

# The Ending of the MFA and Innovation in the Sri Lankan Textile & Clothing Industry

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# T&C Sector: An Overview



- T& C sector accounted for nearly 50 % of Sri Lanka's exports and amounted to US \$ 2.8 bn. in 2004
- T&C accounts for 11% of GDP, 40% of manufacturing, & 6 per cent of the labour force
- In 2003, there were 891 clothing firms, employing 340,000 people (87 % females) and 1.2 mn people depends for livelihood on the Clothing industry
- Clothing (RMG) accounts for 90 per cent of T& C exports

# T&C Sector: An Overview (contd.)

- In 2004, 55% RMG exports were quota dependent
- 63 % of RMG exports concentrated in the US market and EU accounted for 30%
- Quota free entry to EU granted in March 2001
- Among the top 20 exporters of the RMG in the world

# Sri Lanka's Strengths & Weaknesses

- Pricing products competitively, quality, reliability and fit capabilities.
- Good rapport with the buyers
- Weak backward integration and high turn around time
- 60% of RMG exported via buying offices with less contact with the final buyer
- Low productivity and increasing cost of production
- Scarcity of a skilled work force. Social image surrounding the RMG industry has made it unattractive to the less skilled workers.

# Sri Lanka's Preparation



- Sri Lanka was pessimistic on the post-2004 scenario and thus was aggressively engaged in preparatory work to face the uncertain future, in particular, steps were taken to rectify some of the shortcomings of the sector
- A number of innovative work was done to face the challenge

# Joint Apparel Association Forum (JAAF)

- Preparatory work for the post-MFA period started in 2002. The JAAF was formed with a number of Associations representing various aspects of the RMG sector.
- It clearly articulated the overall objectives and formed subcommittee's to achieve the objectives and address the weaknesses.

# JAAF Objectives



- Increase Turnover from US \$ 2.3 bn in 2001 to US \$ 4.5 bn in 2007
- Transform the industry from “contract manufacturer” to “provider of fully integrated services”
- Focus on VA RMGs, not on low cost RMGs and focus on premium market segment. Realizing that the lower VA items will be dominated by a few countries after the MFA, Sri Lanka made a concerted effort to diversify into higher VA niche products



# Focus on specific product categories and customers.

- Product categories: Knitted Tops, Knitted Bottoms, Woven Tops, Woven Bottoms, & Cotton & Synthetic Bras & Briefs.
- Establish a reputation on 4 items: sports wear, casual wear, children's clothing & intimates
- Customer/Country: Specialty Stores, Discount Stores, USA, UK, Italy, France & Germany.
- Consolidate the industry

# T & C Exports: 2004-2006 Performance


- The strategy paid dividends – only South Asian country which managed to off-set the losses in the post-MFA period by focusing on niche products, particularly, intimates
- 2004 – US \$ 2.79 bn., 2005 – US \$ 2.89 bn. (growth: 3.1 %), and 2006 – US \$ 3.07 bn. (growth 6.5 %).
- Conscious effort to move to high VA RMG exports evident from growth of HS 621210 – 18 % accounting to 11% of T & C exports

**Table 5: Sri Lankan Exports of Women's Undergarments**

<b>Imports into US market (in million \$)</b>						
<b>HS</b>	<b>Product description</b>	<b>Jan-Sep 2004</b>	<b>Jan-Sep 2005</b>	<b>Jan-Sep 2006</b>	<b>Change (%) 2004-05</b>	<b>Change (%) 2005-06</b>
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	5	53	84	909.9	58.7
610822	Women's or girls' briefs and panties of man-made fibres, knitted or crocheted	18	22	35	22.1	60.7
621210	Brassieres of all types of textile materials	64	89	79	38.9	-11.5

<b>Imports into EU market (in million Euro)</b>						
<b>HS</b>	<b>Product description</b>	<b>Jan-Aug 2004</b>	<b>Jan-Aug 2005</b>	<b>Jan-Aug 2006</b>	<b>Change (%) 2004-05</b>	<b>Change (%) 2005-06</b>
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	17	13	20	-22.4	53.4
610822	Women's or girls' briefs and panties of man-made fibres, knitted or crocheted	11	9	22	-19.5	143.3
621210	Brassieres of all types of textile materials	28	33	51	18.6	52.2

*Source: Adhikari and Yamamoto (2007).*

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- The new innovative methods used by the garment industry to transform from contract manufacturer to fully integrated service provider.
  - Innovations can be identified under the following categories:
    - Technological Advancements
    - Human Resource Development
    - Improvements in Marketing and Image building
    - Innovations in backward integration

# Technological Advancements



- The use of specially designed machines for designing, grading, cutting, dyeing, etc.
- Production supervision is carried out by using the special software package “ **Real Time Data Capture**”.
- Work measurements are done by using the software “**General Sewing Data**”
- Initiatives taken by the government to introduce **Nano-Textile**.

## Technological Advancements cont..



- Each year Sri Lanka conducts the **Apparel Industry Suppliers Exhibition (AISEX)**, which showcases the latest technological developments in the garment industry.
- Introduced technology improvement schemes to Small and Medium Enterprises to modernize the factories.

# Innovations in Human Resource Development

- There are new innovative programmes to strengthen marketing capabilities, create design capabilities, develop technical competence, human resource capacity building, and to encourage apparel and textile education in Sri Lanka.
- Graduate Diploma in Apparel Marketing. This was done in collaboration with the Chartered Institute of Marketing (CIM) UK, to strengthen the marketing competencies.
- Bachelor of Design programme at the University of Moratuwa, to facilitate the development of a core base of trained designers.

## Innovations in Human Resource Development cont..

- To facilitate textile focused technical education, programmes in Textile Training Services Centers and Clothing Institute of Textile were introduced in collaboration with the North Carolina State University.
- Design course conducted by the London College of Fashion to provide world class education to future designers.
- Brandix College provides Bachelors Degree of Applied Science ( Textile Technology) in collaboration with RMIT University Australia.

# Innovations in Human Resource Development cont..

- Established Vocational Training Centers in collaboration with USAID. (four modeling training centers are in progress island wide) 30 out of the 189 vocational training centres (VCTs) are geared towards providing training in the RMG sector. The project will receive industry accreditation
- Productivity Improvement programmes; this is a government funded consultancy outfit.
- ILO factory improvement programmes; funded by the US Department of Labour.

# Innovations in Image Building and Marketing

- Industry has identified new methods to promote the image of the industry globally.
- **Garments without Guilt**
  - According to the survey done by A.C.Nielson on Sri Lankan buyers, it was found that Sri Lankan garments have a good image among buyers because of the concept of Garment without Guilt.
  - The industry adopts good governance practices by using self-regulatory measures by subscribing to international audit. Eg:WRAP,SA8000,ISO Certificate.

# Innovations in Image Building and Marketing cont..

- Concept of Garment without Guilt
  - Sri Lankan apparel as a unique brand -- highlights Sri Lankan's position as an ethical sourcing destination.
  - Ethical labour practices
  - Respect to the apparel worker and empower women workers
  - Sweat free garments

# Innovations in Image Building and Marketing cont..

- **Green Garments( Environmental friendly, organically developed products)**
  - Factories obtained Global Environmental Certificate for manufacturing
  - Carbon neutral products
  - Agreements with the suppliers to supply organic fabric.
  - Use eco-efficient clean technology
  - Waste management programmes. eg: recycling, energy management programmes

# Innovations in Image Building and Marketing cont..

- Established new Design and Marketing Centers
  - Brandix Center of Inspiration : Design facilities, marketing merchandising, product development and ware housing in one location -- where inquiries/concepts could be turned into simple garments within 6 hours
  - Brandix Comfort ware design center at Malabe
  - MAS Designing center: offering customers innovation right down the value chain from raw material to the product

# Innovations in Image Building and Marketing cont..

- MAS: Sew-free lace moulded bra – “Belissima”
- MAS: Switched from product-centric to customer-centric. Operates on a higher cost base but cost optimization implemented based on Toyota Production System.
- MAS: ‘Vendor of the Year 2006’ by Victoria Secret; won CSR-’Women Go Beyond’ Excellence Award by the American Apparel & Footwear Association

# Innovations in Image Building and Marketing cont..

- MAS: 'best practices in industry' by UN Global Compact
- MAS: top five cases of sustainability in IFC Handbook
- MAS: INSTEAD of France modelled 'Strategic CSR in the Apparel Industry' for MBA.
- MAS: M&S joint venture to build the pioneering iconic 'Green Plant' in Sri Lanka

## Innovations in Image Building and Marketing cont..

- Building new textile zones at Thulhiriya and Horana: Constructing large scale textile factories with BOI incentives
- Promoting fabric manufacturing in Sri Lanka, provide facilities at the industrial park at Biyagama.

# External



- EU GSP-Plus scheme : duty free but has to fulfill rules of origin (ROO). SL discussing for Super Cumulative ROO.
- US-Sri Lanka Bilateral FTA simply not on although a TIFA is in place, but SL seeking Congressional support for preferential duty for RMG as Tsunami relief.
- Market access to India via ILBFTA.
- Conduct marketing missions in France, Germany and Italy.



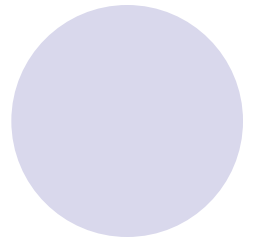
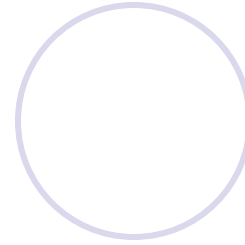
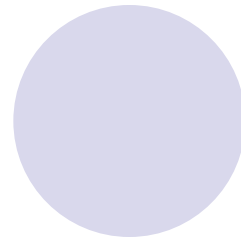
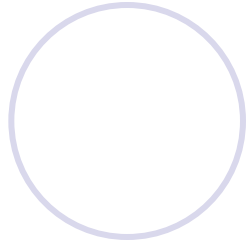
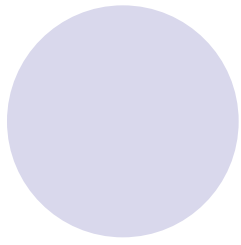
# External

- Venturing into India as a potential solution to the lack of scale economies. SL companies are planning to get into a cluster arrangement (raw material base) capable of servicing the proposed large scale manufacturing operations.
- Exploiting Pakistan's woven fabric base for maximizing the utilization of the GSP-Plus scheme.

# Conclusions



1. Sri Lanka is a clear example of innovation assisting trade policy.
2. Innovation is necessary both in strategizing the supply side and identifying the markets. In Sri Lanka, the strategy was totally driven by the private sector with facilitation from the government.
3. Sri Lanka has to keep on innovating new techniques to survive in the highly competitive RMG market.



Thank you