

The Study of Factors Affecting Textile and Apparel Exports in Sri Lanka

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Sri Lankan textile and apparel industry is an important sector that significantly contributes to the country's economy. As the largest exporter in Sri Lanka, the industry supplying high-quality apparel products to global leading apparel brands for over three decades. This study aims to determine the factors which influence the export performance of the textile and apparel industry in Sri Lanka. Monthly time series data on the textile and apparel industry and exchange rate were gathered for the period of 2014 January to 2020 July from the Central Bank of Sri Lanka (CBSL). The analysis was done by employing a vector error correction model (VECM) and Granger-Causality test. The results of the analysis revealed that both textile imports and exchange rate have a positive significant impact on the textile and apparel exports in Sri Lanka in the short-run while apparel production index and clothing imports did not cause textile and apparel exports in the short-run. However, all explanatory variables including the apparel production index, textile imports, clothing imports, and the exchange rate have a long-run relationship with textile and apparel exports. The findings of this study will contribute to make positive policy changes in the textile and apparel industry and enhance the competitive position of Sri Lanka in the world export market for textile and apparel.

Keywords: *Granger-causality, Textile and apparel industry, VECM*

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