Impact of GSP+ Scheme on Sri Lankan Apparel Industry in Post MFA World

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1. Background of the study

In economic development, export is considered to play an important role, manufacturing exports in particular. With the emergence of terms of trade debate initiated by Prebish (1949) and Singer (1950) and successful experience of South East Asian countries, many countries changed their economic policies in international trade giving interest to export oriented manufacturing sector. In this background, textiles and apparel industry was identified as a potential sector by most developing countries due to its' labour intensive nature. Concerning this emerging trend in international trade, Sri Lanka changed its' main economic policies introducing export oriented industrial policies in 1977 and the textiles and garment sector was identified as one of potential sectors in export manufacturing sector. Over its 25 years of existence, it has played a prominent role in Sri Lankan national economy as a key driver. For instance, it represents approximately 56% of total industrial exports, 43 percent of the country's total exports earnings with value of US $ 3469 million (Central Bank Report, 2008) and provides over two hundred and seventy five thousand direct and twice that number of indirect job opportunities as the largest single employment provider in the industrial sector (Sri Lanka Labour Department & Oxfam, 2004). However, at present, the industry is expected to face numerous challenges due to the phasing out of the Multi Fibre Arrangement (MFA)[1] which was designed on world trade in textiles and clothing from 1974 through 1994 along with the Agreement on Textiles and Clothing (ATC)[2] at the end of 2004 (JAAP, 2003; Birnbarm, 2004; Richard, 2004; Oxfam, 2004; and Kalegama, 2005)[3] and nearly ending of first phase of

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[1] MFA was designed as a short term protectionist measure to allow industrialised countries mainly USA, European Union and Canada to restructure and adjust to competition from less expensive imports from developing countries. Under this Multilateral Agreement, quotas were negotiated, specifying the volume of items traded between partners.

[2] The controversial Uruguay Round negotiations of General Agreement on Tariff and Trade (GATT) in 1995 it was agreed to eliminate all restrictions applicable to the textile and garment industry within ten years under four phasing out stages beginning in January 1995

[3] As observed by Rechard (2004), Sri Lanka is experiencing declining competitiveness due to its heavy reliance on quota categories, concentration on a few markets, lack of direct marketing links with major purchases, and dependence on imported inputs. A number of countries fear that a new wave of cheap textile and clothing products will flood their markets and threaten their domestic industry whilst others hope for new export opportunities as a result of a quota-free trade environment (ILO, 2005). As studied by Machila and Yang (2004), countries that have been facing more restrictive quotas will see their competitive position improve after the quotas were removed, while those less restricted may face difficulties in maintaining their current market share.

GSP+ scheme benefited by the industry in the EU market since July 2005 (Central Bank, 2009).

The Generalized System of Preferences (GSP) is a trade arrangement which was established by EU to certain developing countries aiming to contribute to the reduction of poverty and the promotion of sustainable development and good governance. It provides preferential access to the EU market in the form of reduced tariffs for their certain export items in entering the EU market. The GSP covers three separate preference regimes; the standard GSP, GSP+, and the Everything But Arms (EBA).[1] Under the GSP+ scheme the beneficiary countries enjoy non imposition of approximately 6% to 7% duty when exporting their products to the EU market. It has been estimated that Euro 5800 millions worth of imports have taken place under the GSP+ preference regime with Euro 577 millions of nominal duty loss in 2008 (European Commission, 2009). Sri Lanka was one of the 15 countries that enjoyed this trade concessions and the only country in Asia. In 2008, Sri Lanka has been benefited a total value of approximately Euro 78 millions through the scheme (Central Bank, 2009). In the same time, Sri Lankan export statistics show the changing pattern of its main export markets during the period of 2005 to 2008. For instance, Sri Lanka's share of total value of export in the EU market increased from 36.2% to 48% during the period of 2005 to 2008. In the same time, export share in the US market decreased from 59.4% to 45.8% (see table 2). According to the Central Bank of Sri Lanka the declining trend in growth in the US market in post MFA period was offset to a certain extend due to the sharp expansion in export to EU. However, in trade literature, very little empirical work has been undertaken to assess the impact of GSP+ scheme on Sri Lankan apparel industry while employing different approaches. It is also debatable since most studies have provided rather blended results. Some argue that the withdrawal of GSP+ concessions will have adverse impacts on Sri Lanka's export competitiveness due to the increase of price of categories exported to the EU market under the scheme and it will negatively affect Sri Lanka's trade balance resulting to increase the trade deficit further. They further emphasized that Sri Lanka will have to face fierce competition in the global market due to the open competition with the emergence of other developing countries like China, Bangladesh, Pakistan, Vietnam, Cambodia and India which produce textiles and garments at relatively low costs of production. In contrast, some argue that the impact of withdrawal of GSP+ will not so be serious and export competitiveness will increase as per depreciation of rupee, falling down of inflation rate, and reduction of interest rate. In this context, it is important to examine the impact of GSP+ scheme on Sri Lankan apparel industry in the period of post MFA in a systematic manner.

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[1] The standard GSP provides preferences to 176 developing countries and territories on over 6200 tariff lines. The special incentive arrangement known as GSP+ provides additional tariff reductions to support vulnerable developing countries in their ratification and implementation of international conventions. The EBA provides duty free, quota-free access for all products for the 49 LDCs.

Table 1 Trade Agreements Sri Lanka Enjoys

Type of Agreement	Name of Agreements
Bilateral	Indo-Sri Lanka Free Trade Agreement (ISLFTA)
	Pakistan – Sri Lanka Free Trade Agreement (PSLFTA)
	Trade Investment Framework Agreement (TIFA)
Regional	South Asian Free Trade Area (SAFTA)
	South Asian Preferential Trading Agreement (SAFTA)
	Asia Pacific Trade Agreement (APTA)
	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIM-STEC)
	Indian Ocean Rim Association for Regional Cooperation (IOR-ARC)
Multilateral	WTO
Non Reciprocal	GSP+

Source: Central Bank of Sri Lanka

2. Object of the study

Today Sri Lanka's apparel industry is at a turning point of its over 25 years of existence as per rules established by WTO on world trade in textiles and clothing and risk in withdrawal of GSP+ scheme. During the last few decades, the industry enjoyed and largely benefited from two major international trade concessions leading to changes of country's export manufacturing sector and export destinations (MFA from 1974 to January 2005 and GSP+ scheme from July 2005 to end 2009). Therefore, at present, the economy is heavily dependent on industrial exports, garments and textiles in particular. For instance, Sri Lanka was able to export more than 7000 product categories to the EU market under the GSP+ scheme. In pre-MFA period, the large portion of Sri Lanka garments and textiles exports was based on the quotas. For example, 90% of garments and textiles exported to the US market were based on quotas. Due to the open competition at the US market and trade concession which we still enjoy at the EU market since 2005, a rapid change in Sri Lanka's garments and textiles exports in both US and EU market is undergone. However, any policy changes in international trade regarding country's major export items will have implications for trade balance, balance of payments, external reserves, incomes, employment and poverty. In this context, the objectives of this study are as follows.

Primary objective

- To recognize the impact of GSP+ scheme on Sri Lankan apparel industry

Specific objectives

- To analyse changing patterns of Sri Lankan apparel exports during post MFA and GSP+ scheme

- To identify the apparel export trends in major markets during the period of GSP+ scheme and post MFA.
- To assess the changes of Sri Lanka's apparel export competitiveness in both US and EU markets comparing with major competing countries.
- To identify the potential apparel exporting categories that emerged during the period of GSP+ scheme and post MFA.

3. Methodology of the study

The study largely relies on consolidating secondary sources. Data was collected using various sources such as the Sri Lanka Custom Department Reports, Sri Lanka Central Bank Annual Reports. Also, the trade data published by, United State Trade Commission, European commission, Asian Development Bank etc. were used. Data on HS 61 (Knitted) and HS 62 (Woven) was mainly used for the analysis as both categories represent more than 95% of exports of garments and textiles. Moreover, the available research papers and publications which were done by researches, policy makers and research institutes addressing this significant area were used to asses the impact of GSP+ scheme on Sri Lankan apparel industry.

Three areas of interest will be covered by the study. Firstly, the study will comprehensively analyze the export trends paying specific attention to Sri Lanka in the regional and global context. In this connection, the changes in export volume and value, market share, prices, and market dependency levels will be examined and same analysis will be performed with Sri Lanka's major competing countries; India, China, Bangladesh, Pakistan, Vietnam and Cambodia. The second part of the study focuses on the identification of the changes of Sri Lankan exporters' behavior in both US and EU markets and changes of categories in the export basket during 2005 to 2008. Finally, we attempt to assess the Sri Lankan apparel export competitiveness in both US and EU market by employing key competitive indicators which are used in international trade. In this connection, we use several competitive indicators in order to identify the future challenges that may have on the industry.

4. Results and discussion

4.1. Export trends during post MFA and GSP+ scheme

4.1.1 Changes in major destination markets

The world trade in textiles and clothing depends on the rules established by the WTO. With the phasing out of the MFA in January 2005, Sri Lanka is entirely facing an open competition at the world market. Since July 2005, Sri Lanka became one of

Table 2 % of total value of Sri Lankan apparel exports in markets

Market	2000	2002	2005	2008
USA	62.0	63.0	59.4	45.8
EU	33.0	31.0	36.2	48.0
Rest of the world	5.0	6.0	4.4	6.2
Total	100	100	100.0	100.0

Source: Sri Lanka Custom Department

the beneficiary countries of GSP+ scheme having non-imposition of 6% to 7% tariff levels which EU countries normally impose on their imports. In 2002, JAAF emphasized the need of moving up the value chain by supplying more value added high fashion garments and increasing their presence in the premium market segments of the global apparel industry in order to face challenges of open competition (Five Year Strategic Plane, 2002). In this context, table 1 shows changes of Sri Lankan apparel exports in major export destinations. It clearly shows a drastic change of Sri Lankan apparel exports in both USA and EU markets during the period of post MFA and GSP+ scheme. The export destinations are changing turning from US market to EU market. For instance, percentage of total value of Sri Lankan apparel exports to the US market declined from 59.4% to 45.8% while improving market position at the EU by increasing percentage of total value from 36.2 to 48% during 2005 to 2008. USA is the world's largest textile and garment importer and it was the single largest buyer of Sri Lankan apparel in the pre-quota period. Specially, 90% of textiles and garments exported to the USA were based on quotas in the pre-quota period (BOI, 2005).

Table 3 further explains the changes of apparel export destinations in top 15 importers based on the year 2008. These 15 countries represent about 97% of apparel exports and among them are 9 EU countries. Particularly, Sri Lankan apparel exports to United Kingdom, Italy and Germany has increased by 20%, 95% and 60% in terms of value respectively during the period of post MFA and GSP+ scheme.

Table 3 % of total Sri Lankan apparel exports in top 15 import countries

Rank	Country	In value				In volume			
		2005	2006	2007	2008	2005	2006	2007	2008
(1)	USA	59.43	55.96	49.95	45.80	56.91	55.14	47.75	43.63
(2)	United kingdom	21.96	23.43	24.88	26.37	27.02	28.46	31.52	33.22
(3)	Italy	5.07	5.91	8.73	9.89	5.56	5.81	7.88	8.18
(4)	Germany	3.09	3.76	4.48	4.93	2.39	2.73	3.20	3.14
(5)	Belgium	2.09	1.92	1.98	2.08	1.29	1.11	1.21	1.22
(6)	France	1.59	1.79	1.87	1.60	1.00	1.17	2.52	2.54
(7)	Canada	1.45	1.48	1.31	1.53	1.21	1.07	0.96	1.51
(8)	Netherlands	1.02	1.43	1.58	0.94	0.82	1.07	0.98	1.01
(9)	Hong Kong	0.31	0.35	0.44	0.76	0.17	0.17	0.18	0.24
(10)	Spain	0.69	0.69	0.67	0.75	0.58	0.50	0.45	0.83
(11)	Turkey	0.08	0.16	0.34	0.68	0.06	0.11	0.26	0.46
(12)	Japan	0.43	0.47	0.39	0.36	0.30	0.28	0.20	0.19
(13)	Sweden	0.11	0.15	0.26	0.36	0.08	0.16	0.14	0.26
(14)	Solvak Republic	--	0.06	0.24	0.33	--	0.08	0.38	0.55
(15)	Mexico	0.35	0.28	0.31	0.32	0.28	0.18	0.19	0.19

Source: Sri Lanka Custom Department

4.1.2 Performance of Sri Lankan Apparel Exports in US and EU markets

Table 4 shows growth rate of exports of apparel to US and EU markets from the selected Asian countries in terms of value. During the period of post MFA the US imports of textiles and garments from its import countries have grown by average of 2.28%. During the same period, the statistics clearly show that all competing countries show better performance at the US market by expanding their textiles and garment exports significantly. For instance, China, Vietnam, Bangladesh, Cambodia, India and Pakistan recorded 23.9%, 19.74%, 15.70%, 14%, 9.27% and 6.80% average growth rates respectively which are above the average growth of US world imports. However, Sri Lanka shows a poor performance at the US market while recording a -1.04 average growth rate during 2005-2008. From the third phase of the ATC (January 2002 to January 2005), Sri Lanka was able to achieve 1.33% average growth rate while China, Vietnam, India, Cambodia and Pakistan recorded 14.29%, 481.17%, 6.28%, 11.80 and 5.82% average growth rate respectively. Although Bangladesh recorded a negative growth rate (-0.35) they show better performance during post MFA period (see appendix 1). On the other hand, Sri Lankan's exports of woven garments were declined by -7.37% average growth rate while knitted garments were increased by 11.42% during 2005 to 2008 (see appendix 2 and 3). However, growth value of exports of knitted garments were negative in 2007 and 2008 indicating its gradual erosion of comparative advantages at the US market as other countries show a better performance. The special feature of woven garments is that it requires more labour especially unskilled labour. Therefore any changes in the production of those garments directly affect to the employment level of the industry.

Table 4 Growth Rate of Exports of Apparel to US and EU Markets from Selected Countries – in terms of value

Country	US Market				EU Market			
	2005	2008	Average growth rate 2002-2004	Average growth rate 2005-2008	2005	2008	Average growth rate 2002-2004	Average growth rate 2005-2008
Sri Lanka	6.27	-5.60	1.33	-1.04	27.74	8.83	-1.43	13.11
Bangladesh	20.94	12.36	-0.35	15.70	-22.96	3.95	6.69	0.96
China	57.55	Na.	14.29	23.9	36.44	23.62	7.34	16.89
India	36.43	-3.34	6.28	9.27	21.43	3.19	0.91	17.70
Cambodia	19.98	-2.10	11.80	14.00	-38.16	13.33	-7.80	-13.25
Pakistan	10.70	-0.84	5.82	6.80	-17.04	10.48	1.37	5.00
Vietnam	5.84	19.80	481.17	19.74	-21.86	77.98	0.50	23.25
World Total	6.03	-3.26	3.61	2.28	-	-	-	-

Source: Authors calculations based on US Trade Commission data and European commission data.

The European Union is the largest trading partner of Sri Lanka's textiles and garments. Table 4 further shows the export performance of Sri Lanka and its major competing countries at the EU market during pre-MFA and GSP+ scheme. It shows that Sri Lanka has recorded 13.11% average growth rate with GSP+ scheme although it has shown a poor export performance during pre-MFA period. For instance, during the third phase of the MFA the average growth rate of export of apparel to EU market was -1.43%. It further indicates that Sri Lanka is improving its competitive edges at the EU market due to the GSP+ scheme since its apparel exports value and volume have declined in the pre-MFA period in both markets and post-MFA period in US market in the context of open competition and increase of apparel exports in the period of GSP+ scheme. Moreover, in the same period, China, India, Vietnam and Pakistan show better performance recording 16.89%, 17.70%, 23.25% and 5% average growth rate in terms of value respectively without GSP+ scheme demonstrating its market potentials in the period of open competition. Although Cambodia recorded a negative average growth rate during 2005-2008, in 2008 its growth value was 13.33%. Therefore it is clear that all the competing countries are increasing their exports in terms of value and volume in the EU market although they have not been benefiting from any trade concessions unlike Sri Lanka. Moreover, export statistics of two major categories; knitted and woven further demonstrate the market potentials with the GSP+ scheme. As example, exports of woven and knitted garments have increased by average growth of 12.99% and 13.33%. However, China, India, Vietnam and Pakistan show better performance in exporting both categories (see appendix 5 and 6). Therefore it is clear that Sri Lankan exports of apparel in terms of value and volume have increased with GSP+ scheme and China, India and Vietnam show better performance and the rest of the countries are expanding their exports in the EU market even as the countries which were not benefited from GSP+ scheme.

4.1.3 Market Share of Sri Lanka and Selected Asian Countries in US and EU Market

An increase of market share of a product at any market can be expected due to the comparatively higher growth rate than average growth level. Table 5 shows market share of apparel of Sri Lanka and other competing counties in both US and EU market. It shows that market share of Sri Lankan apparel in the US market has decreased from 2.35 to 2.05 by 12.77% during the period of 2005 to 2008 although the country recorded an improvement in its market share during the quota period. For instance, during third phase of the ATC Sri Lanka's market share was increased by 14.07%. Table 4 further describes that Bangladesh, China, Cambodia, Pakistan and Vietnam are improving their market share remarkably in the open competition than that of quota period. For instance, during the third phase of the ACT market share of Bangladesh, China, Cambodia, Pakistan and Vietnam increased by 3.07%, 2.93%, 1.98%, 1.68% and 2.37% respectively and it further increased by 42.51%, 37.57%, 34.02%,

13.44% and 85.60% respectively during the period of open competition. This expanding trend of market share of Sri Lanka's competing countries creates negative impact on Sri Lankan apparel exports to the US market. However, market share of India has declined by 2.48%. Therefore it further demonstrates the declining condition of Sri Lankan apparel in the US market mainly due to the comparatively higher growth of other apparel exporting countries.

Table 5 Market Share of Selected Asian Countries in the US Market – in Value

Country	US Market			
	2005	2008	% change 2002-2004	% change 2005-2008
Sri Lanka	2.35	2.05	14.07	-12.77
Bangladesh	3.27	4.66	3.07	42.51
China	23.98	32.99	2.93	37.57
India	4.44	4.33	3.41	-2.48
Cambodia	2.44	3.27	1.98	34.02
Pakistan	1.86	2.11	1.68	13.44
Vietnam	3.82	7.09	2.37	85.60

Source: Authors calculation from USITC

4.1.4 Changes of Unit Price

In open competition, product competitiveness at the world market is mainly dependent on cost and selling price. The competitiveness of a particular product can be improved by producing goods at a lower cost and selling goods at a lower price than competing countries. Table 6 shows unit price changes related to Sri Lanka's top ten export categories in top three destination countries; USA, United Kingdom and Italy. It shows that unit price of most categories in US market is relatively higher than that of UK but it is low rather than Italy. Italy can be identified as a country which offers the highest prices for most top categories in Sri Lankan export basket.

Table 6 Changes of Unit Price of Top Ten Categories, 2005-2008

HS Code	USA			UK			Italy		
	2004 (Rs)	2008 (Rs)	% change	2004 (Rs)	2008 (Rs)	% change	2004 (Rs)	2008 (Rs)	% change
610910	364.26	400.38	9.92	299.76	286.43	-4.45	270.56	437.65	61.75
621210	5655.87	6103.90	7.92	3890.57	5095.05	30.96	11235.37	10922.35	-2.79
620342	518.44	866.92	67.22	757.57	771.65	1.86	706.76	863.67	22.20
620462	718.28	799.51	11.31	614.56	683.44	11.21	477.47	768.97	61.05
620469	591.36	661.77	11.91	653.08	631.21	-3.35	654.39	890.99	36.15
610829	192.80	143.15	-25.75	192.75	107.73	-44.11	212.78	178.98	-15.88
610821	153.63	114.28	-25.61	61.84	71.01	14.83	160.70	264.44	64.56
611610	1120.43	2089.91	86.53	681.09	1372.17	101.47	1107.56	2445.42	120.79
620520	581.75	789.54	35.72	486.00	580.43	19.43	789.08	1314.35	66.57
611020	476.33	448.11	-5.92	483.05	474.45	-1.78	222.13	935.67	321.22

Source: Sri Lanka Custom Department Data

4.2. Changes of exporters behavior and export categories during post MFA and GSP+ scheme

4.2.1 Export share of top 15 exporters in major markets

Table 7 shows the top 15 exporters and their export and market trends in the period of post MFA and GSP+ scheme. During 2005 to 2008, total export value of top 15 exporters has increased by Rs, 17000 millions from Rs, 101000 millions to Rs, 118000 millions while increasing their total export share from 35.5% to 45% by 29.58%. The special feature of changing behaviour of this group is that their market composition is changing towards EU market. For instance, the total export share of this category in EU market increased significantly from 7.80% to 19.5% by 149.94% while it is decreasing in US market. It further indicates that exporters who focused on EU market are becoming more significant in Sri Lankan apparel export market. On the other hand, their export ranking which was ranked based on the year 2005 has also changed with entering of 7 new exporters to the group of top 15 exporters in 2008 and they represent 20% of Sri Lankan total export share consisting of 10.9% in US market, 9% in EU market and 0.7% in rest of the world. The special feature of the exporters withdrawn from the group in 2008 is that their dependency on US market was significantly high compared to the EU market. For instance, total export share of this group was 10% in US market while it is 3.7% in EU market. Therefore it is worth noting that Sri Lankan leading apparel exporters are changing their market preferences moving to a market benefited from preferential market access and exporters who focused their products on EU market have been becoming more significant in Sri Lankan apparel export market.

Table 7. Top 15 Exporters Export Share in Major Markets, 2005-2008

Rank	2005					Rank	2008				
	Total Export value (Rs. Millions)	Total Export share	Export share				Total Export value (Rs. Millions)	Total Export share	Export share		
			USA	EU	Other				USA	EU	Other
(1)	20000	6.67	4.60	1.80	0.27	(-)	20000	7.20	4.80	2.20	0.20
(2)	9000	3.40	3.00	0.20	0.20	(1)	20000	6.60	4.50	1.80	0.30
(3)	9000	3.20	3.20	1.8E-3	-	(6)	10000	5.10	0.30	4.80	-
(4)	8000	2.90	1.90	1.00	-	(2)	10000	4.20	3.60	0.40	0.20
(5)	7000	2.33	2.00	0.20	0.13	(-)	9000	3.40	2.10	1.00	0.30
(6)	6000	2.00	2.30	-	-	(5)	7000	2.60	1.80	0.70	0.10
(7)	6000	2.30	1.90	0.20	0.20	(3)	6000	2.40	2.00	0.30	0.10
(8)	5000	1.90	1.60	0.20	0.10	(11)	6000	2.40	0.30	2.10	-
(9)	5000	1.90	1.20	0.60	0.10	(8)	5000	2.00	1.40	0.40	0.20
(10)	5000	1.70	1.70	-	-	(-)	5000	1.80	-	1.80	-
(11)	5000	1.70	-	1.70	-	(-)	4000	1.80	0.10	1.70	-
(12)	5000	1.70	1.60	0.10	-	(-)	4000	1.70	1.20	0.40	0.10
(13)	4000	1.40	0.70	0.60	0.10	(-)	4000	1.60	1.20	0.30	-
(14)	4000	1.40	0.90	0.50	0.00	(-)	4000	1.60	1.50	-	0.10
(15)	3000	1.00	0.10	0.70	0.20	(-)	4000	1.60	-	1.60	-
Total	101000	35.5	26.7	7.8018	1.3		118000	46	24.8	19.5	1.6

Source: Authors Calculation based on Sri Lanka Custom Department Data

4.2.2 Potential Categories during Post MFA and GSP+ Scheme

In free market situation, it is essential to identify potential categories comparative to other major competing countries for the development of industry. Table 8 shows top 15 categories in Sri Lankan export basket and their export share in different markets. In 2005, these 15 categories accounted for 55.6% of total apparel export share in the world market and it increased to a 65.2% in 2008. The statistics further show that exporters are concentrating their products on few but potential categories particularly in EU market. For example, export share of these categories in EU market increased from 19.7% to 30.2% by 53.30% while it is marginally decreasing in US market. The main export destination of these categories is US and among the EU countries United Kingdom, Italy, Germany, France and Spain are becoming more important with the support of GSP+ scheme. However,a number of categories in woven garments has decreased from 8 to 5 although their export share in total value of apparel exports has marginally increased. It indicates that Categories in the knitted garments are gaining more interest in the top 15 category during the post MFA and GSP+ scheme.

4.2.3 Regional Comparison on Top 15 Categories

Table 9 and 10 provide regional comparison on average growth values of Sri Lankan top 15 export categories in both US and EU markets during the period of third phase of ATC, and post MFA and GSP+ scheme. The statistics on US market show the 5 categories with negative growth values; HS 620342 (Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches), HS 620469 (Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers), HS 620520 (Men's or boys' shirts), HS 610510 (Men's or boys' shirts, knitted or crocheted) and HS 610711 (Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar art) during 2002 to 2004 and of them 4 categories including HS 610510, HS 610711, HS 620342 and 620469 have become significant with positive growth values of 3.87%, 91.58%, 17.33% and 12.91% respectively in post MFA period. On the other hand, the category of HS 610990 (T-shirts, singlets and other vests, knitted or crocheted) has recorded negative growth rate of 16.78% in the post MFA period although it recorded a positive growth rate of 111.18% during third phase of ATC.

Table 8 further reveals that Sri Lanka's major competing countries also show a good performance in exporting those categories to the US market in post MFA period. Particularly, in terms of top two categories of Sri Lankan apparel export basket; HS 610910 and HS 621210 which account for 16.9% of total apparel exports, all the selected competing countries excluding Cambodia in the category of HS 621210 show better performance than that of Sri Lanka. However, those categories recorded positive growth rate. Similar trends could be seen in the category of HS 611020 and HS 610510. On the other hand, Sri Lanka's export performance in the category of HS 620342, HS 620462, HS 620469, HS 610821, HS 611610, HS 610462, HS 610822 and HS 610711 which account for 33.2% of total value of apparel export are better same

as the selected competing countries during the post MFA period. In this context, it clearly indicates that Sri Lankan manufacturers have concentrated their focus more on limited categories which has market potentials while facing a huge competition in the US market.

In EU market, majority of categories in top 15 apparel export categories show potential trends in both ACT and GSP+ scheme period. The categories of HS 610910, HS 620469, HS 620462 and HS 610462 are gaining more interest in EU market compared to other major competing countries. Even though second, third and fourth ranking categories of the top 15 have achieved positive growth rates, China India and Vietnam are better than that of Sri Lanka even they were not benefited from any trade concessions at the EU market. Table 9 further shows that China, India and Vietnam are acquiring competitive advantages in exporting the categories which Sri Lanka enjoyed in top 15 with the support of GSP+ scheme. Therefore it is obvious that the risk on major apparel exporting categories of Sri Lanka is high with the withdrawal of GSP+ scheme.

Table 8 Top 15 Exports by 6 Digits 2005-2008 (HS codes and their destinations)

Rank	2005					2008				
	HS Code	Export share (%)	Top 3 Export destinations			HS Code	Export share (%)	Top 3 Export destinations		
			(1)	(2)	(3)			(1)	(2)	(3)
(1)	621210	7.10	US (4%)	UK (1.5%)	Italy (1.5%)	610910	8.80	UK (3.8%)	US (2.3%)	Italy (1.6%)
(2)	620462	6.50	US (4.2%)	UK (1.5%)	Spain (.2%)	621210	8.10	US (3%)	Italy (2.8%)	UK (1.8%)
(3)	620342	5.60	US (3%)	UK (1.2%)	Belgium (.3%)	620342	7.20	US (4.2%)	UK (1.4%)	Germany (.4%)
(4)	610910	5.10	UK (2.5%)	US (1.8%)	Italy (0.2%)	620462	6.80	US (4.1%)	UK (1.7%)	Germany (.3%)
(5)	620469	5.00	US (3.3%)	UK (.8%)	Israel (.4%)	620469	5.90	US (3.6%)	UK (1.1%)	Germany (.8%)
(6)	620520	4.70	US (4.2%)	UK (.1%)	Canada (.1%)	610829	4.20	US (2.7%)	UK (.9%)	France (.2%)
(7)	610829	3.80	US (2.2%)	Italy (1%)	UK (.6%)	610821	4.00	Italy (2%)	US (1%)	UK (.8%)
(8)	610510	3.10	US (2.4%)	Italy (.2%)	UK (.1%)	611610	3.70	US (.8%)	Hong Kong (.5%)	UK (.2%)
(9)	611610	2.80	Belgium (.9%)	US (.7%)	Hong Kong (.2%)	620520	3.30	US (2.6%)	UK (.2%)	Spain (.2%)
(10)	611020	2.70	US (1.6%)	UK (.6%)	Germany (.2)	611020	2.80	US (1.5%)	UK (.8%)	Italy (.3%)
(11)	620630	2.20	US (1.8%)	UK (.1%)	Germany (.1%)	610510	2.40	US (1.7%)	Italy (1.2%)	UK (.1%)
(12)	610990	1.90	US (.8%)	UK (.5%)	Italy (.3%)	610990	2.40	US (.8%)	UK (.6%)	Italy (.1%)
(13)	620463	1.80	US (1.2%)	UK (.4%)	Germany (.2%)	610462	2.10	US (1.3%)	UK (.8%)	India (.0009%)
(14)	620690	1.70	US (1.2%)	UK (.2%)	Spain (.1%)	610822	1.80	US (1.1%)	UK (.4%)	Italy (.2%)
(15)	610610	1.60	US (1.3%)	UK (.2%)	Spain (.1%)	610711	1.70	Italy (0.7%)	UK (.6%)	France (.3%)
Total		55.6	USA – 35.2%, EU- 19.7, Other – 0.7				65.2	USA – 34.7, EU – 30.2, Other – 0.5		

Source: Authors calculation based on Sri Lanka Custom Department Data

Note: 610910 – T-shirts, singlets and other vests, knitted or crocheted, 621210 – Brassiers, girdles, corsets, braces, suspenders, garters and similar articles and parts thereof, w., 620342 – Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches, 620462 – Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, 620469 – Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, 610829 – Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negliges, bathrobes, 610821 – Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negliges, bathrobes, 611610 – Gloves, mittens and mitts, knitted or crocheted, 620520 – Men's or boys' shirts, 611020 – Jerseys, pullovers, cardigans, waist-coats, and similar articles, knitted or crocheted, 610510- Men's or boys' shirts, knitted or crocheted, 610990 – T-shirts, singlets and other vests, knitted or crocheted, 610462 – Women's or girls' suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bib and br., 610822 – Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, negliges, bathrobes, 610711 – Men's or boys' underpants, briefs, nightshirts, pyjamas, bathrobes, dressing gowns and similar art., 620463 – Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, b., 610610 – Women's or girls' blouses, shirts, and shirt-blouses, knitted or crocheted.

Table 9 Regional Comparison of Average growth of Sri Lankan Top 15 Exports Categories – US Market

HS Code	2002-2004							2005-2008						
	Sri Lanka	China	India	Bangla-desh	Pakistan	Vietnam	Cambodia	Sri Lanka	China	India	Bangla-desh	Pakistan	Vietnam	Cambodia
610910	47.01	12.01	19.40	23.96	24.38	2891.34	3.09	6.00	84.46	51.72	45.72	30.40	46.67	82.76
621210	8.81	60.31	28.73	26.80	-36.43	6275.19	101.74	1.98	18.59	9.27	32.69	6.12	95.25	-7.69
620342	-6.78	-9.26	23.89	11.19	16.25	3991.25	3.10	25.94	71.03	26.85	46.70	25.94	18.31	17.08
620462	12.34	-3.11	18.66	-9.04	9.12	10544.90	35.11	16.91	88.67	38.68	39.31	50.19	19.93	5.19
620469	-1.79	56.54	-11.32	-26.93	-26.13	481.12	-50.80	12.91	-4.92	3.19	17.59	156.15	11.98	245.28
610829	-	11.31	-	-	-	-	-	-	36.43	-	-	-	-	-
610821	30.45	9.85	123.39	-2.98	147.73	6485.98	100.59	108.91	238.14	76.05	20.63	80.72	234.95	140.84
611610	22.23	22.07	1.11	-	32.78	684.04	-	31.73	14.65	-50.44	-	21.43	146.87	-
620520	-1.02	12.45	15.48	5.82	-0.89	113.07	15.49	-5.08	67.97	-3.42	6.80	-16.83	10.43	-19.36
611020	4.21	-0.13	7.42	-14.34	5.28	739.69	3.73	3.44	87.54	14.84	19.81	-7.38	22.63	32.10
610510	-3.17	4.80	-2.23	-8.63	-4.37	223.48	27.12	3.87	80.25	18.95	45.64	9.17	6.53	29.68
610990	111.18	15.38	17.86	40.23	32.39	1250.51	170.80	-16.78	26.19	4.29	-15.09	-1.97	96.53	65.78
610462	74.52	48.11	31.20	67.56	76.61	1557.96	96.95	91.56	175.02	51.24	220.29	47.10	28.09	223.54
610822	0.43	16.76	321.83	24.63	644.98	7391.83	70.45	15.53	37.97	73.20	11.96	-	40.04	153.05
610711	-8.16	-21.61	88.56	19.78	65.17	-	36.06	91.58	99.63	28.42	8.14	-2.39	314.88	97.79

Source: Authors calculations based on US Trade Commission data and European Commission data

Table 10 Regional Comparison of Average growth of Sri Lankan Top 15 Exports Categories – EU Market

HS Code	2002-2004							2005-2008						
	Sri Lanka	China	India	Bangla-desh	Pakistan	Vietnam	Cambodia	Sri Lanka	China	India	Bangla-desh	Pakistan	Vietnam	Cambodia
610910	13.86	11.05	-1.91	12.09	-2.63	-14.68	2.27	23.44	19.88	21.93	6.70	0.63	88.85	-5.27
621210	128.40	15.47	365.39	11.02	-	50.84	-	11.95	20.84	51.31	16.00	-	12.67	-
620342	4.17	-13.25	19.62	25.87	10.23	108.52	-12.89	12.03	104.52	155.28	-2.21	3.25	36.55	72.28
620462	37.33	1.88	-12.44	41.89	3.39	356.77	-6.33	11.07	111.13	37.10	9.45	16.44	80.32	37.76
620469	-11.28	21.63	-23.80	53.31	18.03	182.91	15.62	224.76	8.23	91.39	47.90	4133.42	-	-
610829	-	3815.23	-	-	-	-	-	-	83.73	-	-	-	-	-
610821	188.42	17.39	41.02	-68.07	-	-	633.46	2.41	2.86	-4.20				
611610	4.74	41.03	138.12	-	5.09	5996.81	-	-6.47	-6.79	75.77	-	10.64	517.36	-
610462	53.01	29.35	10.20	3.07	-5.56	98.03	62.52	25.68	4.70	19.54	26.24	9.15	83.61	72.13

Source: Authors calculations based on US Trade Commission data and European Commission data

4.3. Export dependency level of companies in each market

4.3.1 Dependency levels of companies in US market: 2005-2008

Due to the changing situation of apparel export market it is important to identify the dependency of export companies on major markets. In this connection, table 11 and 12 provide the details on changes of number of companies dependent on US and EU markets and their export shares based on export deciles which were made from top 20% (5) to lowest 20% (1).

According to table 10, total number of exporters dependent on US market has declined from 583 to 332 by 43.05% during 2005 to 2008. In the same time, the total export share of companies in the fifth, fourth and first export deciles has decreased from 50.49, 7.49, 0.01 to 39.90, 4.26 and 0.01 by 20.97%, 43.11% and 23.88% respectively. However, the export shares of companies in the third and second export deciles have marginally improved from 1.15 and 0.20 to 1.48 to 0.21 respectively.

In the fifth category, there were 53 companies which were dependent on US market in exporting more than 80% of their total apparel exports in 2005 and it decreased to 29 companies by 2008. The same trend could be seen in the rest. For instance, the companies in the export dependency level of 60%-80%, 40%-60%, 20%-40% and less than 20% in fifth deciles were 23, 13, 9 and 31 in 2005 and it decreased to 9, 7, 3 and 29 by 2008 respectively. Similarly, companies in the fourth export decile show the same trend. Therefore, the number of companies with the highest export value has decreased in line with decreasing total export share in the US market during the period of post MFA. It further indicates that a significant number of exporters in each export deciles is moving out mainly due to open competition at the US market contrary to pre-MFA period.

Table 11 The number of companies dependent on US for their exports, 2005-2008

2005				2008			
Export deciles	Export share	Dependency level	No of exporters	Export deciles	Export share	Dependency level	No of exporters
05	50.498	More than 80%	53	05	39.9055	More than 80%	29
		60% - 80%	23			60% - 80%	09
		40% - 60%	13			40% - 60%	07
		20% - 40%	09			20% - 40%	03
		Less than 20%	31			Less than 20%	29
04	7.4950	More than 80%	61	04	4.2639	More than 80%	18
		60% - 80%	14			60% - 80%	10
		40% - 60%	18			40% - 60%	05
		20% - 40%	10			20% - 40%	07
		Less than 20%	30			Less than 20%	26
03	1.1513	More than 80%	51	03	1.4839	More than 80%	22
		60% - 80%	09			60% - 80%	12
		40% - 60%	13			40% - 60%	08
		20% - 40%	18			20% - 40%	04
		Less than 20%	34			Less than 20%	30
02	0.2063	More than 80%	45	02	0.2152	More than 80%	17
		60% - 80%	14			60% - 80%	09
		40% - 60%	16			40% - 60%	11
		20% - 40%	11			20% - 40%	09
		Less than 20%	29			Less than 20%	27
01		More than 80%	22	01	0.0137	More than 80%	04
		60% - 80%	11			60% - 80%	07
		40% - 60%	08			40% - 60%	05
		20% - 40%	16			20% - 40%	07
	0.0180	Less than 20%	24			Less than 20%	17

Source: Authors calculation from Sri Lanka Custom Department data

4.3.1 Market Dependency Levels of Companies in EU Market: 2005-2008

According to table 11, although Sri Lanka was enjoying GSP+ scheme at the EU market with the increase of their total export share from 36.44% to 48%, the number of companies dependent on EU market decreased from 614 to 431 during 2005 to 2008.

Furthermore, this could be deeply examined through export deciles. The total export share of top exporters in the fifth category has increased at a significant level from 31.60 to 38.99 by 23.39% even as the number of companies decreased from 127 to 87. Same trend could also be seen in the fourth category of the exporters. For instance, the export share of them was 3.79 in 2005 and it increased to 7.11 by 2008. However, in the same period the number of companies decreased from 118 to 87. As predicted by the researches, the leading export companies are playing an important role while endorsing their market power with GSP+ scheme. However, a significant number of companies have left from the EU market and the movements of the exporters among the export deciles could be seen during the post MFA and GSP+ scheme.

Specially, the number of companies exported more than 80% of their total apparel products to the EU market in the fifth category have increased by 8.82%. However, the rest of the companies in the dependency level of 60%-80%, 40%-60%, 20%-40% and less than 20% in fifth category have decreased drastically. For instance, in 2005, there were 10, 14, 16, and 53 companies in the dependency level of 60%-80%, 40%-60%, 20%-40% and less than 20% respectively and it decreased to 1, 8, 10, and 31 respectively by 2008. Same as in the top 20% exporters' category, the number of companies exported more than 80%, 60% - 80% and 20% - 40% of their total apparel exports in the 4th category have increased by 46.43%, 25% and 33.33% respectively. Contrary to the US market, leading exporters in 5th and 4th category are having the advantages from the expanding apparel exports with GSP+ scheme.

Table 12 The number of companies dependent on EU for their exports, 2005-2008

2005				2008			
Export deciles	Export share	Dependency level	No of exporters	Export deciles	Export share	Dependency level	No of exporters
05	31.6010	More than 80%	34	05	38.9952	More than 80%	37
		60% - 80%	10			60% - 80%	01
		40% - 60%	14			40% - 60%	08
		20% - 40%	16			20% - 40%	10
		Less than 20%	53			Less than 20%	31
04	3.7955	More than 80%	28	04	7.1136	More than 80%	41
		60% - 80%	08			60% - 80%	10
		40% - 60%	15			40% - 60%	04
		20% - 40%	06			20% - 40%	08
		Less than 20%	61			Less than 20%	24
03	0.8873	More than 80%	36	03	1.608	More than 80%	30
		60% - 80%	19			60% - 80%	06
		40% - 60%	10			40% - 60%	07
		20% - 40%	06			20% - 40%	09
		Less than 20%	53			Less than 20%	34
02	0.1400	More than 80%	24	02	0.24	More than 80%	24
		60% - 80%	14			60% - 80%	10
		40% - 60%	13			40% - 60%	12
		20% - 40%	19			20% - 40%	09
		Less than 20%	53			Less than 20%	32
01	0.0205	More than 80%	43	01	0.0432	More than 80%	35
		60% - 80%	12			60% - 80%	12
		40% - 60%	07			40% - 60%	11
		20% - 40%	14			20% - 40%	11
		Less than 20%	46			Less than 20%	15

Source: Authors calculation from Sri Lanka Custom Department Data

4.4. Other determinants of export competitiveness
4.4.1 Raw material base of the industry

The special feature of the industry is that it is heavily dependent on imported raw materials which led to hinder the industry competitiveness at the world market due to the increase of cost of production and lead time. Although that industry has grown rapidly achieving the international statues the industry supply chain for raw materials have not developed at the same space. For instance, over 40% of apparel industry raw material requirements are imported. 80% of fabric requirements of the industry are met by imports (Sri Lanka Garment Buying Office Association, 2005). Sri Lanka does not have well established the backward integration system in the supply chain as it requires higher investment for the setting up of such operations and relatively small domestic market. However, the components contained in the apparel industry of China and India are vertically integrated from raw materials to the finished product including fabric production, spinning, knitting and weaving and apparel manufacture. Furthermore raw materials such as cotton, silk, wool, linen and manmade fibres which are required by the industry are produced in these countries. Pakistan and Vietnam are also improving their raw material base with the challenges of post MFA period.

It is apparent that countries that would emerge as globally competitive would have to establish a significantly consolidated supply chain. This will play a crucial role in their competitiveness in the global market. Yet the Sri Lankan apparel industry lacks backward linkages. Sri Lanka is primarily concentrated with the production networks which cause an increase in the cost of production and reduction in its competitiveness in the global market. On the other hand, employers claim that Sri Lankan labour productivity is lower and goes hand in hand with lower capacity utilization, high labour turnover, absenteeism and under-trained employees (Sri Lanka Garment Buying Office Association, 2005). These factors have caused an increase in the unit cost of production relative to that of other countries. Moreover, a long lead time is another factor that has had an adverse impact on competitiveness in the world market. The average lead time for Sri Lanka is eight weeks or more and this situation deteriorates even more due to the high dependency on imported fabrics. Therefore, the heavy reliance of the garment industry on imported raw materials is one of the contributory factors which hinders the market competitiveness of Sri Lanka.

4.4.2 Movements of exchange rate

According to the international trade theory, the currency devaluation provides incentives to exports and disincentives to imports. One of the main arguments outlined by the groups who argue that the impact of withdrawal of GSP+ scheme is manageable is that Sri Lanka could manage it due to the depreciation of rupee. It is expected that the devaluation of currency leads to the increase of Sri Lankan Exporters' competitiveness at both US and EU

markets. In the context of global economic crisis, the demand for apparel dropped in both US and EU markets. For instance, the US demand for apparel from the world declined by 3.26% in 2008. In the same time, continuous depreciation of currencies of Sri Lanka's major competing countries could be seen. Therefore, depreciation of rupee was identified as one of the ways in protecting the country's export market although it may have impacts on inflation and debt repayment.

However, the rate of depreciation of currencies and growth values of apparel exports differ among the competing countries. For instance, Indian rupee was depreciated by 22.87% and 21.61% against US dollar and Euro respectively in 2008. But in the same period, their apparel exports were declined by 3.34% in US market and increased in EU market by 17.70%. In 2008, Chinese Yuan was appreciated by 6.37% and 9.53% against US dollar and Euro respectively. However, their export was increased at a significant level in both US and EU markets (see table 4 and table 13). Particularly, the similar trend could be seen between Sri Lanka and selected major competing countries except China. However, Sri Lankan rupee has not been sufficiently depreciated against the Euro compared to selected competing countries. The movement of exchange rate has not been a continuous process and buyers' and exporters responses to temporary movements of exchange rate may be very low.

On the other hand, depreciation of currency causes the increase of the cost of production of the industry as the industry is heavily dependent on imported raw materials. According to Sri Lanka Garment Buying Office Association (2005) 40% of the industry raw material requirements are met by imports. However, the countries like China, India, and Pakistan have their own raw material base. As examples, China is the world's largest producer of cotton, silk, linen and chemical fabrics and wool production and they have fully vertically integrated production system. India is the world's largest producer of yams and fabrics and Bangladesh is becoming increasingly self sufficient in knit fabrics. Therefore the depreciation of their currencies will not have an adverse impact on cost of production due to the well established vertically integrated production system. In this context, stabilization of key macroeconomic variables such as exchange rate is important for the countries where there is no backward integrated production system. Therefore it is no more rational to argue that Sri Lanka's export competitiveness has increased due to the rupee depreciation without making any analysis on supply chain and comparison on currencies of its major competing countries.
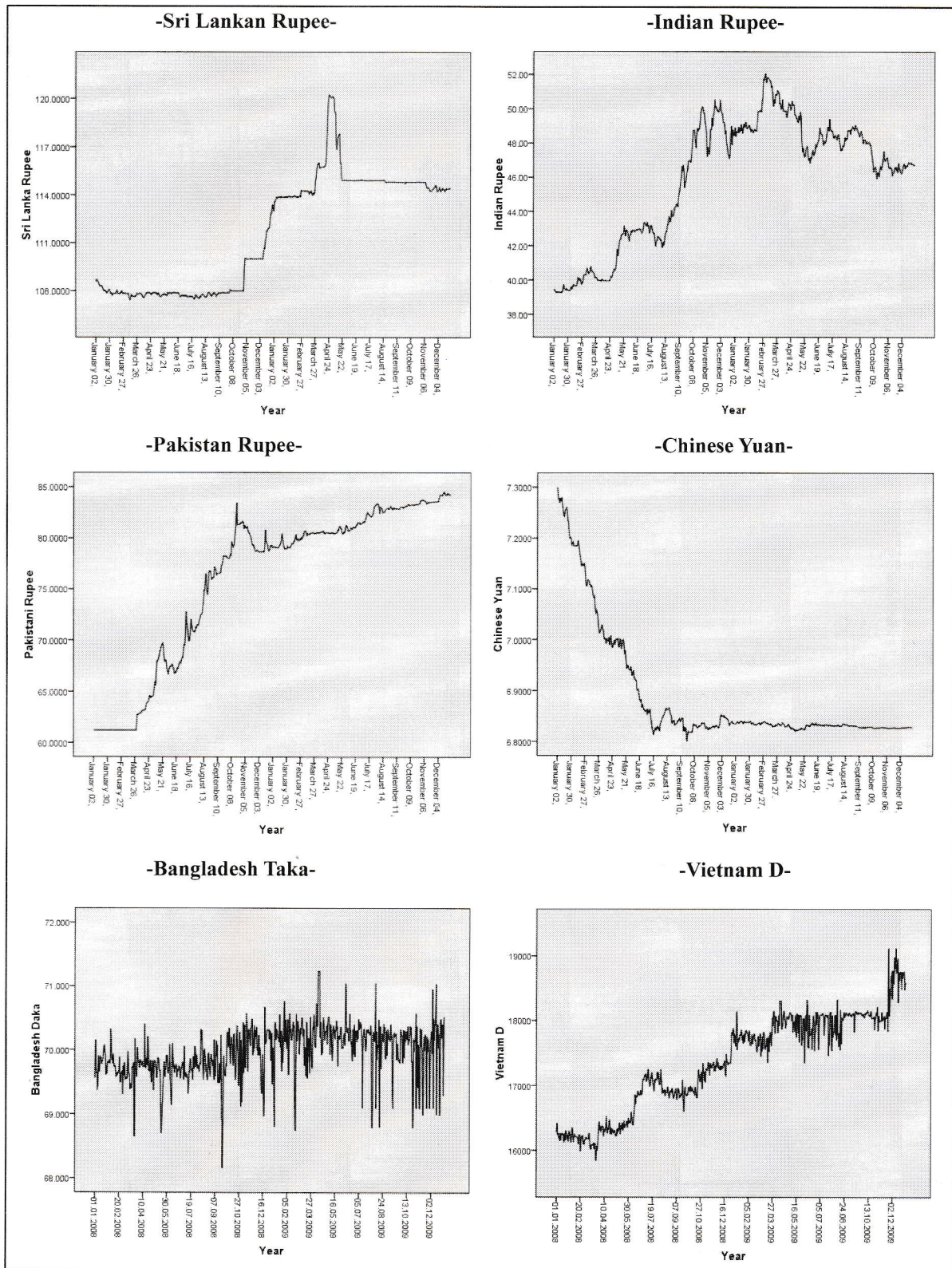
Table 13 Currency Depreciation Rates, 2008-2009

Currency	Against US Dollar		Against Euro	
	2008	2009	2008	2009
Sri Lankan Rupee	4.08	1.22	-0.15	1.93
Indian Rupee	22.87	-4.41	21.61	-3.76
Pakistan Rupee	29.20	6.49	23.90	
Bangladesh Dhaka	0.87	0.33	-2.66	2.79
Vietnam	7.49	4.25	3.74	6.82
Cambodian	2.42	3.46	-1.15	6.02
Chinese Yuan	-6.37	-0.09	-9.53	2.24

Source: International Monetary Fund

Figure 1. Daily Exchange Rate Movements against US Dollar 2008-2009

-Sri Lankan Rupee-

-Indian Rupee-

-Pakistan Rupee-

-Chinese Yuan-

-Bangladesh Taka-

-Vietnam D-

Source: IMF Statistics

Figure 2. Daily Exchange Rate Movements against Euro 2008-2009

-Sri Lankan Rupee-

-Indian Rupee-

-Pakistan Rupee-

-Chinese Yuan-

-Bangladesh Taka-

-Vietnam D-
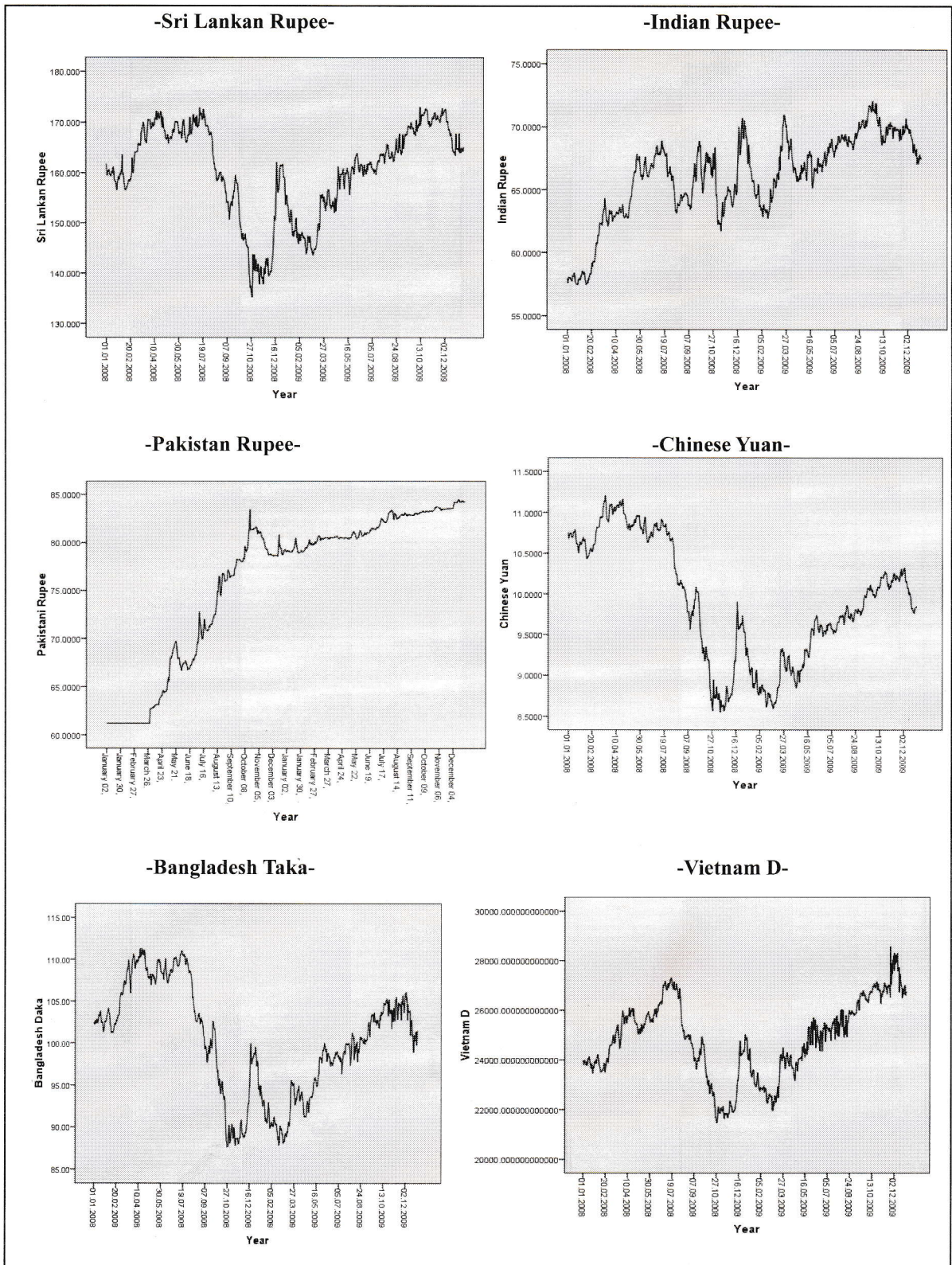
Source: IMF Statistics

5. Concluding remarks

The study reveals that Sri Lankan apparel export destinations is turning significantly towards EU market from US market due to the open competition and GSP+ benefits in US and EU markets respectively. United Kingdom, Italy and Germany are becoming leading countries in importing Sri Lanka's apparel during GSP+ scheme. Moreover, although Sri Lanka recorded a good performance during the period of ATC, a gradual erosion of comparative advantages in exporting textiles and garments to the US market could be seen mainly due to the better performance of its major competing countries in the post MFA period. In the same period, the market share of Sri Lanka at the US market has declined. However, its major competing countries have been able to survive at the US market with increasing exports and market share. Conversely, Sri Lanka has been able to improve its competitive edge at the EU market with the benefit of GSP+ scheme. Similarly, its major competing countries show increasing market potentials without benefiting from any trade concession. Therefore, according to the emerging trend in both US and EU markets, it can be predicted that there is a threat to Sri Lankan exports at the EU market in the context of withdrawal of GSP+ scheme as its major competing countries are becoming increasingly important at both US and EU markets in open competition. It further concludes that the industry has not restructured sufficiently.

The leading exporters in the Sri Lankan apparel export market are also changing their destination markets towards EU market and becoming significant. The new exporters are coming into top 15 exporters' category having the benefits from both open competition and GSP+ scheme. In addition, the exporters are narrowing their concentration on limited categories with market potentials particularly in the EU market while facing for huge competition. Among them, categories in the knitted garments are gaining more interest during 2005-2008. But comparative advantages of most of these products with selected Asian countries reveal that Sri Lanka's competitiveness does not match. The study found that the selected Asian countries show higher growth performance in exporting those categories where Sri Lanka has market potentials during the post MFA and GSP+ scheme. It further reveals the need of diversification of export items without limiting to a few categories as there is huge competition on Sri Lanka's major apparel exporting categories.

The study found that significant number of companies dependent on US and EU markets has decreased mainly due to the phasing out of MFA. Particularly, in US market the export share of top 20% exporters has declined while it is increasing significantly at the EU market. With the GSP+ scheme, leading exporters are expanding their role having the advantages from GSP+ scheme. It further indicates threat the structural change of export companies with preferential market access and open competition undergone.

The heavy reliance on imported raw materials by the industry could be identified as one of major contributory factors which hinder the export competitiveness at the global market.

Although the depreciation of rupee leads to improve the exports value in terms of Sri Lankan rupee, the net effect would be very low to the industry as the industry is heavily dependent on imported raw materials. However, as selected Asian competing countries has well established vertically integrated production systems and similar trend could be seen among the currencies particularly during the world economic crisis, the real benefits of currency depreciation would be more to them than Sri Lanka. Therefore, stabilization of key macroeconomics variables such as exchange rate is more important due to the structure of the industry. The study concludes that the industry is facing for huge competition at the EU market although the country is benefitted from GSP+ concessions.

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