Improving quality, productivity of workforce

Need to reduce production costs in industrial exports vital

by Channa Kasturisinghe

In view of the performance of the country's industrial sector in 2002 it has become necessary to take speedy measures to reduce the cost of production in industrial exports to improve their quality and productivity of the workforce.

According to the Central Bank's Annual Report 2002 although Sri Lanka's economy recovered from the setback it experienced in the previous year by recording a four per cent growth in GDP, the growth in the industrial sector was constrained by weak export demand.

The Industrial sector recorded the lowest growth of one percent among the major sectors. The growth was largely reflected in the services and agricultural sectors. The services sector which grew by six percent accounted for about 80 percent of overall growth.

Agriculture allied activities which accounted for about 13 percent of the overall growth increased by 2.5 percent.

According to the Ceylon National Chamber of Industries (CNCI) Chairman Ranjith Hettiarachchi, the cost of import of raw materials which constitute about 60 percent of overall production cost has become a major constraint in competing with the low cost producing countries especially in the garment manufacturing sector.

He said cost of power and low productivity of the workforce due to the large number of holidays has affected the industrial sector in a global environment where low cost producing countries such as China, Vietnam and Bangladesh have emerged of late.

"It is vital to remove the 2.5 duty and 20 percent surcharge on importing raw materials as the income generated by the Government through these means can be considered a loss in terms of the reduced exports due to cost of production," Hettiarachchi said.

According to the Central Bank's Annual Report 2002 the major export oriented industries including textiles and apparel, rubber based products and ceramics recorded weak performance, reflecting a slow recovery in the world economy and increased competition in international markets.

"The textiles and wearing apparel industry grew only by 1.4 per cent, a recovery of less than one-fourth from the sharp decline of 8.6 per cent in 2001.

Weak consumer demand in major export markets including USA and Euro area countries and increased competition from low cost producing countries such as China, Vietnam and Bangladesh and other exporting countries which are eligible for special trade concessions (Sub Saharan and Caribbean countries) not only limited the growth in the export volume but also the unit value by six per cent.

Lower export prices, together with increased domestic cost of production, squeezed the profit margins of export oriented industries and delayed the further expansion and new investment activity.

A few sub-sectors such as leather products recorded a negative growth for the second consecutive year due to loss of export market competitiveness to low cost export countries, such as China," the Annual Report said.

However, the Central Bank said the trend set by the major manufacturers to create an up-market image in international markets through design, price, on-time delivery and the reputation of the country as a supplier of high quality products has helped to mitigate the impact of unfavourable developments. "Manufacturers paid greater attention to quality improvement, better order placement, efficient material sourcing, effective marketing, low cost trade financing, utilisation of information technology and logistical arrangement to face increasing global competition," the Central Bank said.

It also highlighted that emerging challenges in international markets and potential difficulties with the scheduled end of the Multi-Fibre Agreement (MFA) in 2005 indicate the necessity for a comprehensive program to strengthen prospects of the industrial export sector.

"Such a package should include the expediting of the establishment of new trade agreements with USA and other major trading partner countries, removal of barriers retarding trade expansion under the FTA with india, implementation of structural reforms conducive to productivity growth and the development of infrastructure facilities," the Central Bank said.