Sri Lanka: default of twelfth-largest EU, USA apparel supplier

By Matthieu Guinebault - 12 July 2022

Sri Lanka, the EU and the USA’s twelfth largest apparel supplier, is defaulting. Shortages are increasingly widespread, as the country is only able to import fuel, foodstuffs and medical supplies with great difficulty. Local manufacturers, for their part, have to cope with serial power outages and heavily hampered logistics operations. The situation is currently at a stand-still, after protesters stormed the presidential palace on Saturday, demanding the president’s and the prime minister’s resignation.

On Tuesday 5 July, a little over three months after the country’s problems began escalating severely, Prime Minister Ranil Wickremesinghe told parliament that the crisis was likely to be long-lasting, as negotiations with the International Monetary Fund for debt relief were proving especially tough. A restructuring between now and August of the national debt, estimated at $51 billion, is said to be one of the prerequisites for the country to receive more extensive support.

Locally, purchasing power is reported to have dropped by 50%, while “non-essential” government institutions and even schools have been closed until further notice. It is estimated that 80% of the population is currently skipping meals owing to worsening shortages, while lack of foreign currency is making imports almost impossible. In a desperate effort to increase foreign currency in-flows, the government recently brought down from 23 to 21 the age at which Sri Lankans are allowed to move abroad to work.

The situation is clearly affecting the local textile and apparel industry, which reportedly generates nearly 5% of the country’s jobs, with nearly 350,000 workers employed by just over 1,000 local manufacturers and garment finishers. The Sri Lanka Apparel Exporters Association, which is said to gather together 70% of local operators, has pointed out that the country’s difficulties are occurring as the industry is in the midst of a recovery phase.

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In January-May 2022, Sri Lanka exported $2.25 billion worth of apparel, exceeding the $2.1 billion it exported in the same period in 2019, a figure that in the two following years had slumped to $1.4 billion and $1.9 billion respectively. Last year, some 50 local and international organisations sounded the alarm bell about the working conditions of Sri Lankan workers.

The country’s apparel producers favour knitted as opposed to woven products, so that the local industry has made a name for itself in lingerie, underwear and homewear. Another Sri Lankan representative body, the Joint Apparel Association Forum, has indicated that local producers work for names like H&M, Nike, Uniqlo, Levi’s, Gap, Decathlon, Columbia, Tommy Hilfiger, Speedo and Victoria’s Secret. In a recent interview to the Daily Mirror, Calzedonia’s President Sandro Veronesi said that 13,000 people are working in Sri Lanka for the Italian tights and underwear brand, through some 50 local partners.

Sri Lanka was one of the countries that benefited most from the minimum wage increase in China in the late 2000s, as Beijing’s decision led to a shift of overseas orders to other countries in Asia. Countries where Chinese textile manufacturers themselves invested heavily. Sri Lanka thus became one of the top 15 apparel suppliers to Western countries. Sri Lanka’s main export destination is the USA, which in the first five months of 2022 imported $966 million worth of Sri Lanka-made apparel, and $1.74 billion in the whole of 2021 - equivalent to an 18.6% increase - placing Sri Lanka in 12th place among the USA’s suppliers.

The European Union was close behind, with $650 million worth of imports over the same period. European countries are monitoring the situation in Sri Lanka, which last year once again ranked 12th among the EU’s apparel suppliers. The country had exported €1.19 billion worth of garments to Europe, equivalent to a 15% increase. Like the Philippines, Bolivia and Uzbekistan, Sri Lanka is benefiting from customs advantages in exporting to Europe, stemming from the Generalized System of Preferences (GSP+) programme.

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