

A Review on the Current Profile and Challenges of the Sri Lankan Apparel Industry

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Abstract

The Sri Lankan apparel industry serves the country's economy in various ways. Creating employment opportunities, exporting products to the international market and earning foreign exchange are some of major contributions of the apparel industry. Literature and the annual statistical reports on Sri Lanka's industrial performance provide evidence for this significant contribution. Though the apparel industry could serve international markets with branded products, it has to face the competition in the world apparel markets. This competition has been created by removing tax benefits of Multi Fiber Agreement and GSP Plus, China becoming the key player in the US and EU apparel imports and increasing the imports to the world apparel market by other countries. Therefore this study describes the current profile of the Sri Lankan apparel industry and hence identifies challenges the industry faces. Reduction in the US and EU apparel imports, labour becoming expensive and scarce resources, poor product and regional diversification, high lead time and dependency on imported raw materials are identified as key challenges to the Sri Lankan apparel industry and hence, this study argues that the industry should find new ways to enter to international markets, identify suitable systematic and structured strategy to improve the industry performance, rethink its positioning in international markets with competitors, incorporate backward integration and further improve the raw material requirement base and the lead time. Also this study underscores the value of diversifying into the fashion industry, signing a new Free Trade Agreement with China, focusing on ethical manufacturing and implementing the "Green Garment Factory" concept and other productivity improvement strategies as emerging trends to successfully meet those challenges.

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Introduction

The Sri Lankan apparel industry has a prominent place in the industrial structure of the country. The industry has a skilled and knowledgeable workforce. Therefore the industry serves the international markets with branded products such as Abercrombie and Fitch, Liz Claiborne Nike, Victoria's Secret, Pierre Carding, Marks and Spencer and Gap. As an international business, the Sri Lankan apparel industry has provided opportunities for local and foreign investors representing USA, Japan, Australia and European countries. Based on these investments, the industry can be considered under three categories: local owned, foreign owned and joint venture.

Contribution to the National Economy

The Sri Lankan apparel industry gives a good contribution to the economy of the country. This is evident in the study done by Lanarolle (2014). He has mentioned the amount of this contribution to be 10% to the Gross Domestic Product (GDP) value according to the studies done by Mirchandani (2009) and Omar (2008). The Sri Lankan apparel industry is the biggest employer in the manufacturing sector and has also become the highest foreign exchange earner (Perera 2004). The Central Bank report (2014) has mentioned that the export income of the apparel industry is 96% of the textile and apparel industrial exports and 55% of the total industrial exports as depicted by Figure 1 and Figure 2 respectively. Both Figures clearly show that the highest contribution to the country's total export income was given by the Sri Lankan apparel industry in 2013. Therefore the Sri Lankan apparel industry can be considered as a key player in economy of the country.

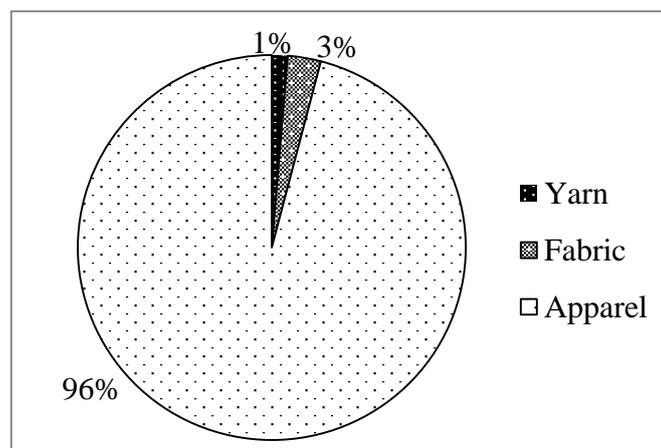


Figure 1: The Percentages of Export Income of Textile and Apparel Industry – 2013

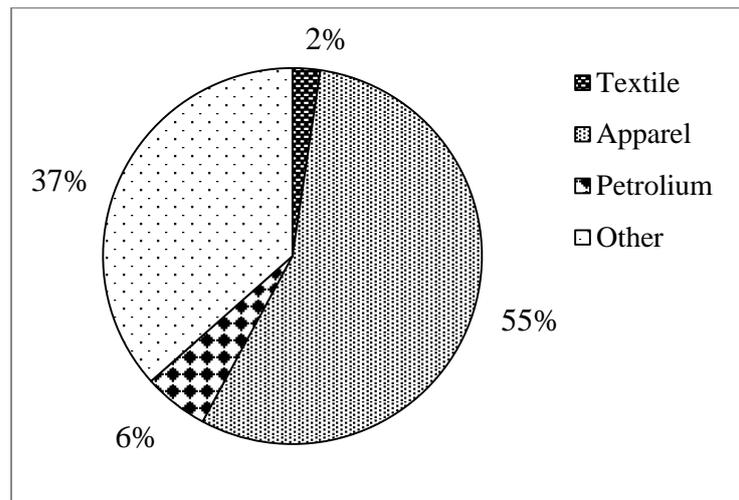


Figure 2: The Percentages of Total Industrial Export Income – 2013

Employment Opportunities in the Industry

Apparel industry is generally labour intensive and the workforce is an important factor contributing to the development of the industry. Chelina Capital Corporation (2013) and Wijendra (2013) have identified this industry to be the highest employment generator in the country. The Board of Investments (BOI) (2012) has identified that the Sri Lankan apparel industry has attracted 15% of employees from total eligible workforce. The employee engagement is clearly indicated by the following Figure 3 and Figure 4 which are based on the Annual Report of the department of Census and Statistics, Sri Lanka (2012).



Figure 3: Total Number of Employees in the Sri Lankan Industries

The Sri Lankan apparel industry has created a significant employment opportunity to the country in relation to the total industrial employment opportunity as described by

Figure 3. The percentage contribution is higher in the industrial establishments with 25 or more employees than that of 5 or more employees.

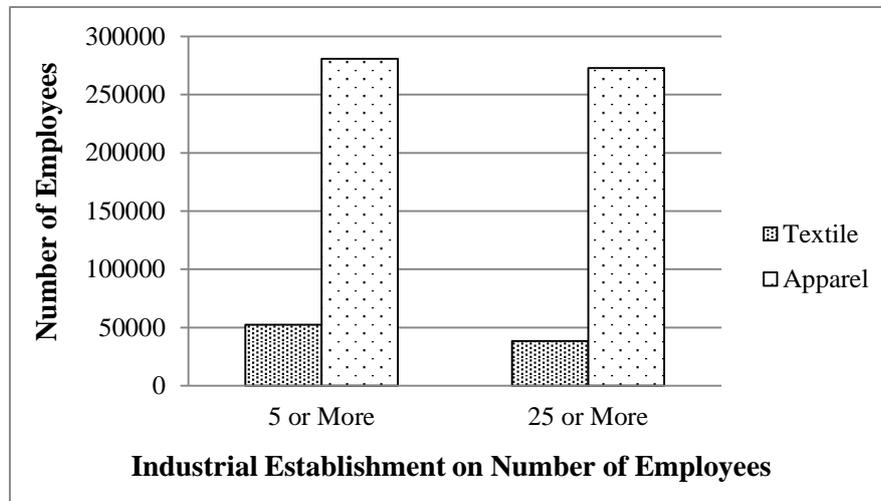


Figure 4: Number of Employees in the Sri Lankan Textile and Apparel Industry

Further Figure 4 compares the employment opportunity in both Sri Lankan apparel and textile industries. The apparel industry has recorded a higher contribution compared to the textile industry.

Therefore studying and improving the performance of such an industry is very important for providing much needed employment for diverse categories of workers.

Industry Overview

Evolution of the Apparel Industry

Internationally, the apparel industry evolved over the last few centuries dispersing its production processes across many regions in the world. It started with one man-artisan tailor shops so that individuals created clothes at their own residences before the 18th century. The whole production process at that time was manual since the technology was rudimentary. In 1830, Barthelemy Thimonnier, a French tailor invented the sewing machine and thereafter factory based apparel production was started. Walter Hunt in the US invented another sewing machine just after 3 years. However, the major turning point of starting the industrialization commenced with the invention of a practical and commercially viable sewing machine by Issac Merit Singer in the US (Rivoli 2006). It further affected cultural changes establishing apparel manufacturing factories, especially in major cities of the USA and Europe. Thereafter following Frederick Taylor’s “scientific management”, the apparel production was made efficient and trading apparel products began in the 1950s shifting the industry towards multinational corporations.

With the extended establishing of the Sri Lankan apparel factories in 1960s, the industry mainly produced textiles and garments only for domestic market. The export oriented readymade garments were then produced from 1970 onward.

Global Apparel Industry

The apparel industry is the oldest and the most important export sector in the world. In 2013, 7% of the world's tradable manufactured products were from trading of apparel products and low and middle income economic countries provided 70% of world apparel exports (WTO 2014). Many developed countries such as United Kingdom, Western Europe, United States and Japan and newly industrialized economies such as Hong Kong, Taiwan and South Korea, developed the apparel industry at first stage of their industrialization (Yang and Zhong 1998, Dickerson 1999). Some other countries in Asia and Africa also then started apparel manufacturing.

Major Markets of the Sri Lankan Apparel Industry

The Sri Lankan apparels have become very popular in international markets. The majority of the customers are from United States of America (USA) and European Union (EU). Among the export products of the Sri Lankan textile and apparel industries, the apparel industry contributes 90% and this amount is accounted by the USA and EU (Wijendra 2013). Also this contribution is justifiable in reviewing the news survey done by the Central Bank of Sri Lanka in 2014. Figure 5 shows the percentages of apparel exports (based on values in US\$ millions) to the USA, EU and other countries in the first half of the year 2014. It clearly shows the major markets of the Sri Lankan apparel industry to be the USA and EU.

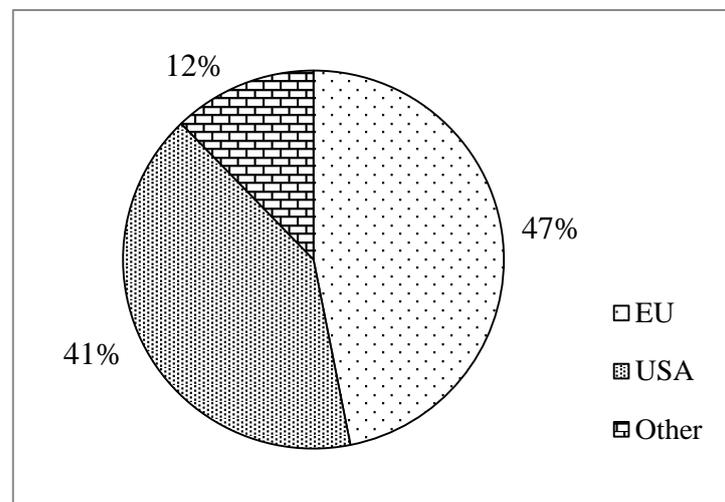


Figure 5: Apparel Exports to the EU, USA and other Countries in 2014 January- July
Source: Central Bank of Sri Lanka – News Survey/ October- December 2014

Wijendra (2013) has stated that the largest buyer of Sri Lankan apparels is United Kingdom (UK) within the EU and that is 45% of total export to the EU. Other markets followed by the EU are Germany, Netherlands, France and Belgium. Figure 6 further comprehends the major markets of the Sri Lankan apparel industry in 2014.

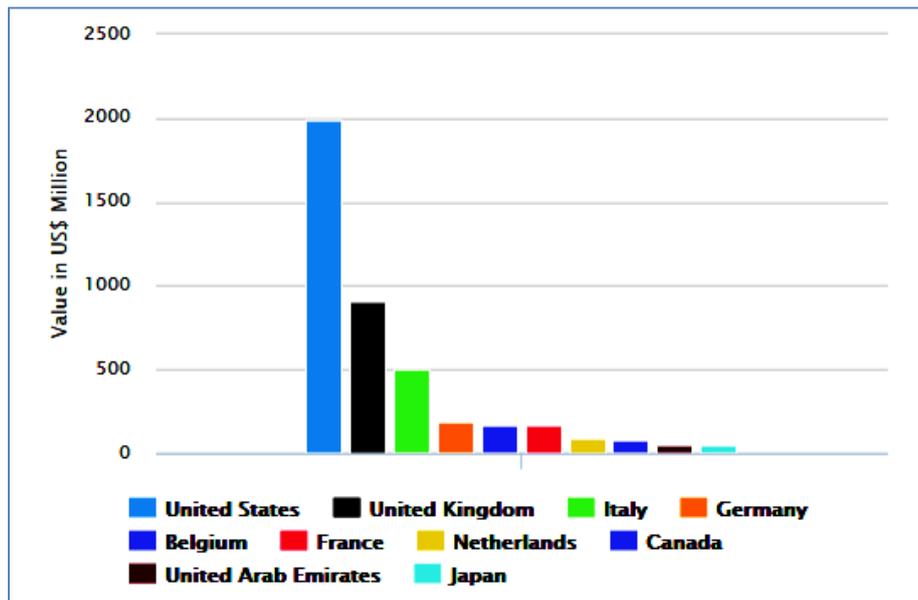


Figure 6: Major Markets of the Sri Lankan Apparel Industry- 2014
 Source: <http://www.srilankabusiness.com/apparel/apparel-export-performance.html>

Figure 6 clearly shows that United States, United Kingdom and Italy have provided the highest market opportunity among the other countries that are considered as the major markets of the Sri Lankan apparel industry in 2014.

Competitiveness of the Sri Lankan Apparel Industry

The textile and apparel industry emerged in 1950. But economy of the country had important substitution policies which were revised at the end of the same year. The private sector entered many industries creating various investment incentives and manufactured products locally. Textiles and apparels were the major products among them. Export competitiveness in local readymade garments was achieved by the end of 1960.

A remarkable growth in the apparel industry was noted in the 70's. Over 2500 industrial units received the approval from the Local Industries Approval Committee and 2000 among them were textiles and textile based industries. This achievement caused Sri Lanka to become an attractive location for textile and apparel industries together with wage inflation and imposition of trade quotas made on the South Asian countries existed in mid of 1970. This positioning of the Sri Lankan apparel industry resulted foreign owned and joint venture establishments apart from the local owned establishments creating new units and relationships with the foreign market while existing products were upgraded. Thereafter, the market friendly economic reforms and the Multi Fiber Agreement (MFA) created a rapid expansion in the Sri Lankan textile and apparel industries replacing all bilateral agreements which were formed between early individual businesses.

The abolishing of MFA made benefits for China in 2005. Since no more quota restrictions were existed against China, it could accelerate its exports. As a result of that, from 2005 to 2011, China could increase its exports to the US by 17% to where the Sri

Lankan apparels were largely exported (Abeyasinghe 2014). Further along with China, some other developing countries in Asia such as Bangladesh, Vietnam, India and Cambodia could also increase their productions retaining among the top exporters. That resulted the amounts of the apparel exports from Vietnam and Bangladesh to the US increased by 14% and 12% respectively (Abeyasinghe 2014). Therefore these countries stole 3% in the US export share accounted by the Sri Lankan apparel exporters creating a market competition among these countries (Abeyasinghe 2014). This competitive environment is still presence in the apparel manufacturing industry. WTO (2014) has provided evidence for this status as depicted by the below Figure 7.

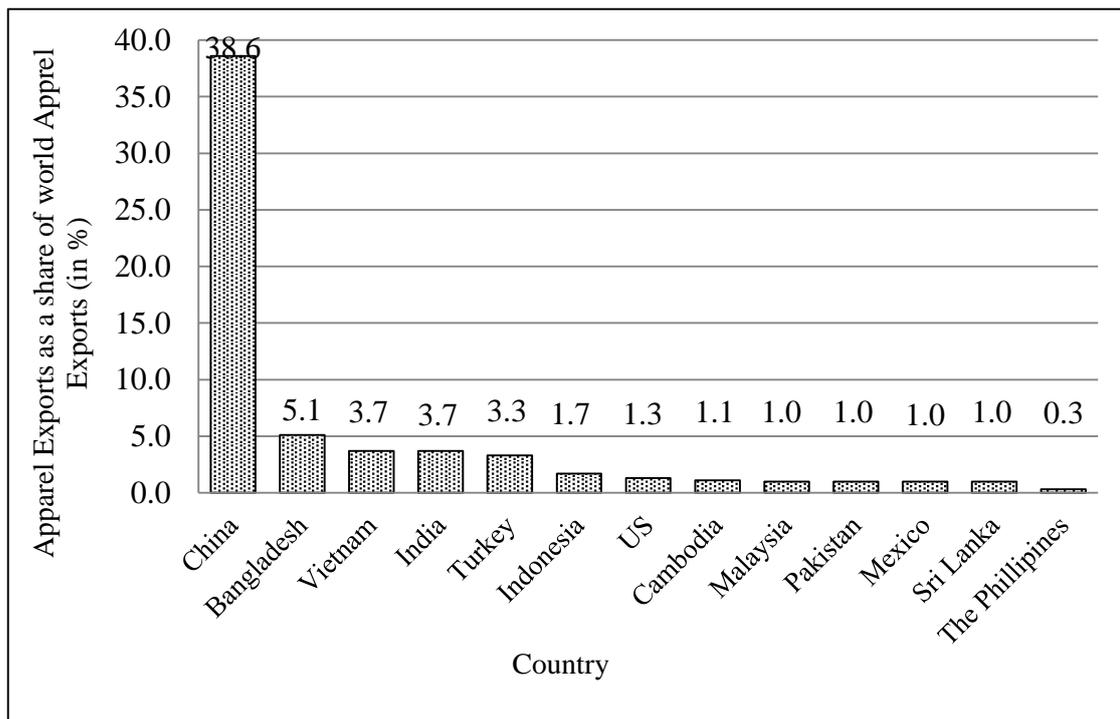


Figure 7: Apparel Exports as a Share of World Apparel Exports in 2013 (in %)
 Source: WTO (2014)

Figure 7 clearly depicts that China is still dominating in the world apparel exports. China is following cost leadership and market penetration strategies of which Sri Lanka is lacking. They could produce low cost products due to their low labour cost and energy consumption cost etc. But Sri Lanka as a developing country still has to bear a high costs for these requirements. Therefore China could dominate in the world apparel export market creating a huge competition with Sri Lanka.

It further shows the other top apparel exporters as a share of world apparel exports. According to WTO (2014), Sri Lanka is also among the top players of apparel exporting countries. Therefore still the Sri Lankan apparel industry could continue to serve the international market being among the top players. The Figure 5 also shows that Bangladesh, Vietnam, India and Turkey provide more exports than Sri Lanka and the US, Cambodia, Malaysia, Pakistan, Mexico and Sri Lanka have nearly equal shares in the world apparel exports. These values imply that the Sri Lankan apparel manufacturers

should be more competitive than the present status and therefore should enhance the quality of the products and the productivity of the industry.

Though Sri Lanka lost significantly the US market by abolishing MFA, it could further sustain in the EU with receiving Generalized System of Preferences (GSP) scheme in 2005. This facility granted the exports from Sri Lanka for duty free access to the EU market so that its market share could be increased as Figure 8.

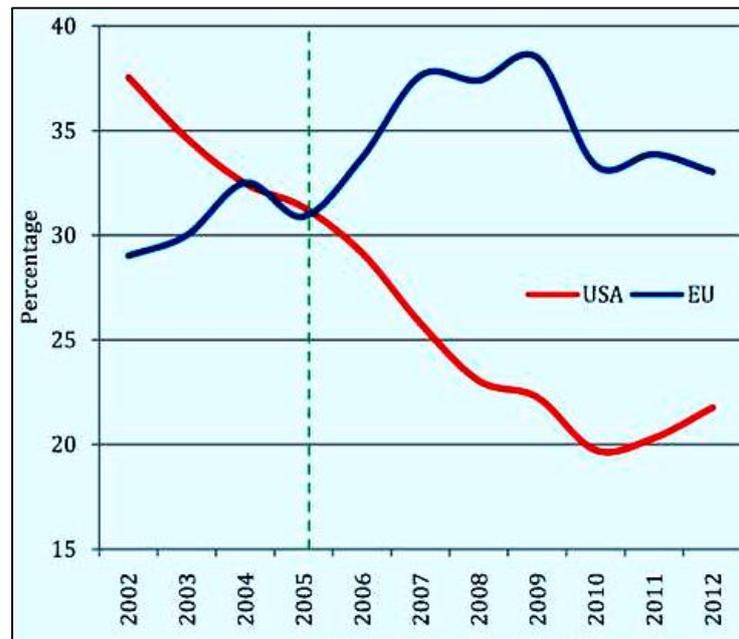


Figure 8: Share of the EU and US as a Percentage of Total Apparel Exports from Sri Lanka

Source: Abeysinghe (2014)

The above Figure 8 shows that the increased share of the EU market was continued only up to 2010. Thereafter, Sri Lanka could not further receive the GSP Plus facility and hence the market share was declined. This caused the apparel exporters in the country to no longer export their products to the two major markets in the US and EU and to compete with other apparel exporters in that market.

The following Table 1 provides further evidence to the competition existing in the world apparel export market based on WTO (2014).

Table 1: Apparel Exports as a Share of World Apparel Exports (%)

Country	Apparel Exports as a Share of World Apparel Exports (%)				
	1980	1990	2000	2010	2013
China	4.0	8.9	18.2	36.9	38.6
Bangladesh	0.0	0.6	2.6	4.5	5.1
Vietnam	0.0	0.0	0.9	3.1	3.7
India	1.7	2.3	3.0	3.2	3.7
Cambodia	0.0	0.0	0.5	0.9	1.1
Sri Lanka	0.3	0.6	1.4	1.0	1.0

Source: WTO (2014)

The Table 1 depicts that China recorded a greater trend in the apparel exports share while Bangladesh, Vietnam, India and Cambodia recorded less. But Sri Lanka has shown a decline in the share from 1980 to 2013 which was badly affected by abolishing of MFA and closing down of GSP Plus facility as explained early paragraphs. Therefore the competition existing in the world apparel export market is very evident.

Apparel Giants of Sri Lanka

Many pioneers doing businesses in textile and apparel manufacturing paid their full attention to this rapid expansion in the industry. Martin Trust was one such pioneer served for the fashion retail sector. In 1985, he started working with the Sri Lankan textile and apparel manufacturers and joint venture companies with the Omar Group and the Amalean Group. Today they are known as Brandix and MAS Holdings respectively. Their competitiveness, advanced technology and knowledge transfer attracted foreign investors to Sri Lanka. They were the first two joint venture companies in Sri Lanka.

The apparel manufacturers then formed joint ventures to export products after eliminating some quantitative restrictions by the USA and other countries for China apparel manufacturing. Therefore MAS and Brandix got the opportunity to export their products to the USA in large scale by 2010, whilst the Hidramani and Jay Jay Mills groups exported less to the USA.

Apart from these apparel manufacturers in Sri Lanka, literature has identified the following Sri Lankan apparel manufacturers to be among the top players.

- Polytex Garments (Pvt) Ltd
- Penguin Group
- Maliban Textiles
- Textured Jersey

- Timex and Fergasam Group
- Vogue Tex GroupBam Holdings
- Hela Clothing (Pvt) Ltd

Classification of the Industry

International Standard of Industrial Classification (ISIC – Revision 4) explains 21 sections which are denoted by upper case letters based on industrial activities. The sub divisions of each section are described by two digits and further they are grouped into the levels using three digits. Table 2 shows the corresponding classification for the apparel industry.

Table 2: ISIC Corresponding to the Apparel Industry

Section	Division	Group	Description
C	14	141	Manufacture of wearing apparel, except fur apparel
		142	Manufacture of articles of fur
		143	Manufacture of knitted and crocheted apparel

Scales of the Industry

The Sri Lankan apparel industry can be categorized under small, medium and large scales. The World Bank and the department of Census and Statistics of Sri Lanka have defined the scales of the industries based on the number of employees. Table 3 describes the scales of the Sri Lankan apparel industry based on the Annual Report (2012) of the department of Census and Statistics.

Table 3: Scales of the Sri Lankan Apparel Industry

Scale	Number of Employees
Small	Less than 50
Medium	50 - 99
Large	100 or more

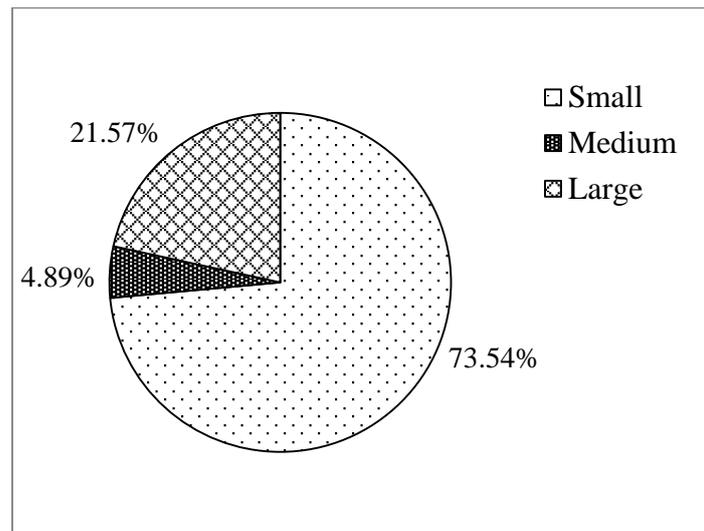


Figure 7: Percentages of Apparel Industrial Establishments Classified by its Scale

Figure 7 obtained from the Annual Report (2012) of the department of Census and Statistics shows the percentages of the Sri Lankan apparel industry establishments for each scale among the total of 1553 industrial establishments. The data describe the establishments classified by the persons engaged under each class and industry division - 2011 (establishments with 5 or more persons engaged). Figure 7 further shows that many Sri Lankan apparel industries are in small scale considering the persons engagement.

Industrial Establishments in the Country

After 1970, the market oriented liberal economic policies and the Multi Fiber Agreement caused the Sri Lankan apparel industry to rapidly expand. The Multi Fiber Agreement positioned Sri Lanka in the international market. This encouraged foreign investors to initiate joint venture businesses and therefore the apparel manufacturers expanded their establishments island wide. The literature has found that majority of the Sri Lankan apparel manufacturers are centered to the Western province (Hemachandra 2014, Wijendra 2013).

The Sri Lankan apparel industry is overseen by the Ministry of Industries and Commerce and the Board of Investments of Sri Lanka (BOI). Nearly 50% of textile and apparel industries have been registered under BOI and they account for 90% of the total garment exports (Business Reviews 2012). Sri Lanka currently operates eight Export Processing Zones (EPZ) situated at Katunyake, Biyagama, Koggala, Pallekele, Malwatte, Mirigama, Wathupitiwala and Seethawaka, and four Industrial Parks (IP) at Mawathagama, Polgahawela, Horana and Mirijjawela. All these export processing zones are BOI registered and many apparel factories of the country have been located in these zones. Their main target is the export market and hence to produce export oriented quality apparels. Katunayake and Biyagama, the two largest and the oldest export processing zones are located in Western province where the majority of apparel manufacturers are established.

Challenges to the Sri Lankan Apparel Industry

The competition arisen in the world apparel market has created many challenges on the Sri Lankan apparel industry. Therefore identifying of such key challenges is very important for the success and the sustainability of the industry.

Significant reduction in the share of apparel imports of the leading importers

The US and EU are the major markets of the Sri Lankan apparel exporters. They have noted a significant reduction in the share of apparel imports (WTO 2014) as shown in Figure 8.

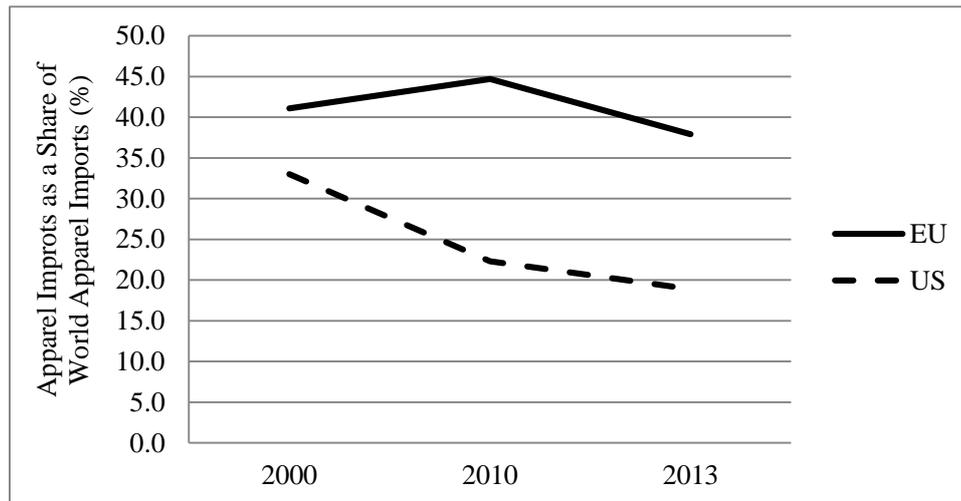


Figure 8: Share of Apparel Imports of the Leading Importers

Among the current trends in the US apparel industry, it has increased its production by 6.2% from 2012 to 2013 (AAFA 2015) as a result of “Made in US” was growing among the consumers. Also the US apparel consumers had to pay for additional tariff rates. These trends might cause this reduction in the share of US imports. The EU also increased the tax payments for the imports so that the apparel production within the country was increased. That might cause the reduction in the share of EU imports. Therefore the Sri Lankan apparel industry is in a challenge of exporting the apparel products to these two major markets and, should find new ways of entering into these markets.

Labour becoming scares and costly resource

The skilled and cheap labour of the Sri Lankan apparel industry was popular among foreign investors. They created many employment opportunities within the country. Therefore the apparel industry became labour intensive. But Kelegama (2005), Palansooriya (2009) and Omar and Cooray (2005) as cited by Lanarolle et al. (2014) have identified that poor labour productivity and high lead time are among barriers to the industrial performance. Since the Sri Lankan apparel industry owned many manufacturers in the Western province, recruiting and retaining labour has been a great challenge due to the emerging competition (Central Bank News Survey 2014). Also the Sri Lankan industry capability report (2014) has mentioned that the industry should focus and improve manpower development, productivity and price competitiveness. This can be learnt by East Asia since they have diversified this labour intensive market into other

skilled and technology intensive export markets. Therefore, the Sri Lankan apparel industry should identify a suitable systematic and structured strategy to improve the performance.

Poor regional diversification of the apparel market

The Sri Lankan apparel industry has poor diversification with respect to the export market. It has centered on the USA and EU. Respectively the USA and EU have accounted for 42.9% and 45.9% of the total garment exports in 2013 (Central Bank Reports 2014). The Sri Lankan apparel industry is the best performer among manufacturers in Sri Lanka but not in the world. The data from the World Trade Organization (WTO) has highlighted China, Hong Kong, Italy are the three superior apparel exporters in the world. They have good potential for the USA and EU apparel market. For an example, China has increased its apparel market share from 18% to 38% during 2000- 2012 while the USA imports of ready-made garments increased by 17% of China and declined by 3% of Sri Lanka (Kelegama 2014). This implies a risk of the sustainability of the industry in international market having centered to these two markets. Therefore the Sri Lankan apparel industry should rethink of sustaining in international market successfully competing with these competitors.

Lack of backward integration

The Sri Lankan apparel industry is following majorly forward integration in its value chain. That is not sufficient enough to compete with other countries. Specially China being a well-established supplier and a competitor, has both backward and forward integration linkages so that they could confidently challenge on the global market competition. Therefore the Sri Lankan apparel industry should focus to get the government support to establish backward integration in the sector and to exceed the value addition as Athukorala (2006) has also mentioned.

High lead time and high dependency on imported raw materials

Another major challenge faced by the Sri Lankan apparel industry is the heavy dependence on imported raw materials. The survey data of the Central Bank mentioned that the industry imports 94% of the total imported in 2013 comprising of fabric and yarn and further, they were imported from China (33.7%), India (18.9%), Hong Kong (11.2%), Taiwan (9.1%) and Italy (5.7%). This necessity of importing raw material has created the average lead time to be 90 days for the Sri Lankan apparel manufacturing. Since the apparel manufacturers geographically nearby the USA and EU have the lead time of 30-60 days, the Sri Lankan apparel manufacturers have to accelerate their manufacturing processes to further stay in these major markets. Therefore the Sri Lankan apparel industry should further improve the raw material requirement base and the lead time.

Emerging Trends of the Industry

Tendency toward a fashion industry

The Sri Lankan apparel industry has paid attention toward the fashion industry from a purely manufacturing industry at present. This attempt has been encouraged by the required expertise produced within the country and the availability of sophisticated and advanced technology in production such as design software and computer aided machines. Therefore, diversifying the apparel market can be successfully challenged.

Government set targets

Considering the national contribution of the industry and the global competition, the Sri Lankan government has focused positioning the industry among the world top 10 high quality apparel manufacturers by 2020 and earning US \$8.5 billion in revenue (EDB 2015, Jayasundara 2014). To achieve this target, the government has given 300% allowance for R & D activities done within the country. Also when the apparel manufacturers are obtaining brand names which support for the global identity of the product and exchanging income with foreign currencies, they can get tax deductions. Further extending the concessionary tax rate of 12% applied on the profit and income gained through supplying some services, the monetary authority states that many tax benefits have been given to promote supplying raw materials and other related services to the industry. Therefore, this type of facilities would encourage the local apparel manufacturers to produce high quality products.

Not only to financially aid, but also to improve the human resource, the necessary support has been given by the government providing related knowledge through educational programs, skill improvement through textile academies and setting up a new apparel hub in Katunayake. Since this industry is highly labour intensive, these assistances are very important for its future improvements.

Free Trade Agreement with China

Sri Lanka is finding possible ways to enter new markets in the world apparel market beyond the US and EU. One such achievement is Free Trade Agreements (FTAs). The current concern of the country has been paved to increase the apparel exports to India through the FTA signed between Sri Lankan and India while another new FTA is to be signed between China and Sri Lanka. Since China is the key competitor of Sri Lankan apparel exports, this agreement would be very important and beneficial for the future. Also China following cost leadership strategy that Sri Lankan is hard to follow, would support to find low production cost and new market place there through this new FTA.

Ethical manufacturing

To achieve sustainable development, the Sri Lankan apparel industry is now focusing toward ethical manufacturing so that the local products can be well positioned in the world market. The Sri Lankan apparel manufacturers respect to the ethical conditions in the working flow such as free of child labour, no empowerment, no sweat shop practices and free of conflicts and discrimination. Also it has given the opportunity to the rural talented labour through the Rural Empowerment Concept and therefore could make a significant impact on the economy of the country.

Becoming “Green Apparel Factories”

The industrialization has badly affected on the environment causing the waste removing and emission of polluted and poisonous gases etc. For that, the Sri Lankan apparel manufacturers are now thinking of minimizing environmental issues occurred by the manufacturing processes. In recent past, the two apparel giants, MAS Holdings and Brandix Lanka opened two green factories and also Hidramani Group of companies are due to open up in the later of this year. Therefore, this advanced technology for “Green Apparel Factories” has become a one major focus the Sri Lankan apparel industry to save the environment.

Implementing new productivity improvement strategies

The apparel manufacturers are now attempting to improve their performance through modern production concepts such as Total Quality Management (TQM), Six Sigma and Lean Manufacturing to sustain through improved productivity, superior quality and higher responsiveness. Among them, MAS and Brandix are the giant apparel manufacturers who have realized remarkable achievements through Lean Manufacturing. This attempt of adapting to any suitable productivity improvement strategy has enabled the Sri Lankan apparel industry to gain many future benefits.

Conclusions

The Sri Lankan apparel industry is a key player in the economy of the country. It contributes to the economy by creating many employment opportunities providing quality apparels to the international market operating as local owned, foreign owned and joint ventures. Also the apparel industry contributes to the total industrial export income. The major export markets of this industry are the USA, EU and Italy while less amount of apparels are exported to few other countries such as Germany, Belgium, France, Canada, Netherland and Japan. Sri Lanka has identified apparel giants in the country to serve its export market. MAS and Brandix export their products to the USA on a large scale.

The Ministry of Industries and Commerce and Board of Investments of Sri Lanka serve the Sri Lankan apparel industry. Many apparel manufacturers have been registered in the Board of Investments of Sri Lanka accounting for the total apparel exports of the country. The apparel manufacturers have been centered to the western province of the country comprising four export processing zones which have the majority of apparel manufacturing establishments.

Though the Sri Lankan apparel industry plays a key role in the economy, it has to face many challenges due to the competition in the industry. This study identified the necessity of improving the performance of this industry and furthermore, some major challenges and its future directions to successfully compete with other apparel manufacturers in the world so that some arguments were made to the industry.

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