The 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. Factory scale production of ready made garments in Sri Lanka had its beginnings in the early 1950s to become the largest industry in the Sri Lankan economy. During the pre-liberalization era (pre-1977), the domestic textile industry was essentially an import substitution industry confined to a few large-scale textile industries run by the government. The textile industry did not make much progress during this period. Almost all of the garments produced were for the domestic market and there were hardly any exports during this period. A large share of the industry was in the hands of few companies. Since the importation of textiles was either banned or restricted, locally produced textiles mainly fed the garment industry.

2. The period after the late 1970s saw a rapid expansion of the garment industry in Sri Lanka. The phenomenal growth during this period can be attributed to three major factors:

a. The first is the market-oriented liberal economic policies introduced in 1977, which placed greater emphasis on the export-led industries.

b. The second is the supportive measures taken by the government through the Board of Investment, such as duty free importation of industrial inputs, off-shore borrowing facilities, tax holidays or concessional taxation, etc. These measures are together with the availability of labour- intensive industries such as garments.

c. The next important factor which contributed to the Sri Lankan apparel industry is the Multi Fibre Arrangement (MFA)

3. The Sri Lankan garment industry was expanded rapidly after liberalization of the economy after 1977. During the 1990s, the apparel industry grew at 18. 5% per annum. The export expansion of the industry recorded as largest foreign exchange earner as led and replacement of the tea. As well as the garment sector has been contributing nearly 1. 2 million livelihoods to the Sri Lankans.

4. However the efficacious period of the garment industry is gradually reaching to the end, due to quota system having fainted on 01 January 2005 and phasing out of Generalized System of Preferences plus (GSP+) from 15 August 2010 the garment industry in Sri Lanka has been faced multiplex challengers due to China and other low labour rated countries are supplied the garments in very competitive rates.

CHAPTER 2
RESEARCH METHOLOGY
GENERAL OUTLINE

1. The future of the garment industry in Sri Lanka has gone through frightful situation and it is facing various challenges now. This paper is highlights these problems and suggests some recommendations to face this problems to better stabilization in Global trading environment.

STATEMENT OF THE PROBLEM

2. With the phasing out of the Generalized System of Preferences plus (GSP+) from 15 August 2010 Sri Lankan garment industry faced huge

problem to hold there stability in the market of European Union countries with compete other Asian garment manufacturing countries.

3. The new trend in the global garment industry is " just in time" production where buyers minimize their risks by placing orders closer to fashion seasons and in smaller quantities. This demands quick responses and more efficient linkages among fabric suppliers, manufacturers, and retailers.

4. To face these challenge only method is to increase the productivity using latest technology and use effective people management practices to optimum utilization of the human resources subsequently made a quality product in just in time. Although the most of the garment factories in Sri Lanka are using modern machineries for increase their productivity, they are unable to reach their goal due to high labour turnover and high absenteeism.

5. As a result of the globalization, the younger generation have turned in to the various educational paths like vocational training courses, external degree programmes, and any other job oriented educational backgrounds. They don't leave the Scholl after O/L s or just after A/L s. They need to get some professional qualifications and find out better jobs more than becoming a " Juki Girl".

6. The youth want to get the social reputation while they are doing jobs in a high-tech or high educated environment. But unfortunately in a garment factory environment, does not allowed to achieve their targets. Factory owners think only about the " targets". Hence they are shifting another job where they can entertain while doing jobs.

7. High labour turnover and high absenteeism are consequently impacts on the people who attend to work regularly. Uncontrolled absenteeism would result in disrupting the smooth operation of the end result (specially the production process), the rise of costs, unhappy workforce and these would result in loss of profits.

RESEARCH HYPOTHESIS

8. The high rate of absenteeism and labour turnover is the most critical issue of the Garment industry's future.

GENERAL OBJECTIVE

9. To identify the main issue encountered by the Garment industry by using selected garment factories.

SPECIFIC OBJECTIVES

10. The following specific objectives are identified

a. To analyze the history of the garment industry in Sri Lanka.

b. To examine the role of garment industry in the Sri Lankan economy.

c. To identify present position of the Sri Lankan garment industry

d. To identify the major problems faced in the garment industry.

e. Recommendations based on the findings.

SCOPE OF THE STUDY

11. The scope of the study covers an assessment of the ready made garment industry in Sri Lanka taking 05 well known factories in to consideration.

Factors that had been an impact to the industry will be identified through the research and the root causes of the problem will be then be identified. Recommendations will be made for the improvement of the industry.

ORGANIZATION OF THE PAPER

12. Since the main idea of this study in to analyse that what are the main problems faced in garment industry in factory level at present. The paper analyses these issues and how its effect to the future of the garment industry in Sri Lanka. The first chapter introduces the Introduction. Second chapter highlights research methodology and how to organize the research paper. In the Third chapter is analysed a literature review having gone through the publishers on industry and illustrate the statistics on Sri Lankan Garment industry at present and the past. The chapter four analysed the role of garment industry in the Sri Lankan economy and the chapter five analysed the present position of the Sri Lankan garment industry, Chapter six is data analysed and Chapter seven concludes the discussion and eight having made recommendations.

13. To maintain the accuracy and the reliabilities of these kinds of researches it is always better to go for primary data rather than secondary data. So this study will be done mainly with the assistance of the primary data of issuing a questionnaire to the sample of factory workers, line leaders, supervisors and HR managers in selected garment factories. With these questionnaires it is possible to find out more accurate data.

SAMPLING

14. Selected (05) five well known garment factories in to consideration covering industrial Zone as well as urban and rural areas. It is and considered that 05 Production/ Human Resource managers, 08 supervisors, 10 Line Leaders, 07 Quality Controllers and 50 machine operators for the questionnaires.

DATA COLLECTION METHOD

15. The main source of data collection is issuing a questinaires to manegers, supervisers, lineleaders, quality controlers and machine operators who are serving selected leading garment factories.

16. Further past statistics were collected Information will be gathered from relevant books, journals, the internet, treaties, conventions as well as international and local enactments of relevance.

LIMITATIONS

17. When proceeding with a research the following limitations were identified.

a. The time available to conduct this research was only 3 months. If the available time period is extended this analysis could be carried out in better and a more realistic way.

b. Most of the factory authorities was not favour to given the past employee personnel records and grievance handling registers maintained by the Human Resources Department.

c. Previous data and records about absent personnel was not maintained and non available.

CHAPTER 3

LITERATURE REVIEW

HISTORY

1. The textile and clothing industry had emerged from a modest beginning in the early 1950s A few pioneering industrialists who started out on an uncertain course at this time , confident their manufacture to only some popular items of garments and catered essentially to local demand. By the end of the 1950's there was a reversal in policies and the economy moved towards restrictions on imports and a policy of import substitution in industry began to be perused. While the major basic industries were reserved for the state; a wide range of consumer goods industries were opened to the private sector , which was provide with various investment incentives and a protected market.

2. It was in the late1960'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 Soviet Union and a leading shirt manufacture began exporting up to Rs: 2 million worth of product annually to the USSR, within the bilateral trade agreement between Sri Lanka and the USSR.

3. Around 1972 there was a change in outlook towards the industry as existing policy was altered to allow certain sectors to adapt an export oriented approach. Special foreign exchange allocations and other fiscal and

tax incentives were offered to selected export oriented industries under this package.

4. The period after the late 1970s saw a rapid expansion of the clothing industry in Sri Lanka. The impressive growth witnessed during this period can be attributed to two major factors.

a. The first is the market-oriented liberal economic policies introduced in 1977.

b. The second important factor which contributes to the remarkable expansion of the Sri Lanka textile and clothing industry is the Multi Fibre Arrangement (MFA).

5. Sri Lanka is one of the countries that benefited from the quota hopping investments. The overseas manufactures of garment who relocated their production facilities in Sri Lanka. While the firms of the Newly Industrialize Countries (NIC) moved their operations mainly as a means of " quota hopping" the motivation for producers of countries such as Germany and the UK to move into Sri Lanka was the rising production costs in their home countries.

6. Given the ability to separate to different stages of the clothing industry, these overseas producers were able to disintegrate their production lines into low-cost countries like Sri Lanka without much difficulty.

MULTI FIBRE ARRANGEMENT

7. The Multi Fibre Arrangement (MFA) is a system of quotas designed to protect garment industries in first world countries by slowing down the pace

of globalization. The MFA does not apply to the expanding garment trade between rich countries.

8. The MFA has had a complex but crucial impact on the development of the garment industry. In the Third World, by imposing limits on poor country exports, it encouraged investors to shop around for new countries.

9. This because of the increase in volumes of ready made garment entering developed countries caused concern and eventually led the developed countries to seek the occurrence of The General Agreement on Tariffs and Trade (GATT) to protect their markets.

10. In turn it allowed countries like India, Pakistan and Sri Lanka to enter the industry with guaranteed markets. It was first introduced in 1974 and will end in 2005. As a result there was a world wide boom in the textile and apparel export industry in the mid 1980s.

200 GARMENT FACTORIES PROGRAMME (200 GFP)

11. In view of the infrastructure facilities and close proximity to the port and airport facilities etc. most textile and clothing manufacturers concentrated their operations in or around the Western province, where the country's capital is located. As a result of it, unemployment was a major problem faced by Sri Lanka continued to remain high in the other parts of the island.

12. Growing unemployment resulted in youth unrest in most of the rural areas. Thus, in 1990 a Cabinet Sub-Committee recommended that garment factories should be opened in provincial areas other than the Western Province Consequently, the 200 garment factories programme was launched

with the idea of opening at least one garment factory in each of the 200

Assistant Government Agent (AGA) divisions.

Figure 3. 1- Working environment inside the garment Factory

13. The main incentive which encouraged the private sector to take part in

this programme was quotas. For this purpose, the remote areas of the

country were classified into three categories, namely non-difficult, difficult

and most difficult. Quotas were allocated on the basis of the location for the

industry.

14. The more isolated and difficult the area, the higher was ' the quota

allocated. While about 40 % of the areas were identified as difficult, just over

40 % fell within the most difficult category. The rest just fewer than 20 %

were classified as non difficult.

15. In addition to quotas, the factories setup under the 200 GFP were also

offered various other incentives such as tax holidays or lower corporate

taxes, duty-free importation machinery and raw materials, loans from foreign

currency banking units, etc. as the main thrust behind the 200 GFP was the

high unemployment in the rural sector, each factory was intended to employ

at least 500 workers. By the end of 1996, there were 154 factories in

commercial operation under this programme, providing 76, 821 employment

opportunities.

Figure 3. 2 GEOGRAPHICAL DISTRIBUTION OF EMPLOYMENT

(APPAREL SECTOR)

Source: http://www. industry. gov. lk, Ministry of Industrial and Commerce

Figure 3. 3 GEOGRAPHICAL DISTRIBUTIONS OF ALL APPAREL FACTORIES

CHAPTER 4
THE ROLE OF GARMENT INDUSTRY IN THE
SRI LANKAN ECONOMY

1. The common features of developing countries are high rates of population growth, high rates of unemployment, low savings, insufficient capital formation, low investment, high capital output ratio, rudimentary technology and cheap skilled and unskilled labour.

2. These countries are also mainly exporters of primary agriculture products. Further being too small to achieve economies of scale in their domestic markets, these countries have adopted export led growth policies which are designed to generate foreign exchange and expose the productive factors of the country to the stimulus of competitive influence.

3. The textile garment industry there for became the initial response of developing countries to this call for export led growth. Being a labour intensive industry is requiring a small capital base. Production of textile and apparel shifted to developing countries in the 1960s. It provided employment for a large number of persons earned foreign exchange allowed for diversification of the export industry and paved the way for industrialization. Some countries attracted foreign investors by opening up free trade zones. Many critics called it " textile led" growth.

4. At the time Sri Lanka began to pursue liberal economic policies in 1977, the textile and clothing industry played only a minor role in the country's economy. In the light of the broad based economic liberalisation and the benign impact of the MFA, the industry since then has recorded a remarkable growth and assumed a key role in the economy.

5. The garments accounted for the largest share of all commodity exports (27 per cent) in 1986, it became the largest foreign exchange earner (US$ 0. 4 billion) by 1992, by 1995; garments export exceeded US$ 1. 5 billion, nearly half of all commodity exports of the 75 % contribution made by the manufacturing industries to the country's economy in 2009, 56 % was from the textile and clothing sector.

Figure 4. 1

Source: External Sector Developments, Central Bank Annual report 2009

6. According to the Ministry of industrial Development, there have been a total of 859 garment factories at the end of 2007 while the number of textile manufacturing firms stood over 140, with less than 10 companies accounting for most of the output. The largest garment factories (in terms of employment) were located within the free-trade-zones (FTZs) run by the Board of Investment of Sri Lanka (BOI) which is the authority responsible for the promotion of foreign direct investment.

7. The textile and clothing sector has also been an outstanding source in generating employment opportunities. Being a highly labour intensive industry, this sector has been successful in absorbing a fairly large number

of workers. By the end of 2008, garment sector provided direct employment to approximately 391682 personal.

Table 4. 1 Composition of Exports:

Source: http://www. industry. gov. lk, Ministry of Industrial and Commerce

Table 4. 2 Percentage of Exports:

Source: http://www. industry. gov. lk, Ministry of Industrial and Commerce

CHAPTER 5

PRESENT POSITION OF THE SRI LANKAN GARMENT INDUSTRY

MAJOR MARKETS OF SRI LANKAN GARMENT

1. More than 90 % of Sri Lanka's exports of clothing are accounted by only two markets, the EU and the USA. The USA continues to account for about 60 % of total clothing exports from Sri Lanka. About 90 % of exports (by value) to the USA consist of quota items.

2. The bilateral agreement between the US and Sri Lanka contains more than 30 quota categories, covering over 50 clothing items. While the quota performance against the US market is generally high, utilisation rate of certain quota categories such as knitted shirts and blouses, trousers, underwear, coveralls, and overall, terry and other pile towels etc. has reached almost 100 per cent during the recent years.

3. The EU has been absorbing about 35 % of Sri Lanka's total exports of clothing every year. The largest buyer of Sri Lankan garments within the EU is the UK (about 45%) which is followed by Germany (about 20%), the

Netherlands (about 9%), France (about 5. 5%), Belgium- Luxembourg (about 5%) and the rest Sri Lanka's exports to the EU has been subject to quotas under four categories namely, trousers, blouses, shirts and jackets.

THE ABOLITION OF QUOTA SYSTEM

4. From its inception the quota system was a boom to Sri Lanka's apparel industry. The availability of a stable market eliminated the danger of competition from established industrialists in the international field.

5. Although the abolition of quota system in 2005 had a negative impact on the industry it also opened up an expanded free market. As such the future of the garment industry in Sri Lanka will depend on our ability to face competition

GLOBAL ECONOMIC CRISIS EFFECT

6. The first sign of the global economic crisis became visible in the U. S. housing market sector in 2008. Since then it has been spreading to almost every country in the world developed as well as developing. At first, we were hopeful that we would not be affected by the ill-effects of the depression, but now there are signs indicating that we too would be caught up in the vortex.

7. Sri Lanka has an export-import oriented economy. We export mainly ready-made garments and other tea, rubber, coconut, spices, jewelry etc. to earn the necessary foreign exchange to pay for the country's import needs. The countries which buy these things from us have been badly affected and demand for them is ever on the decrease.

8. There are warnings that the Garment sector has begun to feel the clutches of the crisis. Several local industries have already laid off their work staff as a result of having no demand for their produce in the international market.

PHASED OUT OF THE GENERAL SYSTEM OF PREFERENCES PLUS (GSP+) CONCESSIONS

9. The Generalized system of preferences (GSP) is the system of preferential trading through which the European Union extends preferential access to its markets for imports from developing countries. The New " GSP+", grants duty-free access to the EU for approximately 7, 200 products from small and vulnerable countries that have ratified the major multilateral environmental agreements (MEAs) as well as key human rights and governance agreements.

10. On December 21st 2005 the EU announced the extension of its GSP+ scheme to Sri Lanka to accommodate under GSP+ as a special case to enable recovery of development of the economy after the Tsunami Disaster.

11. The European Union withdrew the GSP+ tariff concession granted to Sri Lanka under special privileges to economically vulnerable developing countries since 2005, on 15th August, 2010 in relation to what was regarded as shortcomings in Sri Lanka record on implementation of 27 International Conventions which is an integral part of the trade benefit.

12. Without this concession a duty of 9. 6 % would be levied on local products forcing buyers to pay higher price for Sri Lankan products than those from other countries.

Figure 5. 1 Sri Lankan Garment Exports

Source – The Island: 12 November 2010

FUTURE CHALLENGES FACED BY THE SRI LANKAN APPAREL INDUSTRY

13. In the recent past, the global garment industry has been subject to significant changes in terms of changes in consumer demands, changes in technology, and fierce competition. These changes have also filtered down to the Sri Lankan garment industry and there is now considerable pressure on the industry to each higher standard of production and service.

14. As the garment industry is a relatively low skilled and labour intensive operation, over time there has been a shifting of production from countries such as Hong Kong, South Korea and Taiwan to low wage countries such as Bangladesh, India and Sri Lanka. As this process of shifting (or shifting comparative advantage) has continued, Sri Lanka has gradually lost its low labour cost comparative advantage.

15. As the majority of Sri Lankan manufactures currently produce standard garments where competition is primarily based on price, Sri Lanka faces stiff competition from other developing countries of South and South East Asia where production cost is low (India, Bangladesh, Pakistan, Indonesia, Cambodia, Laos and Vietnam). China has also emerged as a dominant force in the global apparel industry with its massive supply capability and low costs of production.

16. These countries have a lower ranking in terms of cost of production in comparison to Sri Lanka. Given this situation, there may be a need for Sri

Lanka to move some of its exports to the top end of the market as a reputable and dependable supplier of quality apparel in Asia. In the higher value clothing segment, countries such a Malaysia, Korea, Singapore, Hong Kong and Japan are serious competitors.

Figure 5. 2 Boarding Facilities of female Garment workers

CHAPTER 6
DATA ANALYSIS

1. In order to identify the main problems encountered by the Garment industry when achiveing prduction targets timely, the specially designed Questionnaire 1 (Annex ' A') was distributed among the 05 Human Resource Managers, 08 Supervisors, 10 Line Leaders and 07 Quality Controllers who are currently engaging in the field of textiles.

2. The following pie charts show an important statistical data review which was collected through the First Questionnaire. In this review, three questions were being selected according to the Likert Mean Weights. (Annex ' D').

Figure 6. 1 Labour turnover and absenteeism is directly effected to the productivity.

Figure 6. 2 Working environment and factory conditions effected to the production.

Figure 6. 3 Out dated Machineries are caused to the production

3. According to the final analysis (Annex ' D') it is observed that the majority of the random think that main issue of the industry as Labour turnover and absenteeism.

4. Out of the 22 Top and Middle level mangers, were agreed to the main reason that labour turnover and absenteeism is being critical in the industry's future. The highest rate of " Strongly Agreed" numeric value is 4. 3.

5. Secondly they supposed bad working condition also effect to the productivity of the labourers. The numeric value of it is 2. 43.

6. Factory managers are also thinking out dated machineries will be reduced the total production. It is weighted averaged as 2. 13.

7. Finally it is proved that the key reason effected to the productivity reduce is high rate of absenteeism and labour turnover.

8. To the purpose of identifying what are the solutions for the Quastionaree 1 encountered problems, specially designed Questionnaire 2 (Annex ' B' or ' C') was distributed among the 50 floor level workers who are currently working in the separate garment factories.

4. The following pie charts indicate an important statistical data review which was collected through the second Questionnaire. In this review, three questions were being selected according to the Likert values. Questionnaire 2 answers are analyzed using Likert Scale in Annex ' E.

Figure 6. 4 Floor level workers satisfaction level about the leave facilities allocated.

Figure 6. 5 Floor level workers satisfaction level about the present salary scales

Figure 6. 6 Floor level workers satisfaction regarding with the promotion scheme

CHAPTER 7
CONCLUSION

1. Sri Lanka's largest foreign exchange earning garment industry is the livelihood of over 4-6 million people in the country, who are direct or indirect employees and their dependents. The garment industry is spread all over the country, and has been one of the main openings for employment for the rural youth in a country where unemployment is at a very high rate.

2. With the abolishing of the Multi-Fibber Agreement in 2005 phasing out the GSP+, grants duty-free access to the EU in August 2010 the country is facing a serious threat to garment manufacturing industry, as well as the country's economy. At present, the country does not posses significant advantage over other garment exporting countries and many drawbacks on productivity and cost of labour makes the co industry's future vulnerable.

3. A suitable strategy designed to overcome the anticipated crisis will ensure, stability of the garment industry and the economy. An all out effort to compete in the competitive global market will ensure long term survival of the industry and ensure success of the garment industry in the future.

4. Although geographically well positioned in the world map as an Island, Sri Lanka can be considered as positioned in middle of no where, as far as the economics zones are concerned. The closest neighbours of this nation are extremely poor South Asian countries, which cannot be considered as potential markets and on the other hand, they too compete in the garment manufacturing and export industry.

5. The closest industrialized countries are located far off from Sri Lanka, which are the East Asian countries, which are also competing with Sri Lanka in the same markets to sell their products such as garments and apparel. Therefore, East Asian industrialized countries cannot be called as a potential market at this stage.

6. With a high degree of dependence on readymade garment export, the apparel industry as well as the Sri Lankan economy has become vulnerable to the varying fortune of the global treading system. Mean while in such a global environment, strengthening the competitiveness of the industry has become a demanding task for Sri Lanka. The industry there for need to articulate new response mechanism to address the imaging challengers

7. To face these challenge only method is to increase the productivity using latest technology and use effective people management practices to optimum utilization of the human resources subsequently made a quality product in just in time. Although most of the garment factories in Sri Lanka are using modern machineries for increase their productivity however not reach their goal due to high labour turnover and high absenteeism.

8. The increased rates of absenteeism at the lower salary levels were evident and it needs special attention of the management to carry out an in depth study into the area. It is suggested to look at the actual cost of living of the employees, their awareness on the managing the money they get as the salary, alternative ways of assisting employees to face this situation and if the employees are involved in alternative income earning activities the impact of such activities to the attendance behavior should be studied and appropriate actions to be taken.

9. Overall culture of the organization has been supportive for the absenteeism behavior; hence the majority of the people in all age groups and lower and middle income levels had contribute to higher rates of absenteeism. Therefore, though the application of effective human resources management practices, the culture of the organization should be strengthened in such a way that it discourages absenteeism.

10. The quality of the boarding places may act as a factor which affects absenteeism of the employees. Therefore, the employer has to involve in finding out the quality of the boarding places the employees are residing and the issues faced by them by being boarded.

11. The social environment of the factory seems to be employee friendly. The fellow employee support to each other and the trust relationship between the employees ad the management is working as strength of the organization. The employees get the strength to withstand the difficulties they face though the moral support, they receive from these positive social

relations. This strength has to be further harnessed to reduce the absenteeism through the establishment of anti absenteeism norms.

CHAPTER 8

RECOMMENDATIONS

1. Based on the findings and the conclusions of the study the following measures are recommended to control absenteeism and Labour turn over in the Garment Industry.

Measure and monitor absenteeism and Labour turnover

2. It is always advisable to monitor trends in employee absence, and isolate areas of high absenteeism. Overall absence trend analysis could be conducted by the Human Resources Department with the help of a comprehensive Human Resource Management Information System

3. Shift managers and shift team leaders should play a crucial role in identifying frequent individual absentees and effectively correcting their attendance by timely and appropriate intervention.

Implement formal promotion scheme for the floor level workers.

4. Need to give the priority for educational qualifications of th