

# **Dynamic Driving Force of Private Sector Organisations in Sri Lankan Economy**

**– Faces on the challenge**

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There is a view that the majority of the people in Sri Lanka suppose that the private sector is more effective in the practice of management than the public sector. Accordingly, the government of Sri Lanka has viewed the private sector as the engine of growth. The Central Bank of Sri Lanka expressed that private sector industrial output increased by 5.3 percent in 1999 compared to 6.9 percent in 1998 and accounted for 94 percent of total industrial production in 1999. Board of Investment of Sri Lanka (BOI) industries grew by 5.7 percent compared to 6.4 percent growth in the previous year. Output in the non - BOI sector grew by 5.0 percent in 1999, compared to 7.5 percent in 1998 (*Annual Report, 1999, p. 50*). It is the view of the majority of the people of Sri Lanka that the role played by the private sector is more efficient than that in public sector organisations especially since the introduction of liberalised economic policies introduced in 1977. Later, the government also believed this sector to be efficient and strong. Therefore, loss making public sector organisations was privatised.

In the case of the apparel industry (dynamic driving force), this can be considered as a leading business component in the private sector.

The term apparel is used to describe all non-metallic materials worn by purchasers. There are sub-categories in the apparel industry. Garments are just one category in the apparel sector; ready-made clothing is just one category in the garment sector.

In the Sri Lankan economy, this industry occupies a significant place. With the introduction of the open economy in 1977, this industry expanded widely. In accordance

with the 1978 Act No. 4 of the Greater Colombo Economic Commission, Free Trade Zones were set up in Katunayaka, Biyagama and Koggala. Apparel industry control under BOI (previously known as Greater Colombo Economic Commission – GCEC) and Industrial Development Ministry (IDM). The role played by the apparel industry in Sri Lanka is significant in several respects. The contributions made by this industry with respect to employment generation, foreign exchange earnings and the majority of the investors in this industry being Sri Lankan nationals, is significant.

The following important points compared to other industries should also be noted: -

- (a) **Formal organisation** - it is a formally and legally established organisational body.
- (b) **Large investment** - a considerable amount of money has been invested in this industry. This industry is regarded as large-scale industrial sector.
- (c) **Gaining a large foreign exchange** - this industrial sector has taken significant place in earning large amounts of foreign exchange and as a result it has taken first priority in the export category.
- (d) **This industry contributes to the Free Trade Zones** - among the different industries in the Free Trade Zones. The apparel industry has taken significant place due to the fact that it is playing an active role in the manufacturing sectors.
- (e) **Utilisation of new technology** - with the advancement of technical progress the apparel industry is expanding and at present absorbs a large part of modern technology and technical know-how.
- (f) **200 and 50 garment factory programme** - due to the significance of this industry, the government in 1992 (200 Garment Factory Programme) and 1998 (50 Garment Factory Programme) located factories countrywide. This was supposed to improve the industrial sector and achieve different economic purposes. In addition, the government has newly established industrial processing zones and a dedicated economic centre, designed to enable the apparel industry to develop further.

The manufacture of apparel is a labour intensive process and is considered an industry which does not need much investment or long lead times to train and establish a

manufacturing facility. Neither is a long gestation period needed to commence production. Fabrics or textiles are the single largest input used in this industry accounting for 75 percent of finished products. In the case of technology, compared to other industries, there is scope for enormous application of new technology to reduce labour, the garment industry is highly labour intensive and needs a lot of manual labour. The possibility of the garment industry being a high - tech capital intensive industry is remote, although some labour intensive automation is already being adopted.

Since 1977, the Free Trade Zones and the apparel industries contributed greatly to the economy of Sri Lanka. These industries also contributed in a small way to the grave unemployment problem existing in the country. Up to this period, women's labour was not utilised in a great way, but since 1977 women found more job opportunities in these industries.

Her Excellency the President of Sri Lanka mentioned that women's unemployment decreased by 12.6 percent in the year ending 1999. This was as a result of job opportunities in the apparel industries and tea estates. 80percent of job opportunities in BOI factories were also offered to female employees.<sup>1</sup>

It should be noted that the major reason for the establishment of the apparel industry in Sri Lanka was to provide employment opportunities for young people. Because this sector has greater employment potential, many job opportunities are prevailing for blue-collar workers. Therefore this sector can employ a large labour force. As this particular industrial sector is able to absorb a vast number of employed labour force in Sri Lanka, it can be considered as a giant business undertaking in the Sri Lankan economy.

There are about 891 registered factories filling BOI and IDM criteria according to the latest available figures. They are giving direct employment opportunities to about 276,821 persons (*People's Bank, Economic Review, June/July 1999, pp 9-10*), Table 01. This is a creation of two indirect to one direct job. Hence it would be assumed that there is employment potential for about 800,000 citizens of Sri Lanka.

The change of government in 1977 paved the way for an open economy that resulted in rapid export development. The ready made garment industry took pride of place in this respect. The number of factories engaged in textile and leather goods manufacture numbered 530 in 1970 in which the work force totalled 27,069 (the percentage vis – a vis the entire industrial sector in 1970 was 3.3%). In 1973, the number of factories engaged in this industrial area of activity rose to 535 with a work force of 29,994. In 1978, the total number of factories in this sector was 654 and the total number employed rose to 38,832 (*People's Bank, Economic Review, June/July 1999, p. 23*).

In 1981, out of a total of 51 factories, 24 were garment factories i.e. a figure of 47 percent. By 1982 this figure had risen to 69 percent. The numbers employed in factories coming under the Board of Investment were 104,220 in 1992, a 22 percent increase over 1991, 50 percent of these employees worked in eighty factories in the Katunayake Export Processing Zone, (*People's Bank, Economic Review, June/July 1999, pgs. 18 - 23*).

Table 01 District-wise distribution of employment in apparel industry

DISTRICT	EMPLOYEE' NUMBERS	%
Colombo	79,675	28.8
Gampaha	86,029	31.1
Kalutara	15,625	5.6
Kandy	7,841	2.8
Matale	2,211	0.8
Nuwara-Eliya	7,004	2.5
Galle	10,828	3.9
Matara	4,838	1.8
Hambantota	3,822	1.4
Vavuniya	634	0.2
Batticaloa	787	0.3
Ampara	1,806	0.7
Trincomalee	919	0.3
Kurunegala	14,482	5.2
Puttlam	7,916	2.9
Anuradhapura	7,617	2.8
Pollonnaruwa	2,809	1.0
Badulla	4,262	1.5
Monaragala	2,297	0.8
Ratnapura	8,322	3.0
Kegalle	7,097	2.6
<b>TOTAL</b>	<b>276,821</b>	<b>100.0</b>

Source: People's Bank Economic Review June/July 1999

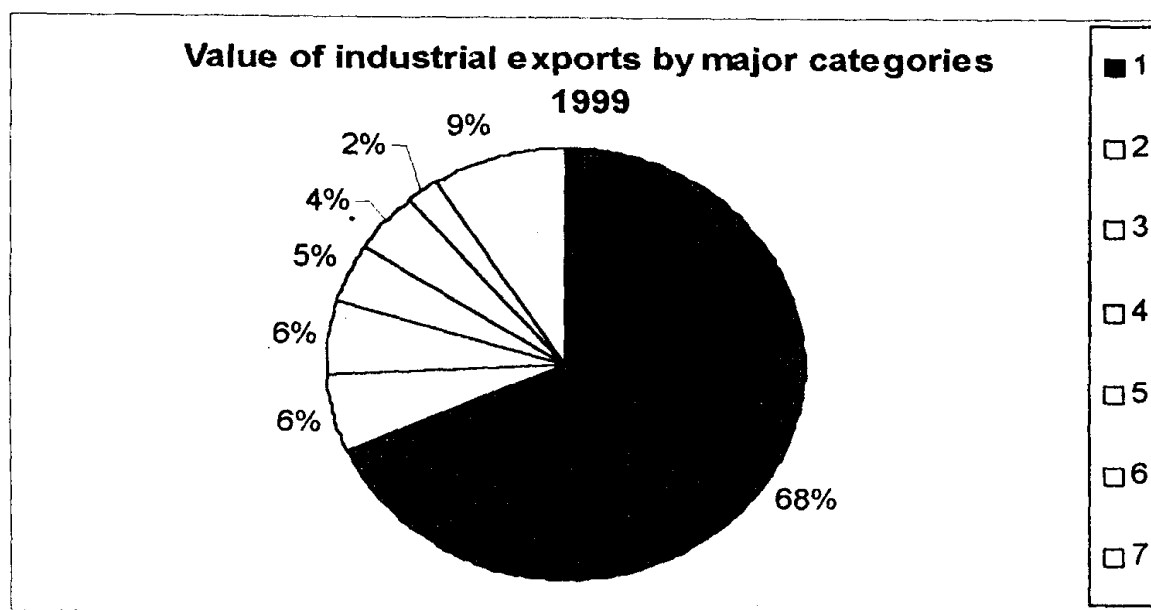
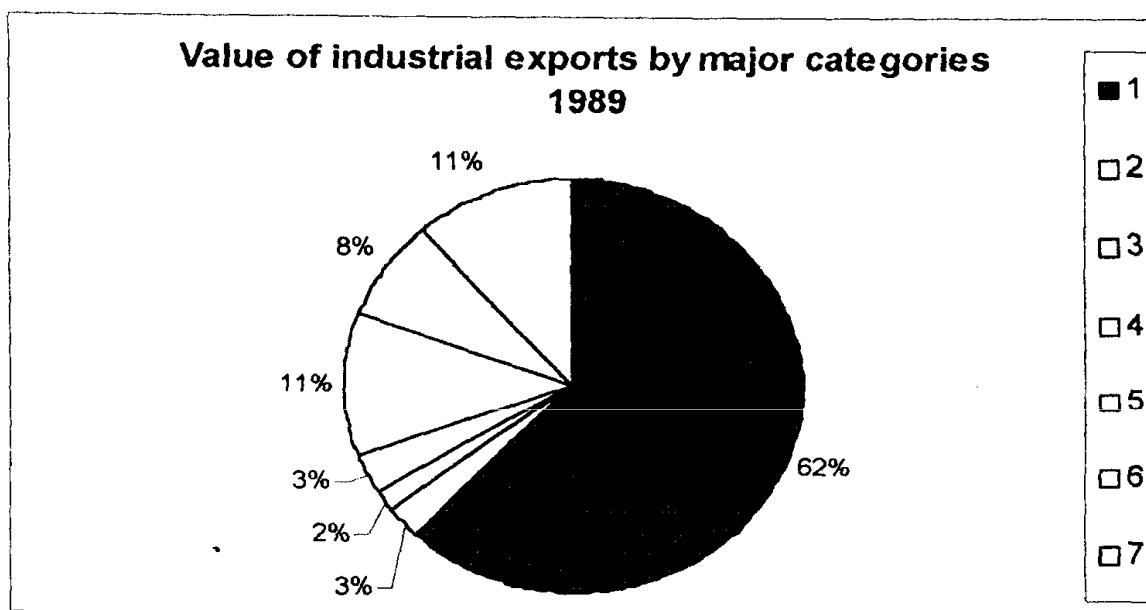
At the end of 1996, FTZ's accounted for a 4.4 percent share of total employment, (*Centre for Society and Religion, Social Justice, March 2000 p. 10*). The Tri-Star Factory alone provided employment to 24,000 persons (*Wijaya Newspaper Ltd., Lankadeepa, Tuesday June 4<sup>th</sup> 1996 p. 6*).

According to the Ministry of Industrial Development, there were a total of 845 garment factories at the end of 1996, while the number of textile manufacturing factories stood at over 140, (*People's Bank, Economic Review June/July 1999 p. 18*), with less than 10 factories accounting for most of the output. The largest garment factories (in terms of employment) were located within the Free Trade Zones run by the Board of Investment. By the end of 1996, the manufacturing sector as a whole represented about 14 percent of the country's 5.5 million total employed work force. Approximately 40 per cent of which were engaged in the apparel sector. Of the total work force employed in the apparel industry, more than 60 per cent was within the garment sector.

With regard to foreign exchange earnings of this industry, it is important to take note of structural changes. Sri Lanka was heavily dependent on the traditional exports of tea, rubber and coconut for foreign exchange earnings until the early eighties when non-traditional exports emerged as a leading foreign exchange earner. The reason for this high growth in the non-traditional sector was the high contribution made by the garment sector. In 1975, garment exports amounted to only 4.9 percent of the total value of exports of all manufactured goods. In both 1976 and 1977 these exports rose to 9.6 per cent and 10.6 percent respectively. In 1978 and 1979 it was ranging between 20 and 30 percent, (*Centre for Society and Religion, Social Justice, March 2000 p. 10*). Accordingly, it recorded a growth rate between a minimum of 36 percent and a maximum of 150 percent in this period.

Table 02 Value of industrial exports by major categories

major categories	1989	1999
1. Textiles and garments	61.9	68.4
2. Machinery, Mechanical, Electrical appliances	2.5	5.7
3. Oeather products and footwear	1.6	5.7
4. Rubber products	3.3	4.5
5. Damonds and Jewellery	11.4	4.3
6. Petroleum products	7.9	2.1
7. Other	11.4	9.3



Sources: Central Bank, Annual Reports 1999

In 1980, the earnings of exchange from the apparel sector were very much less than the income generated from tea, rubber, petrol and tourism. At this stage the said income was about 2.9 percent of GNP. In 1985, the earning exchange generated from the apparel sector was second only to the earnings generated from tea. However, in 1986 it surpassed the earnings received from tea and reached first place.

In 1986, earnings received from tea reached Rs. 9629.2 million (SDR 299,6). The earnings obtained from sales of tea was Rs. 9252.7 million (SDR 281.2). (*People's Bank, Arthika Vimasuma, April 1989, p. 8*).

In 1996, 40 percent of the country's industrial production was from the apparel sector, while this sector accounted for 46 percent of exports, its share of industrial exports reached as high as 63 percent. Of the 21 percent contribution made by manufacturing industry to the country's GDP in 1996, 40 percent was from the apparel sector. The latest statistics show that this industry is responsible for over 69.4 percent of total industrial exports. This dramatic growth can be attributed primarily to the availability of quota's, comparatively cheap labour, policies of liberalisation, tax concessions and incentives.

According to People's Bank, about 80 to 85 percent of apparel factories are currently owned by local industrialists, (*Peoples Bank, Economic Review, June/July, 1999*).

In addition, a 200 Garment Factory Programme was started all over the Island. Thus, in 1990 a cabinet sub-committee recommended that garment factories should be opened in provincial areas other than the western Province. Consequently, the 200 Government Agent discussions 200 GFP which has been launched by the government as a part of its Rural Industrialisation Programme has as its main object the alleviation of poverty in rural areas through the creation of massive employment opportunities. One common qualifying criteria of this programme is the employment by each factory of not less than 500 workers. Showing wider regional dispersion, 167 garment factories were in commercial operation under the 200 Garment Factory Programme in 21 districts at the end of 1999. Of these, 145 (87 percent) were located outside the Colombo and Gampha



districts. There were 11 factories in difficult districts such as Monaragala, Ampara, Trincomalee and Batticaloa. At December 1999, there were 16 factories in the Ratnapura District, 14 in the Anuradhapura District and 12 factories in the Nuwara Eliya District. (*Central Bank Annual Report 1999, p. 65*).

As mentioned above, though the apparel industry is important in different ways, it seems that there are some invisible problems in this industry. People's Bank expressed a view that by any standards it has shown a remarkable dynamism and efficiency within the present "status quo". The industry now faces a new set of challenges brought about by external forces, (*People's Bank, Economic Review, June/July 1999, p. 8*). According to Peoples' Bank the biggest challenge faced by female employees was to find hostels or boarding places close to their place of work (*Economic Review, June/July 1999, p. 25*). Also, labour turnover is very high in this sector; 98 percent of workers wanted to get married and lead a normal life. According to BOI, 40 percent of workers had completed 10 years service. Around 60 percent leave their jobs after serving for between 5 to 10 years (*ibid. pgs. 13 and 25*).

According to the deputy director general BOI of Sri Lanka, there are 12,500 vacancies in the apparel industry, 7000 of these are in Katunayake Free Trade Zone (*Upali Newspaper Ltd, Diviana, October 20<sup>th</sup> 2000, p. 10*).

The Central Bank of Sri Lanka expresses that the problems of some factories were compounded, leading to the stoppage of operations and the redundancy (Veytex and Pugoda) of about 3000 employees (*Annual Report, 1998, p. 52*).

This sector also has seasonally generated unemployment especially in the north central Province due to demand from the agricultural sector regarding crop harvesting. Other problems have been identified as: -

- (i) Wages and salaries problems, (Jinendrapala, 1992, pgs. 25 - 28)
- (ii) Salary increment problem (Associated Newspaper of Ceylon Ltd, Daily News January 28<sup>th</sup> 1991, p. 18)
- (iii) Unsatisfaction problem (Associated Newspaper of Ceylon Ltd, Daily News June 25<sup>th</sup> 1991, p. 24)
- (iv) Labour Transport, Housing and Board Problem (The Associated Newspaper of Ceylon Ltd, Daily News, November 14<sup>th</sup> 1990, p. 3)
- (v) Labour Stress, Sexual Harassment and Protection problem (SIDA, Voice of Women, April 1999, pgs. 14 - 15)
- (vi) Leave problem, welfare facilities problem, promotion, no vocational commitment in the society, poor working backgrounds and poor labour maintenance.

Accordingly, it can be understood that there are many problems and subsequently higher labour turnover in this industry.

According to People's Bank, there is heavy dependence on imported inputs. Although the Sri Lankan apparel industry has been able to achieve remarkable growth over the last two decades, the development of supporting industries such as fabrics and accessories has not been that impressive. Also, high concentration on a few quota markets and lack of direct links with major markets – however the most significant of all the conditions, viz., “Quota system” will be non-existent by the year 2005, (*People's Bank Economic Review, June/July 1999, pgs. 8, 22*).

## Conclusion

As mentioned above, although the apparel industry is important in different ways, it seems that there are some invisible problems in this industry. The most significant of all being “Quota markets” as this is predicted to be non-existent by the year 2005. It is in this context that the industry should look at the future and its effectiveness.

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