Challenges to the apparel industry in sri lanka

Apparel Industry of Sri Lanka " Garments Without Guilt"

1. 0 Objectives of the Assignment

Study and analyze a Sri Lankan export oriented apparel industry in order to Identify the nature and the challenges faced by the apparel industry. Identify the domestic and international policies in relation to the apparel industry

Make recommendations based on the future trends for the sustenance of the industry.

2. 0 The Apparel Industry of Sri Lanka at a Glance

Figure 1: Fashion Garments from Srilanka

Source: Next Annual Report, 2010The textile and the garment industry of Sri Lanka, established in the 1950s as an import substitution industry initially catered to the domestic consumption. With the introduction of the open economy and liberalization policies in year 1977 paved the way for the textile and the garment industry to enter the world market. The supportive measures adopted by the government by granting concessions, duty rebates, free import of raw material and machinery, lower taxes and tax holidays as well as the establishment of Free Trade Zones in the areas of Katunayake, Biyagama and Koggala contributed to the expansion of export apparel industry of Sri Lanka. C: UsersuserDesktopnext-clothing. jpg

Being one of the leading exporting industries in Sri Lanka, the industry itself at present contributes to US $3. 2 billion to the net foreign earnings in 2009. The GDP contribution from the industry in year 2009 is 10%.

At the present context 350 – 400 factories are existent, providing direct employment opportunities to 330, 000 which amount to 5% of the total workforce of the county.

3. 0 Challenges Faced by the Apparel Industry of Sri Lanka

Besides the withdrawal of the quota system & trade policies, inflexible labour markets, high competition from the other foreign countries, the apparel industry of Sri Lanka should survive and sustain its position in the world market.

We have identified the below mentioned to be challenges faced by the apparel industry.

3. 1 Over Dependence on Few Export Markets

The apparel industry of Sri Lanka is only focusing on few export markets which consists of countries such as USA (64%) and European Union (30%). The other export markets accounts for 4% of the total apparel exports to Canada, Australia, China, Japan, Switzerland and Israel.

Though, over 94% of supply is to USA and EU, Sri Lanka’s garment exports account only for 2. 3% and 0. 9% of USA and EU apparel import volumes respectively.

With the prevailing global economic recession, faced by the main two above countries, the demand for apparel export has severely declined in the recent past, and a drastic reduction in the volumes consumed has been noted.

3. 2 Insufficient Product Diversification

Unavailability of diversified range of products in the apparel sector is identified as another major issue at present. The garments exports accounts for more than 90% of the total exports of the industry and has been identified to be a similar figure for the past two decades.

Source: Brandix Annual Report, 2009

Figure 2: Production Section Sri Lanka yet focuses on four major types of items in the product coverage, which can be identified as shirts, blouses, trousers and jackets. Though 50 new items were introduced to the product coverage in year 2000, still the industry is highly concentrated on a few product categories. The quota restrictions imposed by major importers now limit the export of these popular items further. C: UsersuserDesktopimages. jpg

3. 3 Heavy Dependence on a Few Large Scale Industry Players

Though there are 300 – 400 factories existent in Sri Lanka, the distribution is as 26% small scale factories with less than 100 employees, 51% medium scale factories and only 23% large and very large scale manufacturers with more than 500 employees.

Though 77% of the factories are identified to be small and medium scale factories, 62% of the current total employment is accounted by the 23% large scale industry players and above 60% of the industry volumes are also being produced by these large scale industry players.

3. 4 Lack of Solid Raw Material Base

Lack of production of raw materials and accessories, within the country is identified to be another major issue faced by the industry. This has affected the competitiveness of the local garment exports, as a whole in comparison with the other competitors in Asia.

More than 70% of the total fabrics used in the industry and 70% to 90% of the total accessories used in the production are estimated to be brought in as imports. Around 70% of the total production cost is accounted to be from these two components, and Sri Lanka is faced with higher level of issues at the present context with regard to these imports, which subsequently increases production cost/cost of final output.

As lead time in today’s context act as a major aspect in determining competitiveness, the time taken for the arrival of raw material acts as another constraint, secondary to the issue discussed above . The costs incurred in transportation etc. further increases the cost of final product which ultimately decrease the competitiveness and result in low profit margins.

3. 5 Wage Differentials

The cost of labour acted as one of the major reasons for the textile industry to move from developed western countries to developing Asian countries. In analyzing the current context of Sri Lanka, it is identified not to be a low cost producer in comparison with the other Asian competitors and countries such as Vietnam, Cambodia, Caribbean nations and sub-Saharan countries which also have preferential access to the major markets.

Issues in relation to labour are expected to arise in the future context as the labour supply of Sri Lanka is currently facing a stage of decline in sectors such as apparel industry. The preference to work in Middle East household sector also has an impact on the above.

3. 6 Lack of Skilled Labour and Productivity of Labour

Figure 2: Working Woman – BrandixAs the industry expanded at the early stages, a higher level of job opportunities was created. Though this a majority of the labour used can be identified as unskilled labour compared to other countries, caused due to lack of training, development etc. F: MBA1st SemesterAssignmentME Group4yq075f. jpg

Source : Brandix Annual Report, 2009The productivity of labour employed in the apparel sector of Sri Lanka is identified to be low in comparison with the competitors, caused due to factors such as, lack of properly trained labour, poor working conditions, higher level of labour turnover and rigidities in labour laws etc.

Though skilled labour is lacking in Sri Lanka in comparison with its competitors, this was initially identified to be a prime reason in order for Sri Lanka to obtain the advantage in apparel sector, as unskilled labour was identified to be cheap. As long as the wastage is maintained at the desired percentage of revenue, it is not feasible to incur expenses in training the labour.

3. 7 Lead Time

Lead time is identified as one of the major factors looked upon by the western demanders in obtaining apparel products, in order for them to respond to fashion trends and compete effectively.

The lead time in today's context have been set to the level of 2 weeks from 8 – 12 weeks in the past. The country is to possess advanced technologies of production, skilled and highly trained labour, minimum time taken in obtaining raw material & deliver of finished goods etc. in order to cope up with the current trends. This has been considered as a major challenge faced by the apparel industry of Sri Lanka at present.

3. 8 Quality of Products

In the early context, product quality was identified to be one of the major aspects considered by importers of apparel products and this aspect was listed above the cost and the lead time.

But in the latter stages the perspective has changed to the cost of the finished product than the other aspects. Hence, Sri Lanka once again is faced with a challenge in providing the products at a lower cost, though the quality of products is relatively higher compared to competitors.

3. 9 Investment in Technology

Technology used in production is considered to be a highly important factor as it determines the quality of the output, time consumed for production which ultimately decides the lead time.

Investments are to be made in order to upgrade the technology in use. This will enable the country to be in par with the global trends and the other competitors. Usage of obsolete technology will indeed act as a barrier in the apparel industry. Sri Lanka is currently challenged by the above situation as many factories other than few large players, do not possess advance technology in manufacturing and designing.

4. 0 Domestic and International Policies

The apparel industry of Sri Lanka is governed by many local and international laws and regulations and also is identified to be one of the dynamic industries, which many local and international trade practices are in place.

4. 1 Joint Apparel Association Form (JAAF)

This official representative body of the Sri Lankan garment industry is identified as one of the main governing bodies at present.

JAAF, provides the certification ‘ Garments without Guilt’, for factories which are adhering to the local and international labour standard requirements. This particular certification has enabled the entities operating in the industry to obtain a higher level of competitive advantage, in comparison to the other competitors both locally and internationally.

The export apparel industry is also governed by the practices and terms of the World Trade Organization.

4. 2 Generalized System of Preferences Plus (GSP Plus) Scheme

Though not existent since February 2010 caused due to allegation on human rights violations, the Generalized System of Preferences Plus (GSP Plus) acted as one of the schemes that enabled the Sri Lankan apparel industry to obtain a greater advantage in exporting its products. The status was offered to countries that have ratified 27 international conventions on environmental standards, labour rights and human rights.

A duty charge of 9. 6% was eliminated in exporting products to the European Union countries. This acted as a greater advantage as the overall cost of the export to these countries was lower and hence the products were ultimately offered at lower cost.

With the withdrawal of the scheme since year 2010, the apparel industry is now facing a higher level of challenges as the cost of exporting products to the EU countries have been identified to be costly with the 9. 6% duty payment. Small and medium scale players are facing a very challenging situation as the demand for their products have declined with the increase in the cost.

Many small and medium scale players are now eliminated from the industry which now has a very adverse affect on the society by the creation of unemployment. As a result many women are now forced to work in unsafe Middle East employment which has also created and adverse affect on the society as a whole.

4. 3 Other Competitors

In taking the current situation into consideration, the apparel industry of Sri Lanka is identified to be at a great disadvantage. Many of the developed countries are now moving away from Sri Lanka to other destinations, such as Vietnam, China, Indonesia, Bangladesh, which are offering products at lower cost.

Further, the Central and Eastern European, countries such as Czech Republic, Hungary, and Bulgaria have become important suppliers to the European market.

The lost demand for textile and garment export, will ultimately lead to the reduction in the export volumes, and the small and medium scale factories to shut down their operation, creating unemployment which will impose adverse effects on the society. As a result the balance of payment and the country's economy as a whole will be adversely affected.

5. 0 Future Trends & Recommendations

The future of the industry will depend on how successfully the Sri Lankan momentum is maintained internationally and also on the progress of building a competitive edge in the international markets. In the past, our country has always survived among the other competing countries that were benefited by quotas, reduced labour cost, government incentives etc. The current context the " Competitiveness" is defined as, emanating from value addition, such as targeting specialized markets, adding unique features to products, product & service differentiation, and improving product quality etc.

There has to be some extent of emulation of the strategies adopted by the other competing countries. With the intension of penetrating into new markets, the industry should adopt strategies to reduce cost of production, improve productivity, train and develop labour skills, enhance and encourage local & foreign investment, more product focus, investment in new technology etc. In par with the above, the government too must improve the infrastructure facilities and ensure minimum disruption to the work environment to support to maximize the garment production and export volumes.

Even though the cheap labour encouraged the garment production and the granting of quota system to the local industry in the past, the cheap labour factor is not in existence anymore as compared with emerging markets of China, Vietnam, and Bangladesh etc. It is much advisable that concentration is placed on the labour cost per product than the labour cost per hour to thrive in the future.

The high literacy rate and the easily trainable work force are advantages possessed by the country. Therefore, it should pave the path to provide more training institutions to facilitate a higher quality and productivity in the industry.

The productivity and efficiency of labour is also associated with the introduction and development of new technological usage. The key elements of efficiency improvement being, the proper time management, collection of information on production, detect errors and wastages, work measurement etc which can be improved with the advance technological compliance.

Improving health and safety, building environmental friendly work practices, can move the local industry ahead of most of the other neighboring competitors. The industry should adhere and comply with certifications such as Eco-Labeling, ISO 9, 000, ISO 14, 000, to enter the new markets enabling to build the better brad image.

The country is at a geographical disadvantage, as it is far from the industry's main markets. The lead time of the industry is quite high compared to the western competitors such as Mexico. This could be eliminated by focusing on new markets with lesser lead times and by usage of air freight for faster delivery.

The raw material base of the industry should be strengthened by improved relations with the world class fabric and accessory producers. Also by enhancing and encouraging foreign investments for the raw material and accessory producers locally.

In elaborating further, less political intervention in labour matters, improved and consistent macroeconomic environment, international policy negotiations, better coordination with the industry producers, would be encouraging to develop a more conducive environment for industry growth in future.

7. 0 Reference & Bibliography

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