than 52% of the Sri Lanka's export income. Garment manufacturers in Sri Lanka have gained a strong reputation worldwide for ethical manufacturing of high-quality garments trusted by the iconic global fashion brands. Sri Lanka's apparel and textile manufacturers have successfully utilized the opportunities in the international market to grow beyond traditional exports and tailoring designs to provide sophisticated and innovative solutions through fashion BPO services, research, development and innovation centres. Although, the dependence on quotas by Sri Lanka is far less than the countries of South Asia but there are shortcomings in Sri Lanka's local industrial sector and exports such as Sri Lanka's dependence on the quota system, inflexibility of the labour markets and high level of competition in the global market. In order to survive, these challenges need to be paid serious attention. Thus, the future of the apparel factories in Sri Lanka would rely on the competitive edge that the country (Sri Lanka) would have over other countries. In addition to this, Sri Lanka's garment industry has also connected with global brands in Europe and the USA. Thus this paper presents a study of prospects and challenges to Sri Lanka's garment industry.

Keywords: garment, export earnings, opportunities, international market, weaknesses, competitors

1. INTRODUCTION

Sri Lanka is a key player in the global textile industry. Sri Lanka is also a base country for many production activities for famous international brands and emphasizes more on manufacturing of environment friendly garments. The apparel sector has contributed significantly towards the Sri Lankan economy, as it has shown steady growth over the past three decades. Evolving from the traditional low-wage driven cost-competitive model of production, the Sri Lanka's manufacturers now provide sophisticated solutions to the garment industry's more complex global needs, leveraging on creativity and experience in an array of fields such as Design, R&D and Innovation. This rapid development of the Sri Lanka's apparel industry has led to Sri Lanka becoming a garment manufacturing hub. Out of the total garment factories in Sri Lanka, the large scale factories provide work to around sixty two percent of the entire work force in garment / apparel area. The garment sector provides employment to around 15% of Sri Lanka's labour force, and this country achieves the highest garment exports.

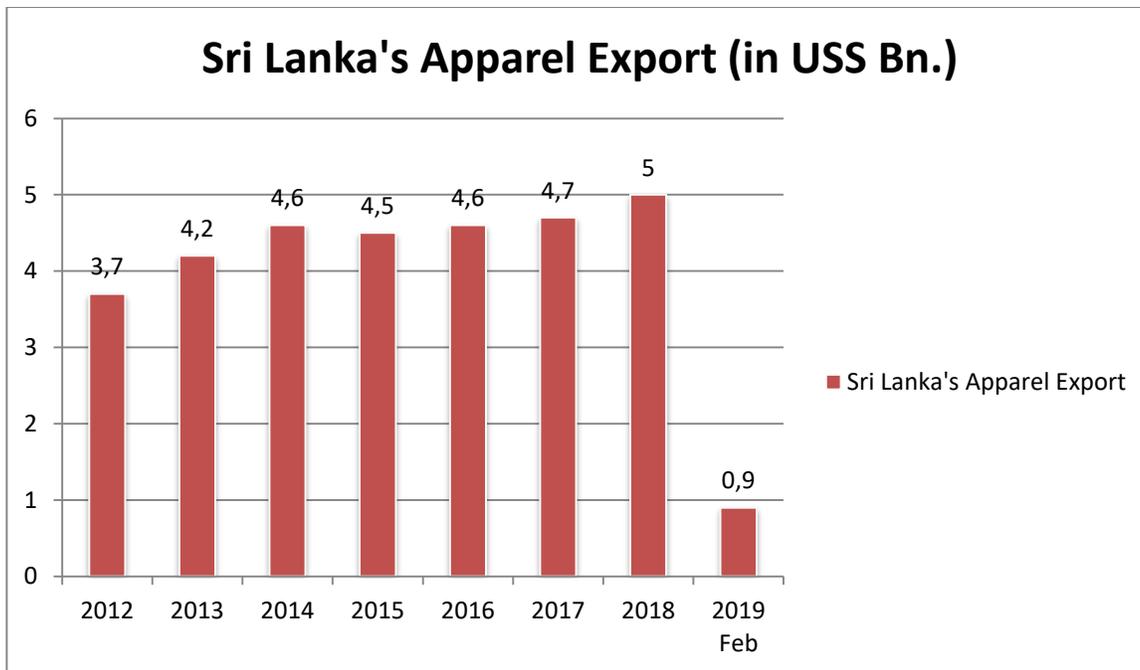


Fig 1: Sri Lanka's Apparel Export

The apparel categories span produced in Sri Lanka consists of sportswear, children wear, swimwear, work wear, lingerie, bridal wear and loungewear. These manufactured products are then exported to other countries. In the past, these two countries namely, United Kingdom (U.K.) and the United States (U.S.) have been the biggest buyers of garments that are manufactured in Sri Lanka. The garments of Sri Lanka are well known for its 'Garment without Guilt' philosophy. When compared to other Asian countries, the working conditions are much better in Sri Lanka.

The garment sector is also focusing on fulfilling the local demand, apart from realizing the export targets. At present, the Sri Lanka's garment industry utilizes over 15 percent of available labour.

The Colombo port is the largest port in Sri Lanka. It is also one of the busiest port in the country through which goods and products can be transported freely. The only obstacles that pose danger to the otherwise flourishing garment sector are the excessive dependability on large scale industries, Lack of Solid Raw Material Base, Insufficient Product Diversification etc. At present, the industry is booming but strong steps should be taken by the government to change the view of the world with regard to said challenges. The overall scenario for Sri Lanka's garment industry can be greatly improved with Technology friendly work force, favourable government policies and incentives, stable political environment and also with planned shipping lanes.

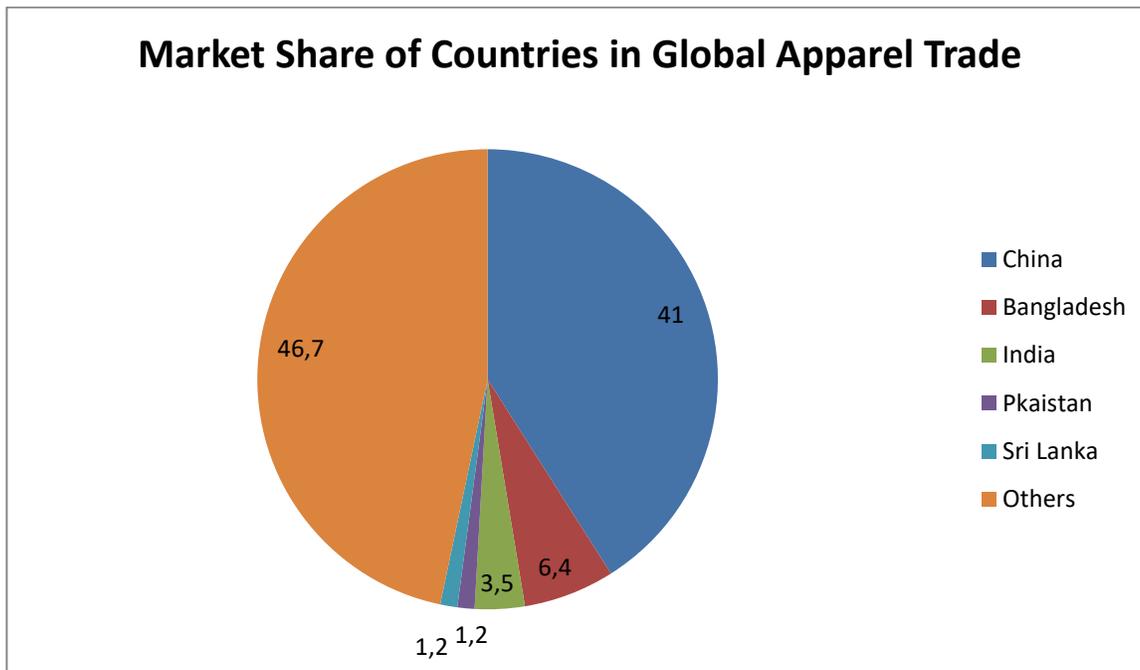


Fig2: Market Share of Countries in Global Apparel Trade

2. HISTORY OF GARMENT INDUSTRY IN SRI LANKA

Sri Lanka has traditionally been an agro-based economy from the ancient times. With the Industrial Revolution taking root in Europe and later spreading to the rest of the world, Sri Lanka too had to take its place in this scenario. The large scale manufacturing of apparels started in Sri Lanka in the year 1950. The garment manufacturing industry became the biggest industry in the economy of Sri Lanka.

After late 1970s, the apparel industry expanded rapidly in Sri Lanka. The remarkable progress made during the period after the late 1970s was achieved due to three main factors. The first factor was liberal economic policies that were announced in the year 1977. These economic policies were market oriented and focused on export oriented factories. The supportive measures taken by the government was second factor responsible for the extraordinary growth. The supportive measures included off-shore borrowing services, tax holidays or concessional taxation, duty free import of manufacturing inputs. The third key factor which led to the growth of the garment industry in Sri Lanka was Multi Fibre Arrangement / Contract.

Since the end of the quota system on 1st January, 2005 and removal of the Generalized System of Preferences from 15th August 2010; the successful period of the apparel industry was slowly coming to an end. Sri Lanka's apparel

industry faced several drawbacks mainly because of China and other countries that manufacture and deliver garments / apparels at very low rate. These countries were able to supply garments at competitive rate because of their low cost of labour.

3. ADVANTAGES TO SRI LANKA'S GARMENT INDUSTRY

- **Strategic Location**

Sri Lanka is situated strategically at the crossroads of major shipping routes to South Asia, the Far East and the continents of Europe and America, making the country a convenient port of call for shipping lines and airfreight services. Being situated on the main sea routes becomes an attraction for garment manufacturers. Further, Sri Lanka's proximity to the Indian sub-continent positions, the country serves as a gateway to a market of 1.3 billion people. These factors have combined to generate keen interest in the country's logistics sector, as well as from manufacturers looking for opportunities in the South Asian region. Sri Lanka's Garment Industry focuses on improving the delivery speed and this they achieve it since Sri Lanka is strategically located and also has favourable business environment.

- **Access To Key Markets**

Sri Lanka's strategic location provides great opportunities to enter into free trade and partnership agreements with several of Asia's trade countries. Multi Fibre Trade Arrangement was the key factor which led to the significant growth of the apparel industry in Sri Lanka. An added advantage for a company locating to Sri Lanka is the preferential trade access gained to two large regional blocs under the South Asian Free Trade Area (SAFTA) and the Asia-Pacific Trade Agreement (APTA).

- **Strict adherence to Labour Laws**

Sri Lanka has strong labour policies which clearly stipulates the working hours, age limits, prohibition of child labour, industrial safety etc and the salaries are paid monthly. In addition to this, if an employee works on a Sunday not less than 1 1/2 times the daily rate of wages should be paid. Sri Lanka also has a strong company law framework which dates back to 1963 Finance Act No 11 and it had been updated under a special provision to accommodate the legislature for Foreign Companies in 1974.

- **Leverages on Creativity and Experience**

Besides the natural and human resources available in the country, the technological resources available in the garment industry also influence its attractiveness. Sri Lanka has spent more than 5 billion US dollars on

research and development(R & D) in 2017. Sri Lanka's factories focus on innovation which offers superior product development and design resources.

- **Eco Friendly clothing**

The motto of Sri Lanka is to keep its people and environment first and then the profit. It is well known fact that garment manufacturing industry releases large amount of waste and also causes pollution. Still, the apparel industries of Sri Lanka produce environment friendly apparels. The country also possesses a large production facility that works ecologically. The garment manufacturing factories in Sri Lanka uses advanced technology such as hydropower to ensure that they concentrate on eco-friendly and sustainable products.

- **Ethical practices**

Sri Lanka is identified as a manufacturer of Garments without Guiltworking under the principles of no child labour, proper working conditions, free of bonded / forced labour, free of bias and no sweatshop practices. With the continuous Garments without Guilt movement, Sri Lanka was able to adhere to ethical practices. Sri Lanka's Garment Industry was able to establish its global image as a trustworthy and a quality producer of garments having a capable and obedient labour force. The apparel producing factories of Sri Lanka have taken numerous ethical steps to confirm that the working environment of the apparel industries match the benchmarks set by the international firms.

- **Design to deliver**

The normal procedure from placing order to supply/distribution generally takes months, because of production time and then distance of distribution to other places across the globe. On the other hand, Sri Lanka can manufacture the garments and deliver it to the customers within two weeks' time. The design to deliver time is an important aspect for the garment industry and this is the main reason for so many big garment factories / firms shifting their manufacturing business to Sri Lanka. The strategic location of Sri Lanka makes the country an attractive destination for other countries of Asia, since it is located in the middle and can manage consignments to the neighbouring countries rapidly and proficiently.

4. CHALLENGES TO GARMENT INDUSTRY IN SRI LANKA

In the last few years, the international apparel industry has witnessed major changes. Some of them are changes in demand of customers, difference of technology and high level of competition. These variations have also affected

the apparel industry of Sri Lanka and have also put substantial pressure on the apparel sector to achieve higher lever of manufacturing.

- **Highdependence on some of the Export Markets**

Sri Lanka's garment industry concentrated on some of the export markets. The main countries to which Sri Lanka exports majorly include United States of America and the EU. The other countries to which Sri Lanka exports are China, Canada, Japan, Israel and Australia.

Country to which Sri Lanka Exports	% of Exports
United States of America	64%
European Union	30%
Others	4%

Although, Sri Lanka exports more than 94% of products/garments to the United States of America and the EU, still it constitute for 2.3% of the apparel exports of United States of America and 0.9% of the European Union exports. Due to the international economic recession faced by the USA and the EU, the garment exports to these two countries have sufficiently declined and thus a drastic decline in the products has been noticed.

- **Inadequate Product Diversification**

Non-availability of different variety of products in the garment area is also a big problem in the current scenario. The apparel exports constitute for around 90% of the overall exports. This figure has remained almost same since last 20 years. The apparel industry of Sri Lanka emphasizes on production of four items of the product range namely production of trousers, shirts, jackets and blouses. Although in the year 2000, fifty new products were added to the product range, however the garment industry still focuses on only some of the product types.

- **Almost fulldependence on a Few Large Scale Industries**

In Sri Lanka, there are around 400 garment manufacturing units. Out of total garment producing factories in Sri Lanka, 26% units are small scale industries having less than 100 workers, 51% of them are medium scale garment industries and remaining 23% are either large or very large scale units having greater than 500 workers. Although 77% of the garment / apparel manufacturing units in Sri Lanka are recognized as

small and medium scale units but 62% of the total people employed in the large scale industries and more than 60% of manufacturing garments is done in these large scale industries.

- **Absence/Dearth of Solid Raw Material Base**

Another major problem faced by the apparel sector of Sri Lanka is the dearth of production of raw materials and other items within Sri Lanka. This has hindered the competitiveness of the domestic apparel exports when compared to its other competitors. Most of the raw material is imported from countries. Firstly, more than 70% of the total cloth (raw material) used in the apparel industry is imported from some other country. Around 80% of the accessories used in manufacturing of garments are also imported. Thus, around 70% of the overall manufacturing cost is constituted from these two modules. The manufacturing cost or the final product price increases further due to the problems faced by Sri Lanka while importing raw materials from other countries.

- **Wage Differentials**

The apparel / garment industries are shifting their manufacturing units from developed western countries to developing countries of Asia mainly due to low labour cost. In the present scenario, while comparing Sri Lanka to other Asian countries on this basis, the country Sri Lanka is not a low cost manufacturer of garments. Besides this, other countries such as Cambodia, Vietnam etc also enjoy preferential entry to the main markets. Labour related problems are likely to increase in future since the availability of labour ready to work in garment industries of Sri Lanka is decreasing day by day.

- **Lack of Skilled Labour and Productivity of Labour**

In the early stages, when the apparel industry expanded a large pool of employment opportunities were generated. But with this, maximum labour force available was unskilled since the workers lacked training. When compared with its competitors, the workers engaged in the garment industries of Sri Lanka had lower productivity. The reasons identified for lower productivity of labour in Sri Lanka included unfavourable working environment, lack of proper training, strict labour laws, high labour turnover and absenteeism etc. Non availability of skilled workers at reasonable rate is recognized as the major cause for Sri Lanka not able to take advantage in the garment sector.

- **Quality of Products**

In the past, the quality of the garment /product was the important feature to be looked into by the importers of garments. The quality of the garment was kept above the cost of the garment as the well as above the lead time. But in today's scenario, the cost of the final garment is kept above all its features. Therefore, Sri Lanka is faced with a challenge of supplying the garment at low cost, although the quality of the garments produced in Sri Lanka is much better that that of apparels produced in other countries.

- **Investment in Technology**

In the garment manufacturing industry, technology plays a vital role as it decides the quality of garment, time taken for manufacturing of garment. This in turn finally determines the lead time. In order to procure latest technology machinery and equipments for production of garments, investments need be made. Usage of latest technology would enable Sri Lanka to compete well in the international market. However, using outdated technology would act as an obstacle for the garment manufacturing factories. In the present context, very few large scale manufactures in Sri Lanka possess latest technology otherwise majority of the garment industries in this country do not have up-to-date technology that can be used in production and designing of garments.

- **Domestic and International Policies**

Sri Lanka's garment manufacturing industry is regulated by various domestic and global rules and regulations which ultimately act as a barrier for garment industries in Sri Lanka. Rigid laws hinder the imports and exports of garments to other countries.

OPPORTUNITIES AND THREATS FOR SRI LANKA'S GARMENT INDUSTRY

Opportunities	Sri Lanka to become a total service provider for international garment industry
	Promote Sri Lanka as a socially responsible producer of garments
	Transition in products that require a high labour content
	The positive impact of the government's peace initiative
Threats	Fast changing trends in the retail industry
	The former socialist countries and the East European countries capable of becoming major suppliers for the EU market
	Worldwide formation of bi-lateral and multi-lateral trade blocks

New competitors in the industry

5. CONCLUSION

The garment industry of Sri Lanka provides livelihood to over 5 million people in the country. The country's garment industries are held in high esteem by the global market since it possesses the highly capable garment production units. Sri Lanka's apparel industry is facing a big challenge after the end of Multi Fiber Agreement, 2005 since it removed the duty free access to the European Union. Presently, the garment industry of the country is facing challenges such as lower productivity, high labour cost which makes the future of the Sri Lanka vulnerable. In order to remain competitive in the international market, an appropriate strategy should be formulated to overcome the drawbacks of the garment industry of Sri Lanka. Since, the country is highly dependent on apparel exports therefore it becomes all the more important to increase the competitiveness of this industry in Sri Lanka. To deal with these obstacles, it is necessary to improve productivity by using up-to-date technology/ machinery and by using effective people management techniques. Even though most of the apparel industries in the country are using latest machinery and equipments but they are unable to achieve their goal due to higher level of labour turnover and employee absenteeism. The employer of the apparel factories should find out the reason for high rate of absenteeism and thus should take action accordingly. The social environment of the apparel industry in Sri Lanka is employee friendly. Thus with technology friendly workforce, government initiatives and stable political environment the scenario of the garment industry in Sri Lanka can be made better.

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