

Impact of Apparel Industry on the Economy of Sri Lanka

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Abstract

Impact of Apparel Industry on the Economy of Sri Lanka, as the research topic indicated the dependent variable of this study was the Economy of Sri Lanka that is measured with Gross Domestic Product while the independent variable was Apparel Industry that is measured with export performances. The general objective of this study is to identify the significance of the apparel industry and its impact to the economy of Sri Lanka. This research has used secondary data to gather information where Internet & websites, journal articles and books were main sources of information and percentages, frequencies, tables and charts were used to present data while using statistical packages as SPSS and Microsoft Excel were used to analyze data. Sri Lankan Apparels are at a stage where they can export quality products continuously to the export market. Sri Lanka's garment industry is highly concentrated in large scale factories. That concentration had save a large part of export earnings while providing job opportunities. Sri Lankan apparels are exported to the large number of countries all over the world including European Union and United States of America. The facts regarding apparel industry conclude there is a more impact of apparel industry than other industries to the total export earnings of the country over the past five years. The research has identified a positive relationship between Apparel Industry and Economy of Sri Lanka. Therefore the research has found that the Apparel industry is able to make an impact on economy of Sri Lanka.

Key words: Apparel Industry, Economy of Sri Lanka, Gross Domestic Product, Export Performances, Export earnings

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Introduction

The Economy of Sri Lanka

The economy of Sri Lanka measures with reference to the Gross Domestic Product (GDP) of the country. GDP is a measure of the size of an economy. It is defined as an aggregate measure of production equal to the sum of the gross values added of all resident, institutional units engaged in production (Organization for Economic Co-operation and Development (OECD), 2014). This situation was similar since Sri Lanka being independent in 1948 to rise of closed economy concept in the end of 1950s. Due to this policy, local private sector has joined to the economy while the government also actively involved in the economy.

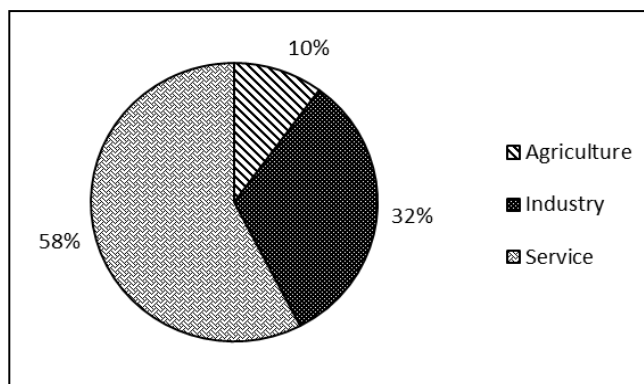
Sri Lanka is a developing nation and it has shifted away from a socialist orientation and opened economy to foreign investment. With the open economy in 1977 the impact of industrial sector has increased over the impact of agricultural sector to GDP or Sri Lankan economy (Lakshman & Tisdell<1997).

Economic growth in Sri Lanka has been among the fastest in South Asia in recent years. Growth averaged 6.3 percent between 2002 and 2013, with Gross Domestic Product (GDP) per capita rising from US\$859 in 2000 to US\$3,256 in 2013 (The World Bank, 2015).

Sectorial Composition in Gross Domestic Product

Sri Lanka has traditionally been an agro-based economy but over a period of time the government of Sri Lanka realized the need to have an industrialization strategy for development of the economy. Therefore industrial sector had major rise in this era. The data retrieved from 2014 annual report of Central Bank of Sri Lanka shows the sectorial composition in Gross Domestic Product as follow.

Figure 1: Sectorial Composition in Gross Domestic Product



Source: Central Bank of Sri Lanka, 2014

The Service sector records the highest contribution to the GDP by 58% while agricultural sector records the lowest contribution as 10% to the GDP. Industrial sector contributed 32% to the GDP which as the second largest sector contribution to national economy. The Industry sector recorded a significant growth of 11.4 percent in 2014 compared to 9.9 percent in 2013. This expansion was supported by the positive contribution from all major sub sectors, thereby increasing the industry sector share to 32.3 per cent of GDP from 31.1 per cent of GDP in the previous year (Central Bank of Sri Lanka, 2014).

Role of Industrial sector in the economy of Sri Lanka

There are four main sub sectors that contributed to high growth in the industry sector named as construction, manufacturing (processing of agricultural products, Factory industry, Cottage Industry), mining and quarrying and electricity, gas and water (Central Bank of Sri Lanka, 2014).

Considering the growth rates of these sub sectors, the mining and quarrying has the highest growth of the industry sector that has been growing with increasing rates in the last few years and it is amounted as 11.0 percent expansion in 2014 while the growth of the electricity, gas and water is the lowest growing sub sector that expanded only in

4.5 percent in the same year. The growth rate of the manufacturing sector was the second lowest growing sector under the industrial sector which acquired 8.0 percent growth in last year and the same time construction sub sector recorded the highest growth rate as 20.2 per cent.

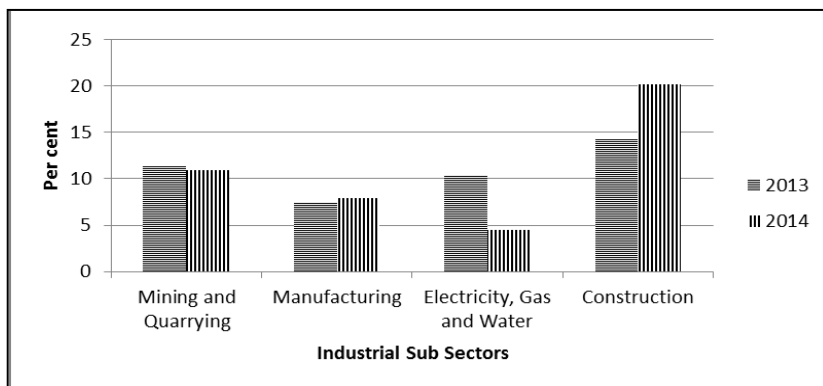
Compared to the growth rates of the respective sub sectors accounted as follow.

Table 1: Growth Rates of Industrial sector

Year	Mining and Quarrying	Manufacturing	Electricity, Gas and Water	Construction
2013	11.5	7.5	10.3	14.4
2014	11	8	4.5	20.2

Source: Author Developed

Figure 2: Growth Rates of Industrial sector



Source: Author Developed

The above figure shows that there is an increasing growth in manufacturing and construction sub sectors but other two sub sectors are indicating a decline.

With reference to GDP, manufacturing is the largest industrial subsector, accounting for 18% of GDP. The construction sector has accounted for 7% of GDP. Mining and Quarrying have accounted for 1.5% of GDP where

Electricity, Gas, and Water have accounted for 2% of GDP (Central Bank of Sri Lanka, 2014).

Manufacturing sub sector – Factory Industry

As above stated Manufacturing sub sector consist of processing of agricultural products, Factory industry, Cottage Industry. Among them Apparel Industry is included to the Factory Industry context. Factory industry is accounts for around 16 percent of Gross Domestic Product recorded a substantial growth of 8.5 percent in 2014 compared to 7.8 percent in 2013 (Central Bank of Sri Lanka, 2014). Textiles, apparel and leather are the second-largest sector with 20% of value addition within the manufacturing sector. Food, beverage, and tobacco are the largest subsector in terms of value addition, accounting for 44%. The third-largest sector in value added terms is chemical, petroleum, rubber, and plastic products (Central Bank of Sri Lanka, 2014).

According to Central bank of Sri Lanka (2014), the improved performance of all categories of Factory Industry contributed to the overall growth, specially export market oriented industries such as textile, wearing apparel and leather products category as well as chemical, petroleum, coal, rubber and plastic products category recorded a substantial growth of 11.5 percent and 8.5 percent respectively in 2014.

Among these sub sectors, wearing apparel sub sector is one of the leading export oriented industries and dynamic contributor for Sri Lanka's economy continued its growth momentum. Individual growth of wearing apparel sub sector recorded a 19.7 percent in 2014. Sri Lankan apparel industry is at a reputed place in world context as they are a reliable and a quality manufacturer that following ethical practices such as free of child labour, free of forced labour and eco-friendly international standards.

The composition of Factory Industry Production Index (FIPI) is in Table 1 and it indicates the year 2010 as the base year for the FIPI where FIPI is the indicator measures the amount of output from the

manufacturing, mining, electric and gas industries (Investopedia Dictionary). FIP Index shows a continuous increase in Apparel Industry comparing to other industries in FIPI. It shows 113.8 in 2011, 118.5 in 2012, 128.5 and 132.9 in 2013 and 2014 respectively. Among Factory Industries, Apparel Industry recorded the highest in the previous year and it is 30 percent from the total FIPI and it is more than the combination of percentages of Food Products and Beverages which accounts 21 percent and 8 percent accordingly.

Table 1: The composition of Factory Industry Production Index (FIPI)

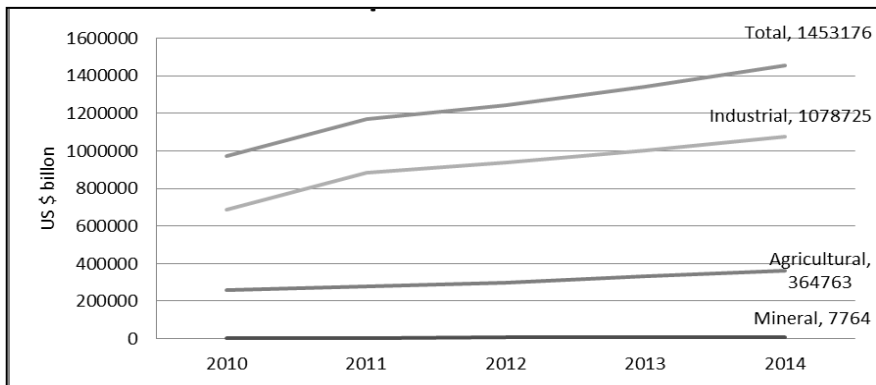
Industry	2010	2011	2012	2013	2014
Food Products	100	108.7	106.9	105.3	103.4
Beverages	100	110.2	107.4	103	111.8
Tobacco Products	100	106	99.9	96.7	87.6
Textiles	100	100.9	113.9	128.5	132.9
Wearing Apparel	100	113.8	118.5	126.5	149.5
Leather and Related Products	100	94	92.9	98.3	98.2
Wood and Products of Wood, except Furniture	100	107.9	98.4	114.6	108.9
Paper and Paper Products	100	88.3	98.8	127	126.6
Printing and Reproduction of Recorded Media	100	100.5	106.3	110.3	112.4
Refined Petroleum Products	100	106.3	81.3	83.4	86
Chemicals and Chemical Products	100	95.3	78.1	74.1	82.2
Pharmaceuticals, Medicinal Chemical and Botanical Products	100	133	138.8	185.1	142.8
Rubber and Plastic Products	100	116.5	116.9	118.2	134.2
Other Non-metallic Mineral Products	100	116.7	117.5	103.2	102.9
Basic Metals	100	115.5	98.1	100	112.9
Fabricated Metal Products, except Machinery and Equipment	100	89.6	111.7	136.5	97.1
Electrical Equipment	100	98.7	98.4	107.6	99.5

Source: Central Bank of Sri Lanka, 2014

Composition of Total Exports of Sri Lanka

When Sri Lanka has liberalized its economy in 1977, the country’s garment industry took off immediately (Industry Capability report, 2012). Similarly the rise in concept of opened economy also gave the encouragement to the high level of earnings by exports. According to sector wise, which consist of agricultural<industrial and mineral contain the total exports of the Sri Lankan economy.

Figure 2: Composition of Total Exports of Sri Lanka



Source: Central Bank of Sri Lanka, 2014

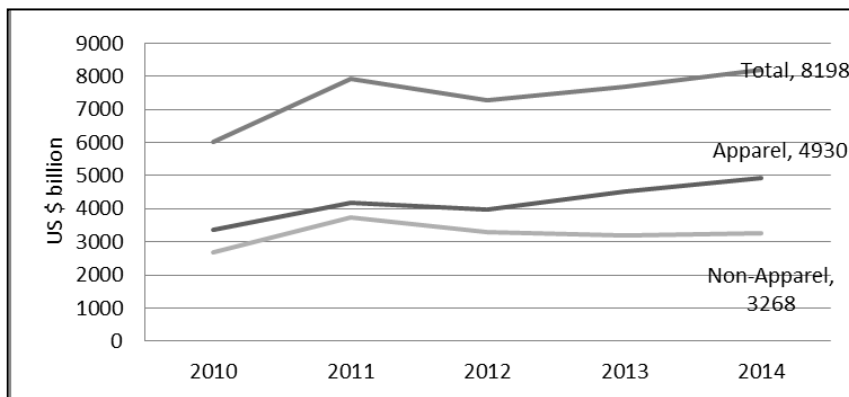
The above diagram shows an increase in each sector in long term. When considering the recent past year data regarding export earnings, there can be identified 74.23% out of total export earnings has been recorded by the Industrial sector while Agricultural products contributed 25.1% to the total export earnings of the country and the impact of Mineral sector is around 0.53% to the total export earnings.

Contribution of Apparel Industry to Export earnings to the country

Export Development Board has stated the apparel exports bring the largest export income to the country that recorded an increase of 9.26% year over year (YOY) by earning US \$4.9 billion in the year of 2014. In 2013, earnings from apparel rose by 13% YOY, recording a \$4.5 billion surpassing the US \$4 billion target initially set by the apparel industry and its’ garment exports have been largely governed

by the Multi-fibre Arrangement (MFA) since 1978. The MFA is a system of export restrictions imposed by developed countries on textiles and garment exports originating in developing countries to protect the garment industry in developed countries. However Abeysinghe (2014) stated that according to the sector performance analysis of countries with reference to world, Sri Lanka has to look beyond apparel in order to revive its exports. According to Export Development Board (2015), earning from exports of textile and apparel is accounted for 43% of total exports earnings of the country. As Abeysinghe (2014), apparel accounts for nearly 70% industrial exports from Sri Lanka. Similarly to the recent past data regarding the export earnings from apparel industry can be figure out as follows.

Figure 3: Export Earnings – Apparel Industry Vs. Other Industries



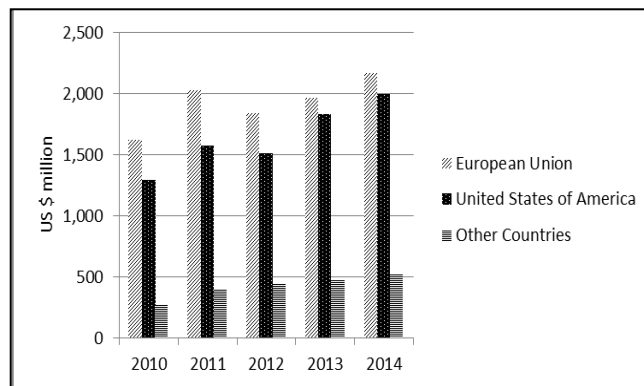
Source: Central Bank of Sri Lanka, (Various Issues)

According to the above diagram it shows that there is a more impact of apparel industry than other industries to the total export earnings of the country over the past five years. Also there is a long term trend in increasing earnings in both total export earnings and apparel industry earnings while declining trends in export earnings of other industries as a whole.

Country Classification of Apparel Exports

Considering the country classification of Apparel Exports, there is a high demand for Sri Lankan apparels to export in European countries including United Kingdom, Italy, Germany, Belgian, Australia, Netherlands, etc. and also similar demand in United States America as well. Canada, China, Hong Kong, Japan and United Arab Emirates are also the buyers of Sri Lankan apparels overseas who bring export earnings to the country (Central Bank of Sri Lanka, 2014). According to the diagram, there can be seen a significant growth in each region of countries where the highest amount of exports by US \$ millions were given by European Union.

Figure 4: Sri Lankan Apparel – Export Countries



Source: Central Bank of Sri Lanka, 2014

Similarly Export Development Board (2013) also stated that Sri Lanka's Apparel Export Industry is the most significant and dynamic contribution towards the country's economy. The industry has demonstrated the tremendous growth over the past four decades and has today become the country's primary foreign exchange earner amounting to 40% of the total exports and 52% of industrial exports. The industry, which is entirely privately owned, has successfully exploited the opportunities in the international market.

Sri Lanka has since become a world class apparel manufacturer supplying to global super brands for over three decades. (Export

Development Board, 2015). The industry upholds high ethical practices, eschews child and forced labour thus being known to the world as a producer of ‘Garments without Guilt’ and also the Sri Lankan garment industry has strong commitment to the welfare of its workers guided by the visionary slogan ‘Garment without Guilt’, ethical practices are at the path of the industry’s success. The industry provides direct employment opportunities to over 300,000 and 600,000 which include a substantial number of women in Sri Lanka. Similarly around 350 garment factories are operating in different parts of the country. (Industry Capability Report, 2012).

Impact of Export Performances in Apparel Industry on GDP of Sri Lanka

This study has used secondary data and the dependent variable of this study was Economy of Sri Lanka that measured with Gross Domestic Product while the independent variable was Apparel Industry that measured with export performances. Internet & websites, journal articles and books were main sources of information and percentages, frequencies, tables and charts were used to present data while using statistical packages as SPSS and Microsoft Excel were used to analyze data where the analyze is based on correlation. Abeysinghe (2014) stated that Apparel Industry is the best performer in Sri Lanka’s exports but not in the world context. According to her apparel industry is losing the comparative and competitive advantage it originally had in the 80’s and she stated that the overall contribution to the economy and employment is declining as well. However with reference to the past decade of time apparel industry is not showing a heavy decline and still the relationship to the GDP is not gradually decline but it indicates a weak positive relationship.

As stated above the economy of Sri Lanka measured with GDP from year 2005 to 2014 while the apparel industry measured with the export performance of the country throughout the similar range of years. However there can be seen a gradual increase in export

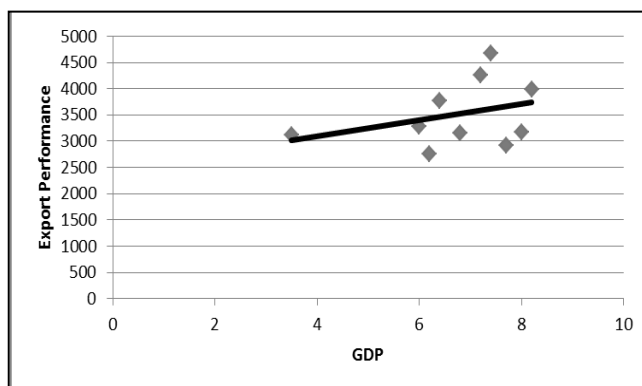
performance of apparel industry. Similarly Export Development Board (2015), the revenue from exports of garments in last year is nearly Rs. Five Billion and it places the apparel industry as the top foreign revenue earner over traditional exports as Tea, Coconut and Tourism.

Table 2: Export Performance in Apparel Industry on GDP

Year	GDP	Export Performance (US \$Million)
2005	6.2	2747.78
2006	7.7	2917.06
2007	6.8	3144.31
2008	6	3282.44
2009	3.5	3119.89
2010	8	3178.21
2011	8.2	3985.78
2012	6.4	3776.13
2013	7.2	4264.89
2014	7.4	4681.50

Source: Central Bank (Various Issues)

Figure 5: Relationship between Export Performance in Apparel Industry and GDP

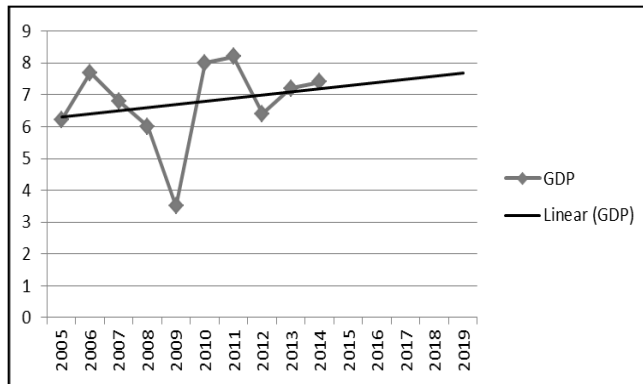


Source: Export Development Board, 2015

The above scatter plot diagram shows the relationship between export performance in apparel industry and Gross Domestic Product of Sri

Lanka for the past decade. According to the diagram it indicates a weak positive relationship between these two variables.

Figure 6: Trend in GDP of Sri Lanka



Source: Central Bank (Various Issues)

The above diagram shows that there are some fluctuations in GDP of the country and the forecasted GDP for five years are as 7.29 in year 2015, 7.39 in year 2016, 7.49, 7.58, 7.68 in year 2017, 2018, 2019 respectively.

Conclusion

With the open economy in 1977 the impact of industrial sector has increased over the impact of agricultural sector to GDP or Sri Lankan economy. Therefore industrial sector had major rise in this era. Since Sri Lanka has liberalized its economy in 1977, the country's garment industry took off immediately. Sectorial composition of Gross Domestic Product in Sri Lanka is as service sector records the highest of GDP while agricultural sector records lowest of the GDP. Industrial sector contributed an amount in between service sector and agricultural sector to the GDP which as the second largest sector contribution to national economy. Apparel Industry is included to the Factory Industry contributed to the overall growth, especially to export market. When considering the recent past year data regarding export earnings, there can be identified last proportion out of total export earnings has been recorded by the Industrial sector. Sri Lankan Apparels are exported to the large number of countries all

over the world including European Union and United States of America Sri Lanka's Apparel Export industry in the most significant and dynamic contribution towards the country's economy. The industry has demonstrated the tremendous growth over the past four decades and has today become the country's primary foreign exchange earner and there is a relationship between Export Performances of Apparel Industry and the economy of the country which is measured by the GDP. Therefore the conclusion that can be drawn from this study is that the apparel industry influences the economy of Sri Lanka.

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