

APPAREL INDUSTRY – PRIVATE SECTOR PERSPECTIVE

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Background

Most analyses of the impact of the phasing out of global textile and apparel quotas conclude that China and India will dominate world trade in textiles and clothing with post-ATC market share for China alone estimated at 50% or more. A recent WTO study “The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing” replicates these predictions adding that the outcome of the phasing out of quotas will also depend on the prevailing tariff rates and the preference margins of countries receiving such preferences. The study also adds that countries which are most likely to lose market shares are those located far from the major markets and needing costly structural adjustments.

Importance of the Industry.

The Apparel industry plays a pivotal role as a key driver of the national economy and has grown to be the most significant contributor to the country’s economy over nearly three decades of its existence. It is the largest industry accounting for roughly 40% of industrial production and two thirds of industrial exports. The industry employs nearly 340,000 workers directly and twice as many indirectly. Total employment is estimated to be in the region of 15% of the country’s eligible workforce.

Challenges

While the industry recorded a remarkable growth in a protected market environment it faces a series of challenges which have come to the fore in the post quota situation, notably:

a. Development of Preferential Arrangements

The global development of trade blocs and regional preferential arrangements are a threat to the industry as Sri Lanka is not included in any such arrangement and does not enjoy the so called “level playing field” except the EU/GSP Scheme which offers very limited benefits due to the stringent rules of origin.

b. Price Competitiveness

Price continues to be an important factor in the global apparel industry. Sri Lanka is not competitive as it should be due to poor labour productivity, insufficient technology advancement, heavy dependence on imported inputs etc.

c. Faster Lead Times

Manufacturing lead times in countries geographically closer to the US and EU are shorter than for Sri Lanka which does not have this advantage.

d. Weak raw material base

The raw material base in Sri Lanka is weak. The apparel industry currently imports over 40% of its raw material requirements comprising woven fabrics and accessories. The development of apparel zones with fabric mills, washing plants, printing facilities etc vital to sustain the industry are still not fully developed.

e. Full Service Offering

Many global players are equipped to deliver the basic customer expectations of price, quality and speed. Therefore, Sri Lanka needs to differentiate herself from the competition through the provision of enhanced services. A total service comprises of having the raw material base, superior product development, efficient manufacturing capability, logistical efficiency and providing the buyer with assistance in the way of marketing, design or legal know-how. This aspect needs particular attention. A recent report published by the US International Trade Commission has concluded that “sourcing in Sri Lanka will decline if local producers are unable to provide full service packaging and local inputs such as fabric and trim”.

f. Access to Market

The effects of the final phase out of the quotas are now beginning to be felt across the entire spectrum of the industry. A shake out in terms of suppliers is already taking place with buyers moving for consolidation based essentially on competitiveness. Prices and lead times are getting further squeezed which would

mean that countries possessing core competencies will survive at the expense of those without them.

The Sri Lankan apparel industry is concerned that this situation would disrupt the industry and cause wide-spread job losses at a time when all resources need to be marshaled to assist economic recovery. At the same time, the industry feels confident that the long term objective of sustaining and promoting it can be achieved if the right conditions are present. Hence the industry is actively involved with the government in implementing a new strategy.

Industry Strategy

The industry had been fully aware that the total elimination of quotas from January 2005 would challenge its ability to remain viable and grow in the fiercely competitive market conditions which would come in its wake. In order to prepare itself for the emerging scenario the industry, in association with the government drew up a five year strategy with the following objectives in view.

Increase the turnover to US\$ 4.7 billion by 2007

Transform the industry from a manufacturer to a provider of a “fully integrated service”.

Increase market penetration to the up-market segments of the global apparel industry.

Become internationally famous as a superior manufacturer of specific product categories.

Consolidate and strengthen industry to meet the challenges of the quota free era.

The five year strategy is being implemented by the private sector with the support and cooperation of the government and focuses on improving its competitiveness and providing a superior supply chain service targeting winning customers. The plan highlights the strengths and weaknesses of the industry and areas where reforms are required to be undertaken at the levels of the government, industry and factory to structurally adjust the industry.

Efforts at multilateral/bilateral levels to secure more favourable terms for exports to the major markets and Development of an Electronic Documentation Processing System are some of governmental initiatives.

Development of design and marketing capabilities by training professionals through university and recognize professional bodies are industry initiatives taken to create an environment providing total solutions.

Improvement of productivity at factory level and advancement of technology are examples of some of the initiatives taken at factory level.

The Tsunami and its Effects.

The Tsunami caused untold misery and hardships to the people and severely disrupted economic activity across the country. Rebuilding the shattered economy has turned out to be a massive and long drawn task requiring an enormous amount of resources and effort.

The apparel sector is perhaps the only industrial activity which remained largely untouched by the Tsunami. It has the capacity to contribute to the rebuilding of the shattered lives of the people and the economy by maintaining the momentum of exports. In order to do so the development of the infrastructure and the export competitiveness of the industry should receive priority attention.

Assistance Required.

The apparel sector while recognizing the positive factors of the macro policy framework encompassing liberalized economy, commitment to the primacy of the multilateral, trading system ,up dated intellectual property legislation to be followed up with effective implementation and enforcement, progressive liberalization of financial services and the telecom market. wishes to emphasize the need to specifically focus on the following issues.

1. Immediate/ mid-term measures to increase the access to market

With the abolition of quotas from January 2005 Sri Lanka has begun to feel the heat of competition from suppliers such as China and India which enjoy the benefits of a fully integrated domestic textile and apparel industry. These countries have begun to make heavy inroads into the traditional markets not only of Sri Lanka but also other similarly placed developing countries.

Sri Lanka is eligible for preferential access for its exports under the EU/GSP Scheme but the benefits of such access for apparel are marginal due to stringent rules of origin conditions applied in respect of these products. The US, however, excludes altogether textile and apparel products from its GSP Scheme.

The EU and the US have negotiated preferential trade agreements with a large number of countries providing them better terms of access to the EU and the US markets. Sri Lanka is not a party to any such arrangements.

With the Tsunami disaster coinciding with the abolition of quotas coupled with increasing fuel prices, the ability of the industry to remain competitive with other major suppliers is being put to a severe test. Sri Lanka needs enhanced market access to its major markets in order to ensure continuous flow of export earnings to cushion the impact of the present crisis without which some apparel factories may be compelled to close with inevitable job losses leading to a serious economic disruption and social unrest. If this situation is not properly addressed a major source of income which directly impact on alleviation of poverty of the people will be lost adding to the difficulties.

2. Cost Reduction Measures

Reduction of cost of utilities and the port services by eliminating inefficiencies and introducing regulatory mechanism will be vital for improving Sri Lanka's export competitiveness, particularly reduction of port charges which have a direct impact on the cost being borne on import and export transactions need immediate attention.

3. Streamlining Export Import Documentation

Introducing an efficient documentation system through electronic data inter-change which is now lagging behind will certainly improve our turn around time.

4. Infrastructure Development

Finally, the infrastructure development is essential and vital for development business activity. In this regard the attention already paid by the government for the development of the rail system and the road network is a positive development.

