Trade Liberalization in Sri Lanka: A Case Study of the Textile Industry

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1. Introduction

The economy-wise liberalization efforts initiated in the late 1970s in Sri Lanka marked a radical departure from a tightly controlled inward looking economy to a market oriented outward looking economy with an explicit focus on manufacturing export oriented growth. The growth momentum of the textile and garment (T&G) sector, which emerged as the driving force of growth in the industrial sector after 1977 came primarily from the export garment sub-sector and not from the textile sector. During the pre-liberalization era, the domestic textile industry was essentially an import substitution industry confined to a few large scale textile mills run by the government. The industry was highly protected during up to 1977 with imports of fabrics under restriction while importation and distribution of raw materials were also tightly controlled. Yet, as in the case of many other import substitution industries, the textile industry did not make much progress during this policy regime. The protection offered to the industry was continued to a large extent even after 1977 and until about the 1990s. During this period, textile firms still continued to survive largely because of some degree of protection that continued to be offered by the State. Nevertheless, the domestic textile industry in Sri Lanka was among the most adversely affected by the liberalized trade reforms.

The purpose of this case study is to examine the implications of trade policy reforms in Sri Lanka for the growth and structure of domestic textile industry while it analyses the major constraints of the industry. Section two provides a background to the domestic textile industry and its structure during pre-liberalization era. Section three analyses the policy reforms undertaken by government of Sri Lanka after 1977 and their impacts on the industry in terms of production. Linkages between poverty and trade liberalization are discussed in Section four through the impacts of trade reforms on employment in the textile industry. Section five explains non trade related constraints faced by the industry in recent times while the Section six concludes.

2. Structure of the Industry Pre-reform

Sri Lanka's adoption of import substitution industrialization policies from the 1960s had a significant impact on the structure and composition of the country's emerging domestic textile industry. The domestic textile industry, as in many others, was set up as an import substitution industry primarily to provide a relief to continuing balance of payment (BOP) pressures that persisted in Sri Lanka during the 1950s. Such a policy strategy was as a means of reducing dependence on imports and meeting the domestic requirement for textiles. As such, the industry was offered a wide range of incentives through the 1960s including tax exemptions, tax rebates on plants and machinery, depreciation allowances, concessionary rates of duties on equipments and raw materials, loans, technical assistance, protection of domestic industries through import controls, tariff adjustment policies and government purchases. There was an outright ban on the import of fabrics, while the government maintained sole control over the import and distribution of raw materials for textiles. In the 1960s, all importers of textiles were required to purchase a certain percentage of locally produced handloom textiles under the Industrial Policy Act of 1949 (de Silva et al., 1996)[1] while cotton yarn was supplied to weavers at a subsidized price through the Weaving Supplies Corporation (Osmani, 1987).

[1] Cited in Gunathilake (1997).

Furthermore, several institutions were set up by the government in order to facilitate small and medium scale textile and handloom enterprises. As a result, the textile industry was at its peak during this import substitution era. Spinning, weaving and finishing of textile was earning about 8 per cent of the total value of industrial production by the end of the 1960s. According to Osmani (1987), there were ten times as many handlooms in 1964 as there had been a decade earlier, and the number had doubled again by the 1970s.

The key actors in the textile industry in Sri Lanka during this period consisted primarily of the State, cooperative and private sectors. The organized sector comprised of a large scale mill division of which the cotton sector operated under the whole ownership of the State. The employment in this sector was dominated by male employees. The State and private sector owned approximately equal shares of medium and small scale textile establishments in the era of protectionism. This sector on the other hand had a considerable number of female employees.

The public sector dominated the spinning, weaving and finishing sector which of comprised three categories; mills, power looms and handlooms. By the time of liberalization, there were 5 large textile mills operated under the National Textile Cooperation, contributing to most of the output in the spinning sector. The State owned power looms, private and cooperative power looms and handloom centers under the Department of Textile Industries and the Department of Small Industries were operating in the weaving sector.

The structure of the local textile industry further shows that prior to liberalization, most of the textile units in the private sector belonged to the small scale and cottage category with less than 50 employees. According to the Industrial Census in 1982, small textile units dominated the industry in terms of number of units, accounting for 99.2 per cent of the entire textile industry. Within the small sector in Sri Lanka, the textile sector came second in order of value of production at the time of liberalization and small textile units accounted for nearly one-fifth of all small scale industrial units in Sri Lanka, irrespective of their product category (Osmani, 1987).

The textile industry – aside from its initial objective of reducing BOP pressure – was also set up as a means of generating employment and supporting rural development in Sri Lanka. A 1978 survey report on *Manufacturing Industries* notes that development of small scale industries was more conductive to employment creation as output expansion has been generally accompanied by an expansion of employment. Thus, during the pre-liberalization era, the domestic textile manufacturing industry in Sri Lanka stood out significantly in terms of providing employment opportunities for a large share of the workforce in the country.

Employment in the sector was mainly a State created phenomenon (Gunathilake, 1997). Nevertheless, textile products were manufactured widely as a rural cottage industry given that the industry as a whole – and handlooms in particular – is labour intensive and requires easily acquirable skills. Therefore, apart from the State as the major employer, a large cottage industry in handloom weaving also provided employment for over 50,000 workers, mainly women, in the rural informal sector during the import substitution era (Perera, 2000). As the industry operated under a highly protective market environment, employment in the handloom industry increased rapidly during the import substitution era. For instance, it is estimated that in the 20 year period between 1951 and 1971, the number of weavers increased from 3,800 to over 60,000 (Osmani, 1987). Its importance to employment generation was such that the textile industry, in particular the increased number of handloom establishments in Sri Lanka, has been cited as the major contributor to employment creation by 1978 (DCS, 1978). By the time of the trade reforms in 1977/78, nearly 35 per cent of the total skilled workforce in the manufacturing sector was estimated to be in the textile sub-sector, with the single highest percentage of the workforce in the country.

In terms of the gender impact of the textile industry, as in many other developing countries, the textile industry in Sri Lanka also provided larger numbers of employment opportunities to the female workforce in the country during pre-liberalization era. It is estimated that the total workforce in the textile sector had increased by 176 per cent between 1963 and 1971 while the female work force in the industry had increased by 173 per cent over the same period, indicating the dominance of female labour in the industry (Perera, 2000). Those females were predominantly young and unmarried and were mainly employed in the textile and weaving centers. Since skills for operations could be easily captured and limited to factory operations, etc, education had not been considered as a selection criteria; on-the-job training for nearly 6 months had been provided (Perera, 2000). It has been reported that more than 90 per cent of the total work force in the weaving sector were female employees, who were mainly employed as weavers and warpers. The State owned textile mill division had employed females as spinners, weavers and dyers whereas higher grades such as supervisory and management were dominated by men (Perera, 2000).

3. Policy Reforms Post-1977 and Performance of the Textile Industry

The liberalization effort that took place in 1977 included policy measures aimed at encouraging export manufacturing growth such as the liberalization of import trade and exchange payments, removal of price controls, rationalization of State involvement in industries and promotion of private sector involvement. The prevailing structure of the domestic textile industry made it particularly vulnerable to the opening up of trade given the decades of State protection that the industry had continued to enjoy. As was expected, the policy reforms brought significant implications for the local textile industry and the reforms were followed by a sudden decline in textile output reflecting the inability of the industry to face the new global challenge of free markets

The trade and tariff reforms which were introduced as the key element of trade liberalization effort comprised revisions to the existing import tariff structure aimed at reducing import controls and import duty rates. The government announced the liberalization of imports through the 1977 budget and the degree of tariff protection offered to local industries was gradually removed, forcing the local textile industry to compete with low priced imports. Meantime, government intervention in the supply of raw materials and the marketing of finished products in the sector was withdrawn while the subsidy of cotton yarn was also abolished.

With a view to making State owned enterprises (SOEs) more efficient and commercially viable, a rationalization programme consisting of four key elements was announced in 1978: 1) setting up of minimum standards of financial viability 2) requirement of competing on equal and non-discriminatory terms with the private sector 3) 'professionalization' of the top management, and 4) privatization or closing down of uneconomical and inefficient projects (Athukorala, 1986). One of the main focuses of rationalization in the textile industry was geared to improving the quality of fabrics sufficiently to meet the fabric needs of the export oriented garment sector. The result was that privatization was adopted as an option in the textile industry in order to meet requirements of the domestic market. In 1980, the five textile mills belonging to the National Textile Cooperation were placed under the management of foreign management partners; by the end of 1981 with the exception of two, all other power looms centers owned by the department of Textile Industries had been sold out to the private sector (Athukorala, 1986).

As a result of progressive liberalization of import duties on fibre, yarn and fabrics, abolition of public sector involvement in production, allocation of resources and pricing as well as the rationalization programme for SOEs, the domestic textile sector suffered severe adverse effects. The larger public sector textile mills encountered serious financial difficulties in the open economic environment after 1977. In addition, import liberalization resulted in a considerable quantity of imported textiles coming into the local market allowing consumers a choice of textiles; for example, textile imports increased nearly fivefold from 20 million meters to 96 million meters a year immediately after 1977 (Omani, 1987). The local textile industry, therefore, faced severe market difficulties both in terms of supply and demand. As a result, despite the attempts made to regulate the imports of finished textiles through direct government involvement in import trade, the output of large textile mills tended to stagnate in the post liberalization era. The output of government-owned textile mills declined significantly during the first five years of liberalization from SLRs. 25.9 million to SLRs 9.9 million between 1978 and 1983 (Athukorala, 1986). According to the estimates of the Department of Census and Statistics of Sri Lanka,[2] it was obvious that the textile industry reported a sharp downturn immediately in the aftermath of 1977 partly reflecting the impact of import liberalization and the process of rationalization. Yet, the industry has remained fairly stable since the mid-1980s (Table 1). The impact is said to have been severe in the rural informal sector, which comprised mostly of small scale industrial units. However, analyzing the impact of liberal trade policies on the small scale textile sector is difficult due to the lack of adequate data.

Table 1: Textile Industry: No of Establishments with 5 or More Persons (1983-2004)

[2] However, comparable statistics and census data are not available for the years before 1983 in regular intervals as it has been taken twenty years to survey the industry in 1983 after the Industrial Census of 1963.

Textile	1983	1993	1996	2000
Spinning, Weaving and Finishing	1679	1166	1137	1113
Made up Textile Goods	357	80	81	75
Knitting Mills	42	35	38	34
Carpets and Rugs	93	262	250	269
Cordage, Rope & Twine	542	605	609	601
Textile nec	6	8	8	7
Total	2719	2156	2123	2099

Source: Department of Census and Statistics of Sri Lanka, *Annual Survey of Industries,* various years.

Table 2 sets out the volume of domestic textile production for selected years in the organized sector. While the volume of textiles imports increased at an annual average rate of 35 per cent during 1978-83, domestic production fell significantly between 1977 and 1980 – the fall in output has been concentrated in small scale industries under the Department of Textiles Industries (Table 2). The data, however, also indicates that between 1977 and 1980, output in the organized handloom sector did not indicate any decline. It has been the unorganized sector that has borne the brunt of import liberalization. Attempts by the government to increase efficiency by bringing in private sector management to operate the various mills under the National Textile Corporation (NTC)[3] showed fairly positive results as the NTC showed improved output figures from the mid-1980s. However, the NTC continued to make substantial losses up to the mid-1980s and was heavily subsidized by the government.

Table 2: Output and Capacity Utilization in the Textile Industry

	1974	**1977**	**1980**	**1985**	**1990**
1. Spinning (Million Kg.)	**6.91**	**6.97**	**6.49**	**10.97**	**10.98**
National Textile Corp.	4.83	4.85	4.17	9.35	8.93
Other	2.08	2.12	2.32	1.62	2.05
2. Weaving (Million Mtrs.)	**95.42**	**107.72**	**90.00**	**129.61**	**144.88**
National Textile Corp.	13.51	15.27	15.32	36.96	39.38
Dept. of Textile Inds.	21.07	27.67	11.68	7.04	4.10
Co-op and Private Looms	5.40	7.23	8.04	32.95	52.59
Handlooms	33.25	24.70	24.00	24.00	15.00
Other	22.19	32.85	30.96	28.66	33.41
3. Capacity Utilisation (Ave.)					
1. Spinning	50.9	47.9	36.1	76.9	76.14
2. Weaving	40.9	45.4	36.2	53.5	53.47

[3] The Veyangoda Textile Mills was under the management of Tootals of U.K. from 1980-89, while the management of Mattegama Textile Mills was handed over to Star Industrial and Textile Enterprises during 1980-1990.

Source: Central Bank of Sri Lanka, *Socio-Economic Statistics*, 1980 and 1991.

While the domestic textile industry, on the whole, was the most adversely affected by import liberalization, the handloom sector in particular – operating for the most part in the unorganized sector – was a weak force in terms of its ability to lobby the government. As a result, many firms went out of business. According to the Central Bank Industrial Survey of 1978, a year after the liberalization of imports, out of 1300 firms in this sector on its mailing list, 200 firms informed the closing down of business (Athukorala, 1986). Estimates prepared by the Ministry of Textiles on the unorganized handloom textile sector suggest that out of about 110,000 handlooms which existed in the country prior to liberalization, about 30,000 had ceased to function by 1980 (Athukorala, 1986). The Ministry of Handloom and Textiles puts the figure of handlooms operational in the 1990s at 20,000 (Ministry of Handloom and Textiles, 1991). The findings from the studies[4] suggest that downsizing of the local handloom industry was inevitable, even with the State protection provided, due to labour attrition and falling demand. Therefore, the capacity of the handloom sector to generate employment opportunities and export earnings was extremely limited. At present, handloom weaving centres attached to textile cooperative societies and institutions in the State sector survive simply because these societies and the Department of Textiles purchase yarn and distribute it to weaving centres for production purposes.

It was expected at the inception of economic liberalization in Sri Lanka that small firms would contribute to export led industrialization by being subcontractors to large exporting firms (Kelegama, 1993). However, small and medium scale textile producers were the most affected and benefited little from the expansion of some of the leading sectors in the economy such as garments. Most of the small scale enterprises were not capable of establishing linkages with large scale firms. Even though there were large numbers of private and public sector institutions that had been established to promote linkages between large and small scale manufacturers, many small scale firms were not even aware of the existence of such services. In many cases, the crucial constraint faced by small textile producers was the scarcity of working capital and as a result, small textile suppliers failed to meet the required specifications and delivery schedules.

Moreover, as mentioned in IDB (1980),[5] small establishments were not in a position to take advantages of liberalized imports of raw materials as they had to depend on intermediaries for their supply of raw materials due to their small scale of production and small volumes of purchases, but large scale textile producers benefited relatively more from liberalized imports of raw materials. In addition, limited production capacity has constrained the ability of those small and rural establishments to compete with low priced imported finished goods. Rural small scale industries did not benefit from the network of financial resource mobilization developed after liberalization. As such, the most adverse effect of liberalization could be seen in textile units in the rural informal sector

[4] For instance Gunathilake (1997) and Osmani (1987)
[5] Cited in Osmani (1987).

Parts of the mechanized sector were also adversely affected and were unable to compete with imports to service the rapidly expanding garments sub-sector which exhibited an import content estimated at over 70 per cent of the value of output (Athukorala and Bandara, 1984). Sri Lanka requires around 800 million meters of fabric for both domestic and export market. Even though the export garment industry in Sri Lanka requires fabric raw materials by a larger amount, the domestic textile industry, consisting of the handloom and power loom sectors is not well equipped to meet that demand for fabrics. Some raw materials are not manufactured in Sri Lanka in sufficient quantities and less than 10 per cent of the fabric required by the export sector can be met by local textile manufacturers. Therefore, the Sri Lankan garment industry is highly dependent on imported fabrics for its production purposes. In addition, though some finished textiles are produced in Sri Lanka in small quantities, it is also characterized by high import dependence. According to available data, domestic production of yarn in terms of volume has increased by 16 million kgs. between 1990 and1998 while the import volumes have increased by nearly two times (29 million kgs.) the increase of volume of domestic production (Table 3). The data further demonstrates that the volume of annual imported fabrics and yarn were continually greater that the annual domestic production of fabrics in each year throughout the last decade.

The domestic textile industry in Sri Lanka is geared primarily towards production for the domestic market. Yet, the growth in fabric demand in the domestic market is also very minimal at about 2.5 per cent, worsening production capacity further (Gunathilake, 1997).

Table 3: Textile Production and Imports (1999-2002)

Textile	1990	1992	1994	1996	1998	2000	2002
Production							
Yarn (Mn Kgs)	11.4	22.0	26.2	27.8	27.1	n.a	n.a
Fabric (Mn Metres)	144.5	187.3	223.2	188.1	194.1	n.a	n.a
Imports							
Yarn (Mn Kgs)	10.9	22.7	26.5	30.0	39.9	47.5	50.0
Fabric (Mn Sq. Metres)	269.0	385.9	587.7	-	-	-	-

Notes: n.a - Not Available
Source: Central Bank of Sri Lanka, *Socio Economic Statistics*, various years.

Realizing that the capacity constraints in the domestic textile industry cannot be met solely by local capital investments, the government offered various policy incentives and concessions for foreign investors to establish new textile mills at the end of the 1980s. A number of fiscal incentives, primarily aimed at foreign owned enterprises or joint ventures for domestic fabric production, were announced in 1990. These included incentives such as exemption from corporate income tax, concessionary rate of income tax, exemptions from Exchange Control Act, facility of opening foreign currency accounts, duty free imports of plant and machinery, etc. However, despite heavy lobbying and advertising efforts made by the government, the reception was poor mainly because foreign investors were more interested in producing for the high end of fabric production and were not interested in producing for the low end of the market where there was a greater demand in Sri Lanka (Kelegama, 1993).

Since the textile industry in the pre-liberalization era operated within a protective market environment and the industry was one of the hardest hit in the wake of import liberalization, there was a significant lobby by the domestic producers, in particular, the SOEs and various other interest groups to continue with government support even in the post-liberalization era. Given continued high unemployment in rural areas after 1977 and other socio-economic problems related to rural-to-urban migration with respect to employment in the export garment factories, the government reverted attention back to the domestic textile industry. Realizing the potential capacity of the small and medium scale industries to generate employment opportunities and thereby reduce rural poverty in Sri Lanka, the government began to re-focus on the industry. Tariffs on imports of textiles were subsequently revised upwards in an attempt to halt the downward trend – although they were subject to fluctuations over the period (Table 4).

As a result, effective rates of protection for textile manufacturing started to creep up from 0.95 in 1979, to 1.81 in 1983 and further to 2.27 by 1988 (Gunathilake, 1997). In late 1989, a surcharge of 5 per cent was introduced on all items under 5 per cent import duty. In 1991, a 35 per cent duty was applied only to expensive fabrics while a specific duties of SLRs. 20 or 30 per sq.m. was used for all other non expensive fabrics. Since non expensive fabrics constitute the bulk of imports the duty paid by most fabric importers was almost 97 per cent of the cost of fabric (Kelegama, 1993).

Table 4: Textile Import Duty Rates (%)

	Cotton fibre	Cotton yarn	Fabric
1984 (Nov)	0	5	45
1987 (Dec)	5	25 (or Rs 25/kg)	60 (or Rs 15/sq.m)
1989 (Mar)	10	25 (or Rs 25/kg)	60 (or Rs 15/sq.m)
1991 (Nov)	0	20	35
1993 (Apr)	10	25	100
1993 (Nov)	3	25	50 (or Rs 10/sq.m)
1995 (Feb)	0	10	35

Source: Perera, R., (1997), *A Note on the Textile Industry of Sri Lanka*, 1PS.

By 1993 although raw fibre (either synthetic or cotton) was not subject to any custom tariff, yarn was subject to a 20 per cent tariff rate. The existence of such a non-transparent duty structure caused many problems. The tariff structure was thus further revised in mid-1993. The new duty structure was intended to protect the local fabric industry while it was expected that the introduction of a new duty rate of 100 per cent[6] on textile fabrics would not have any major impact on the garment exporters as the duty increase by 3 per cent was minimal, while it also ensured a more transparent duty structure (Kelegama, 1993). Backward integration was one argument that was put forward to justify the protection offered to the domestic textile industry while the negative employment implications of closing down of larger number of textile industries scattered throughout the country were also used to justify the continuation of the protection given to the sector (Perera, 1997).

However, largely as a result of and in recognition of increasing competition facing the domestic garment industry, a decision was taken to completely liberalize the import of textiles through the budget of 1997.

As discussed above, industrial policy in Sri Lanka on the whole, and tariff policy in particular, have been reversed and subject to regulatory changes frequently. However, as revealed in many field interviews, stakeholders of the textile industry maintain that they have never been consulted by the government in policy formulations. This lack of consultation between government and textile producers, it was argued, has resulted in lack of input from the most vulnerable small sector of the industry in the policy formulation process. Therefore, one common complaint that many small scale and individual handloom producers highlighted was that policy formulators have little feedback, or consult only the small segment of the textile community consisting of large scale private exporters. It is maintained, therefore, that the end result has been a failure to formulate a policy package that is based on accurate information across the industry regarding the problems, constraints and preferences of the many actors in the domestic textile sector. According to the stakeholders interviewed, lack of consultation has further aggravated the problem of downsizing of the industry. Therefore, one positive suggestion made by all the respondents interviewed was that the government should consult textile producers and related associations often, and before forming policies and procedures.

Even though the immediate impact of trade liberalization on the textile industry was extremely negative, the production capacity of the industry has been increasing since the 1990s. The recovery is partly because the garment industry has started to substitute locally produced inputs for imported raw materials to some extent. The domestic handloom industry enjoyed a relative boom during the period 1989-1994 with the announcement made by the government enforcing State owned offices to use handloom materials for their office uses. However, it was a State created phenomenon and the sales of hand-women materials started decline once the enforcement of that law was withdrawn. Supporting the idea of direct or indirect State trading activities, it was revealed in the field interviews by some of the stakeholders who belonged to the State sector that State intervention is essential to uplift the industry. In contrast, the large private sector is of the view that competitiveness is the crucial determinant of the future of the industry.

[6] Earlier it was 35 per cent or SLRs. 30 sq.m. for synthetic and 35 per cent or SLRs Rs 20 per sq.m. for cotton.

As set out in Table 5, exports of domestically produced textiles have fairly grown in recent years, driven almost by a few pioneering private sector firms. Exports of textiles have been supported by the state by initiating several government promotion schemes with various incentives[7] (Gunathilake, 1997). For instance, Sri Lanka Export Development Board (SLEDB) with the assistance of international institutions and the Ministry of Textile Industry Development (MTID) carry out product and design development programmes for small and medium scale handloom manufacturers and exporters targeting the export market.

Table 5: Export of Handlooms and Textiles (1989-1995)

Year	Handlooms (SLRs. mn.)	Textiles (SLRs. mn.)
1989	7.5	112
1990	11.1	96
1991	15.9	238
1992	25.5	771
1993	34.1	1534
1994	49.3	2077
1995	67.4	2263

Source: Gunathilake (1997).

The improved export performance in handloom and textiles in the 1990s has come primarily from the large scale private sector (Table 5). Handloom centers under the patronage of the State sector have not achieved the same export success as private sector companies specializing in handloom textiles. As revealed by many of the stakeholders in the field interviews, production in the private sector had also stagnated in the immediate aftermath of liberalization. However, they had commenced and expanded their business with the incentives offered under the new policy package of liberalization and it was apparent that those producers had resources to cope with inconsistencies in State policies and inadequate infrastructure.

Furthermore, field interviews found that producers who are currently performing well in the industry are either the direct exporters of textiles or subcontractors of those who are doing direct exports to international markets. They have the financial viability to absorb new technology and keep up with changing fashions and designs. Innovative designs, colour combinations and processing techniques have made them relatively more competitive in the market than the State sector producers. Besides, they are equipped with better marketing strategies to capture external markets. Unlike handloom producers in the State and cooperative sectors, private sector exporters are more concerned with the changes in international markets, competitive environment and attitudes of buyers and thus they change the quality of their products accordingly. Most of these large scale private sector producers have developed international links with export markets and

[7] For instance a compensatory grant of 20 per cent for exports, etc.

improved their export market share through personnel contacts, which are lacking in the case of small scale and rural-based individual producers.

In addition, these exporters have developed a market network with rural based individual or small scale hand woven producers who produce finished textiles in small quantities. As a result, significant linkages have developed between large scale exporters and rural individual producers in terms of subcontracting arrangements, which ultimately benefits otherwise idle handloom producers in rural areas.

4. Linkages to Poverty: Post-reform Impact on Employment

It is evident according to the labour force statistics that macroeconomic reforms accompanied by liberal trade policy reforms initiated in Sri Lanka since 1977 have had adverse consequences for the poor through their direct impacts on the employment. With the structural reforms after 1977, the impact on employment was quite significant in the domestic textile industry. Unlike in the export oriented garment industry, the largest concentration of workers employed in the domestic textile industry was found in rural areas in Sri Lanka and scattered throughout the country. Even in the 1990s, nearly 76 per cent of total handloom workers were found in areas other than the Western Province with the single largest concentration of workers at nearly 31 per cent found in the Eastern Province alone (Gunathilake, 1997). Thus, the micro impact of closing down of those firms had greater implications for the rural poor in the country.

The extremely severe impact on employment in the domestic textile industry can be mainly attributed to two strands of policies. First, the rural and small scale sector, which had depended largely on subsidized inputs collapsed with the withdrawal of producer subsidies and de-control of prices. Second, privatization resulted in the closing down of textile centers which were under the patronage of the State sector prior to liberalization, providing a large number of employment opportunities for the workforce in the country. According to the estimates of an survey carried out by the Industrial Development Board in 1980, between 1977 and 1979 employment in approved industries had increased by 7 per cent while that in unapproved industries where the rural poor were more concentrated in, had declined by 16 per cent. It indicates that the rapidly expanding manufacturing sector was not growing fast enough to absorb the labour displaced by contracting industries of the economy. The impact was particularly adverse for small individual units, which were not able to respond to the new incentives offered under the 1977 policy package. One apparent example was the handloom sector. The corresponding employment losses in this sector have been massive. Estimates suggest that in the 1970s, handlooms employed some 150,000 people. In the 1990s, total employment in this sector was put at less than 25,000 (Ministry of Handloom and Textiles, 1991). In fact, the loss of employment in this sector during 1977-80 was estimated at 40,000.

Table 6 shows the changes in the number and pattern of employment in the textile industry during the last two decades. As was mentioned previously, even though the textile industry experienced a sharp decline in the number of employees attached to the industry during the first five years of liberalization, it is evident from the Industrial Census data that after 1983, employment in the local textile industry has remained fairly stable during last two decades – although at a much lower level as compared to the pre-liberalizatin period. Unfortunately, comparable data for small scale establishments with less that five persons engaged are not available to make a firm conclusion that employment in small scale sector has remained stable in recent years.

Table 6: Employment in Textile Industry

Employees[a]	1983	1993	1996	2000
Spinning, Weaving and Finishing	50663	41491	40762	33542
Made up Textile Goods	5394	3183	3023	3270
Knitting Mills	3703	15665	16873	19755
Carpets and Rugs	2017	2133	5512	7729
Cordage, Rope & Twine	4326	1963	7191	7843
Textile nec	77	327	130	360
Total	66180	64760	73491	72499

Notes: [a] Number of employees in establishments with 5 or more persons engaged.
Source: Department of Census and Statistics of Sri Lanka, *Annual Survey of Industries,* various years.

As discussed earlier, rationalization of SOEs which started with the structural adjustment programme of 1978 had significant implications for employment in the textile industry and thereby the living standards of the rural poor. Privatization of state owned textile mills affected both men and women employees in the sector. According to a study by Jayaweera (2004) among the establishments sold to the private sector, there were considerably larger numbers of smaller power looms distributed throughout the country. Textile centers which had provided employment opportunities primarily for women (nearly 60 per cent of total the employed) had closed down; textile establishments which provided employment primarily to men (nearly 60 per cent of the total employed) was privatized (Jayaweera, 2004). Even though those workers had been given consolidated pensions and some compensation packages, the majority of the workforce of these establishments had been in their economically productive working years at the time of their retrenchment. In addition, the displaced workers were plunged to a macroeconomic environment where the incidence of unemployment and costs of living was very high. Thus, almost all the workers surveyed in the study had been of the view that income and pension that they were given was not enough to meet the cost of living while the quality of life had deteriorated and they faced an uncertain future mainly because they had no alterative sources of income (Jayaweera, 2004).

Furthermore, employment implications of liberalization and subsequent welfare effects were particularly severe for females given that the textile industry had employed a large female workforce of the country. Handloom weaving for example, is traditionally dominated by women equipped with traditional labour skills and basic or no education. Unlike in the earlier period, where the industry performed under a tightly protected regulatory environment and produced only for the non-competitive domestic market, the profile of employment in terms of skills that were required by the industry changed after 1977 with the exposure of the traditional textile sector to competition. The newly recruited women workers after 1977 required educational qualifications at secondary level (Perera, 2000). Also, the newly recruited textile sector workforce was provided a more formalized training in order to capture the skills required by the industry to face heightened competition. However, despite the notable efforts made to restructure the employment structure of the industry in order to adopt required technology, the industry experienced a rapid decline in its workforce after 1977 as mentioned previously. As the Census of Industries carried out in 1981 indicates, the corresponding decline in female employment in the textile sector dropped by 41 per cent between 1971 and 1981 (Perera, 2000).

The gender composition of the workforce in the textile industry has thus changed over the last several decades. The share of female employment has declined from 77 per cent to 51 per cent between 1963 and 2001. Nearly a half of the workforce in 2001 was males while the corresponding share was less than one-fourth of the total workforces before the 1970s.[8] This partly reflects the magnitude of new employment opportunities generated, particularly for females in the export oriented garment sector.

The experience of the garments and textiles sub-sectors has been vastly different. From 1981 to 1993, the textile sector experienced a drop in female employment by 15 per cent whereas the export garment sector recorded a substantial increase in its employment level. Even though the skills of textile production can be easily acquired, textile centers faced a shortage of women labour even at operative levels while this was even more severe in the handloom sector where it has been found that young women shied away from working on handlooms (Perera, 2000). Competition from the garment industry was one of the major factors that affected employment in the domestic textile industry. Even though the export garment industry did not directly absorb textile workers due to the structural mismatch of employment in these two sectors in terms of age, skills and manpower levels, it absorbed potential workers for the domestic textile industry providing the young unemployed in the labour force relatively more attractive opportunities. As more attractive and less arduous employment opportunities were emerging in the export industrial sector, the textile and handloom sectors did not have the potential to create large scale employment opportunities.

However, female labour is still vital for the domestic textile industry even today. It was apparent from the field interviews that most of the female handloom workers still remain in this occupation as the primary means of livelihood mainly because of their lack of access to alternative employment opportunities available outside the industry. Some females are still engaged in weaving because they wish to increase the family income and at the same time combine their income earning activities with domestic responsibilities and child care, while some are employed in this occupation due to the flexible working schedules and hours offered allowing them to engage in household economic activities such as domestic agriculture. A larger majority of employees interviewed are married and

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[8] Department of Census and Statistics of Sri Lanka, *Annual Survey of Industries*, various years; and Perera (2000).

over 40 years of age and are not in their economically productive working ages. Their prospects for finding alternative employment are slim – traditional labour skills and attitudes are likely to make them less attractive to be hired for better jobs. They belong to low income families and most of these females are working on a part time basis. In addition, all the handloom weavers, irrespective of the sector that they belong to – i.e., State, cooperative or private – are paid for their products on a piece rate basis. Individual weavers and workers attached to cooperative societies are particularly vulnerable to income insecurity as their wages are paid once their products are sold in cooperative shops.

As pointed out by many stakeholders, irregular and the unstable nature of the payment system associated with loss making production is a major reason discouraging a younger generation from entering into the labour force of the handloom sector as weavers. Most females prefer to work in large scale garment factories due to the attractive nature of the garment industry with relatively higher level of social and economic status. Unattractive working conditions and environment have further worsened the situation. However, as revealed by some of the weavers interviewed, unlike employment opportunities available in the garment industry, the relative freedom and flexible working arrangements, less stressful working environment that can be enjoyed in the textile industry can attract a young generation if the industry was to become a profit making industry. Thus, severe constraints currently faced by the textile industry such as problems of raw materials, poor technology in production, etc., should be successfully addressed in order to make the industry profitable and subsequently change the perception of social attitude towards the industry.

Working conditions, regulations and salaries also vary within and across State, cooperative and private sectors. Weavers attached to the State sector are entitled to Employees' Trust Fund (ETF) and Employees' Provident Fund (ETF) as means of long term savings, while the Department of Textile is currently planning a pension scheme for workers in the State sector. However, the situation is severe for workers in cooperative and small private sector, as the production and sales of these sectors – which directly determine the income status of workers – has been in decline for several decades. Their income is on the other hand not assured through income insurance schemes such as pensions or ETF and EPF schemes. On the contrary, the income status of large private sector employees is considerably higher than those of their counterparts in State and cooperative sector. Workers attached to large scale private sector entities, who are not entitled to any pension schemes, have been compensated by being paid higher salaries to keep them with those establishments.

While it is generally accepted that the economy wide reforms had adverse impacts on the employment of the textile industry on the whole, it is also evident that the structural changes occurred both within and across sectors after 1977 have had differential impacts on traditional and new workers in employment during pre and post liberalization eras. It is mainly because of the differences in skills that they have. The traditional workers, who had been working in the sector since early 1970s had been more vulnerable to the burden of adjustments immediately after 1977 and even at present, they have found it difficult to face the challenges of globalization and readjust accordingly due to less attractive nature of their labour skills. New workers, who joined the workforce after 1977, on the other hand, have a better bargaining power and have become relatively more flexible in moving across different labour markets.

These trends in changes in employment and consequent decline in income have resulted in significant changes in living standards of direct and indirect employees of the industry as well as those of their dependents. Females and workers in low income families have been particularly vulnerable to the burden of income deterioration accompanied with trade reforms as well as related macroeconomic changes in the economy. As such, welfare losses and the social cost of policy reforms and related changes in the economy after 1977 seem to be considerably high in case of domestic textile industry.

5. Non-trade Reform Related Constraints in the Textile Industry in Sri Lanka

The collapse of small scale and traditional industries in Sri Lanka, which were protected during import substitution era and could not survive in an open economic environment after 1977, reflects the inability of these industries to keep pace with competition. Even though the sharp decline in production of the domestic textile industry can mainly be attributed to trade and trade-related reforms, it was obvious that low productivity, slow progress technological developments, lack of fund and high cost of capital, shortage of labour, lack of backward integration have also played a part and adversely affected the industry. Thus, a host of other factors besides trade policy reforms – some related the protected status it enjoyed under import substitution – peculiar to the industry contributed towards its inability to survive effectively in the post-liberal policy environment.

Among those reasons, low productivity in the sector was the most obvious. As discussed previously, capacity utilization in handloom industries during both the pre and post liberalization eras was extremely low. The textiles industry as a whole was operating at rates well below even half its capacity right up to the mid-1980s. As mentioned by Osmani (1987), even though there were 110,000 looms in the country prior to liberalization, only 23,000 were operating with full capacity. Besides, productivity appeared lowest in the State sector at 47 meters per employee whereas private sector employee produced nearly five times as much (Gunathilake, 1997). It was found in the stakeholder interviews that most of the State owned textile centers are running at losses even today while the profits of well performing weaving centers attached to the State sector are also used to finance the losses of other centers rather than reinvesting in order to trigger growth and productivity of the profit making establishments.

High cost and uncertainty of supply of primary raw materials have also limited the growth of the industry and affected the capacity for achieving comparative advantages. Speaking on the issue of supply of yarn, almost all the handloom producers interviewed, including the managers of government sector handloom units highlighted that irregular supply of yarn is one of the major obstacles breaking off the continuous flow of production. In addition, it was revealed that it has prevented domestic producers meeting deadlines for orders and thereby negatively affecting the competitiveness of the industry and reliability of regular buyers. Producers have also been concerned with the high cost of imported yarn in grey form and high dyeing cost, which increase the price of a handloom production. As mentioned, when the labour cost is also added, the price of the handloom goes up further making the final production a very expensive commodity. Therefore, the inability of domestic handloom sector to be a market leader is partly due to the fact that Sri Lanka has to import its raw materials from India for its weaving purposes and compete with low price Indian products in both international and domestic markets. Even though the major portion of yarn requirements of the handloom sector can be met by local sources, cost of locally produced yarn is usually higher than imported yarn. Though the government has provided domestic producers several incentives such as subsidized prices of local yarn, the supply of domestically produced yarn has been irregular due to several reasons such as competing demand from the domestic power loom sector and liquidity constraints faced by government authorities in purchases, etc. As mentioned in Gunathilake (1997), acute yarn shortages, which occurred periodically in the State sector was the main reason why productivity in the sector is so low.

Setting up of a strong textile base to supply the rapidly expanding export garment industry was a serious challenge to the local textile industry. Despite the efforts taken by the government to raise productivity, the domestic textile industry was incapable of catering to the export garment industry due to lack of production capacity. Besides limited output, quality and width of locally produced fabrics also fall below the standards required by the garment export industry. If domestically produced fabrics were in line with the quality standards required by the garment industry and available at a relatively lower price than imported fabrics, there would be a captive domestic market for domestic fabrics as garment exporters prefer to purchase locally produced raw materials for which they do not have to bear an additional import cost (Kelegama, 1993). Yet, the export garment industry currently remains highly dependent on imported raw materials. Also, high import dependence of the garment industry indicates that there are few linkages between export garment industry and the domestic textile industry. Even though the importance of backward integration in industrialization was highlighted in industrial policy statements announced after 1977,[9] available information suggests that attempts to make backward integration between the two industries still remains largely unsuccessful. Yet, it has long being argued that the development of the domestic textile industry is critical to reduce dependence on imported inputs and strengthen the competitiveness of the local garment industry through integration of backward linkages.

As mentioned by Kelegama (1993), the fabrics that are required in adequate quantities for the production of garments for exports were not manufactured locally over the last several decades because of the lack of high initial capital necessary to set up textile mills to meet the demand of the local industry. By the early 1990s, Sri Lanka required about 15 new textile mills with a weaving capacity of 300 million square meters for cotton and mixed fabrics and about 19 textile mills with a knitting capacity of 60 million square meters to effectively meet the demands of the export garment industry. However, it was estimated that a moderately sophisticated fabric production plant (to produce 10 per cent of the fabric requirements of the garment industry) would require an initial capital

[9] For instance, Ministry of Industrial Development, *Industrial Policy statement of 1989*.

investment of between SLRs. 500 million to 1 billion (at 1993 price), which was comparable with the cost of construction of a dam in Sri Lanka (Kelegama, 1993). As such, it was far beyond the capacity of local enterprises. Large scale foreign investments were needed to overcome the problem of capital constraints. However, these investments occurred most visibly in other leading sectors in the economy such as garments and petroleum products, which were more attractive to foreign capital and were large enough to absorb foreign technology.

One of the severe constraints faced by the industry in pre and post 1977 period and even today is slow technological progress. The responsiveness of local textile industry to changes in new technology was limited partly because the mills usually planned their production to meet the needs of the domestic market. Technology used in fabric production in most industrial units in Sri Lanka during the 1980s was outdated while the technology used in other countries for fabric production had changed rapidly. Global technology use had changed from shuttle looms to air jet looms and further to water jet looms during the 1980s, whereas the production technology in Sri Lanka was in its initial stages changing from shuttle looms only to automatic and rapier looms in the same period (Kelegama, 1993). Yet, modernization of the textile industry was necessary to increase efficiency and production if it was to be more competitive both in the domestic and external markets.

However, up-gradation of technology was often beyond the means of small scale textile units as it required very large investments in the latest machinery, equipments and design capacity. The financial capacity of small scale industries was limited while the situation was further aggravated by high cost of capital – which was another outcome of financial sector liberalization that removed subsidized State directed lending. Field interviews also found that private sector banks are reluctant to release loanable funds to the domestic textile sector for the fear of loan defaults as the industry is currently making losses. One suggestion made by stakeholders to overcome the problem of financial illiquidity of small textile sector is that State owned financial institutions develop a credit network and make necessary financial arrangements to cover the initial cost of setting up and maintaining establishments by providing low interest credit without collateral. However, some stakeholders were of the view that the government is not required to assure the financial viability of the industry if it could facilitate an attractive investment climate for the industry to encourage private investors. However, the problem is that even though the industry requires very large initial investments to enhance competitiveness, the investment climate of the textile industry is not conductive for local private investors as the industry is less profitable while quick, less risky and profitable investment opportunities are to be found elsewhere. Local investors have limited resources and look for industries with high margins and faster rates of returns. This is one of the major constraints that have hampered the growth of the domestic textile industry.

Other more serious constraints faced by the industry include the lack of trained staff for the vacancies that high technology textile production demands. The Department of Textiles currently allocates a considerably large sum of money for skill development programmes and carries out foreign skill training for handloom instructors working in the

State sector. However, as State sector managers and weavers interviewed in the field survey mentioned, these development programmes has not had any favorable outcome or progress because the skills gained from attending to some training programmes cannot be used in Sri Lanka. For instance, training progrmmes aimed at developing design capacities are either outdated and complicated or cannot be used in Sri Lanka as the domestic industry still lacks the necessary tools and equipments required. The Department of Textiles has also established 33 training schools island-wide to train new textile weavers and the training is done free of charge. However, the reception has been poor so far. Shortage of skilled or unskilled labour is the main reason attributed by almost all the stakeholders for downsizing of the industry. As a result of the scarcity of labour Sri Lanka's textile industry finds it difficult to supply the needs of the market on demand and thereby meet the deadlines for textile orders.

Also, the ability of the domestic textile industry to compete with imported products was not only determined by the relative prices but by its intrinsic value. Weak design capacity and marketing strategies have limited the growth of the industry. The textile industry in Sri Lanka lack design development units and planning units to monitor and keep abreast with global trends. Though several private sector producers have adopted distinctive designs and therefore perform well in the domestic and international market, the majority are still at an elementary level of design. Though the government established the National Handloom Design Centre in 1991 with several professional designers to successfully address the problem, it has not reaped desirable outcomes (Gunathilake, 1997).

However, as some stakeholders believe, the problem is not the lack of innovative designs or designers but the many conservative producers and weavers in the traditional sector who have become accustomed to existing inefficiencies and are reluctant to engage in changes. It was found in the field interviews that producers in the private sector are more dynamic and try to produce higher quality products to capture new market opportunities as well as to keep the regular buyers with them in the present economic environment. The main distinguishing feature of the production come from the private sector is its value added component. Their products are not limited only to basic materials but semi-processed and finished products like soft toys, ready-made garments, and silk handloom products, etc., which ensure captive markets both locally and internationally. They are of the opinion that State support and financial guarantees, import restrictions and controlled economic activities are not the solution to the present crisis in the sector. However, they have been concerned with the importance of promotion strategies, which are extremely lacking in the case of Sri Lanka. It was, therefore, suggested that the government should develop and facilitate a better promotion mechanism to improve the long-term competitiveness of the industry. The possible suggestions made in the field interviews included trade exhibitions and trade fairs, establishment of handloom showrooms in tourist hotels and regular magazines, etc.

Despite the growth of handloom exports in recent years, the Sri Lankan hand woven industry is still weak in developing a distinctive traditional design, which can be a successful marketing strategy for Sri Lankan products in international export markets. Other countries have already made such distinctions so that their handloom products are easily traceable to their origin. Sri Lanka also shows continued weakness in creating an image for all domestic textiles of Sri Lanka including handlooms in export markets and, therefore, it was suggested that development of a separate official website for handlooms would be an ideal marketing tool. In addition, despite some programmes carried out by the government through the Export Development Board to develop production technology used in the industry and enhance the local skills through foreign workshops and seminars targeting the export market, ability of the industry is said to be weak to absorb those skills. Nevertheless, as revealed in the field interviews, small and medium scale handloom producers are willing to supply for international markets if the necessary facilities are provided. Therefore, lack access to international markets is one of the constraints needed to be tackled by the State sector.

A drop in local demand for domestic textiles has further worsened the situation. The demand for local textiles, which was primarily determined by price, durability, design and quality changed significantly after 1977 as cheaper and new products were freely available for consumers with import liberalization. The market survey by Gunawardena (1992)[10] has found that the potential demand for domestic handloom fabrics (28.5 million metres) was much lower than the demand for domestic power loom, which was 44.3 million metres and demand for imported fabric of 31.6 million per year. Sri Lankan handloom products are expensive due to high cost of production associated with costly labour and raw materials as well as low productivity and small scale production. Other macroeconomic factors that have led to a drop in local demand for handlooms are economic stagnation, high inflation and rising cost of living as these variables have impacts on purchasing power of the upper middle class consumers, who were the potential buyers of textiles products. At present, the demand for hand woven materials comes mainly from upper middle class consumers based in Colombo as well as from the tourist's community, who are willing to pay relatively high prices for higher quality hand woven products. Therefore, upper middle class consumers have become the target buyers for most hand woven products. The private and State sectors have change their productions accordingly as high cost of production can only be covered by selling the products at higher prices. The result is that rural and individual handloom weavers, who produce for traditional lower middle class market, have found it difficult to sell their products at higher prices to meet the cost and, therefore, face severe demand deficiencies. Their loss of status as income earners has deteriorated their quality of life, plunging them further into poverty.

Perception of attitudes of stakeholders towards the future of the industry varies with the sector that they belong to. As stakeholders related to cooperative and small scale handloom sector mentioned, the downturn of the industry is inevitable unless textile establishments currently performing in those sectors are again placed under the State sector providing high tariff protection and other incentives such as State based resource allocations and pricing. However, according to government officials, State protection would not be the one and only solution for huge capacity constraints faced by the industry. The focus of the State sector is, therefore, more on production expansion aimed at the domestic market as a reviving strategy. On the other hand, the private sector, in

[10] Cited in Gunathilake (1997).

particular the large and medium scale exporters, are optimistic about the future of the sector and their suggestions are mainly related to improvements in competitiveness of the industry in both domestic and external markets.

Empirical studies carried out to assess the major supply and demand constraints have also shown similar findings. According to survey results mentioned by Kelegama (1993), high price, low quality, poor advertising, delivery delays were the main factors contributing to buyers' low or minimal purchase of textiles and accessories made in Sri Lanka while from a sellers perspective, inadequate market information, high cost of technology, the demand for specific brands as well as the buyer's preference for imported items were the reasons for low or minimal sales in the domestic market.

As found in the Census of Handlooms of 1992,[11] the principle reasons mentioned by survey respondents for non operation of looms after 1977 are given in Table 7. For the most part, those reasons are supply side constraints faced by the industry on the whole as a result of macroeconomic policies adopted by the government in the post liberalization era focusing on large scale export oriented industries.

Table 7: Reasons for Non Operation of Looms

Reason	Private (%)	State (%)	Co-op (%)	Total (%)
Lack of raw materials	26	34	48	29
Lack of funds	27	2	17	25
Lack of spares and accessories	14	10	10	10
Shortage of weavers	9	41	11	16
Marketing problems	17	3	-	14
Other	6	9	7	6
Total	100	100	100	100

Source: Gunathilake (1997)

According to some empirical research as well as field survey interviews, it is obvious that the domestic textile industry in Sri Lanka as a whole is currently faced with constraints such as low productivity, poor infrastructure, lack of competing investment opportunities, shortage of labour both at skilled and unskilled levels, drop in local demand and problems of supply of yarn while individual establishments are faced with severe constraints such as lack of funds, out dated technology, lack of awareness on market opportunities, producing only for domestic market, weak design capacities, etc.

6. Summary and Conclusion

Liberal trade reforms that took place in 1977 had far reaching implications for the small and rural industries in Sri Lanka. It was obvious that structural adjustment policies implemented had negative impacts on the rural poor in Sri Lanka through its impacts on

[11] Cited in Gunathilake (1997)

employment level. It was assumed at the inception of economic liberalization that the adverse impact of liberal trade policies on rural poverty can be minimized with expanded avenues of employment in the manufacturing sector. Even though rigorous quantitative studies have not so far been done to assess whether the negative impacts of employment contraction has been offset by the positive impact of employment generation, it seems evident from existing evidence from available studies that the open economy has failed to compensate for its adverse impacts on rural poverty because of the structural mismatch between expanding and contracting sectors in the economy. The more explicit example was the domestic textile industry. It has been argued that the changes accompanying trade policies since 1977 have not contributed to any improvement of the welfare of the poor segment of the population attached to the domestic textile industry while it has induced a continuous decline in their income.

The impact of trade liberalization on poverty with respect to the textile industry could be seen through two channels; impact on many small scale and rural textile establishments distributed through out the country as well as the impact on large textile mills which provided considerable number of employment opportunities for the country's labour force. The curtailment of formal employment opportunities in the organized sector caused workers to be employed in unstable wage employments with non standard working conditions which carried lower levels of social security. Besides, almost all the workers who were employed in small industries as well as in large public sector mills belonged to low income segments in the country who did not have other sources of income to survive and were not equipped with dynamic working skills to adjust to new employment opportunities emerging in the rapidly expanding export oriented garment industry. Decline in income persisting for nearly three decades has, therefore, caused continuous deterioration of quality of life and they have not been able so far to readjust their employment skills to benefit from opportunities available in an export economy. They were also more vulnerable to other macro economic factors of the economy such as high inflation and rising cost of living, which have worsened their situation further.

With the textile sector including the handloom sub-sector providing an income source for a substantial number of females in the labour force prior to liberalization, a decline in income in rural and informal sector after 1977 had adverse impacts on living standards and welfare of those households engaged in this industry. Poorer females who had lack of access to alternative employment opportunities were particularly vulnerable to decline in their income. They have found it more difficult to survive and thereby escape from poverty.

Sharp decline in production and subsequent downfall of the industry after 1977 can also be attributed to several other reasons , which included non trade related constraints faced by the industry such as low productivity, severe capital constraints, issues related to supply of raw materials, slow progress in technological developments, shortage of labour, drop in local demand etc. These demand and supply side limitations have worsened the situation of downturn reflecting the inability of domestic textile industry to survive in a highly competitive open market environment and thereby negatively affecting the workers relied on it for their survival.

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Appendix 1: List of the Names of Stakeholders: Field Interviews-Domestic Textile Industry

Name	Designation /Position	Institution /Sector
1. Mr. P.A. Wijerathne	Director	Department of Textile Industry
2. Mr. S.M. Samarakoon	Production Manager/ Consultant Dyeing	The Handloom Weavers' Collective
3. Ms. B.G. Kamalawathi	Owner	Kamala Weaving
4. Ms. Padmini Senanayake	Owner	Polgolla Handlooms (Pvt) Ltd
5. Ms. M Muthuraja	Chief Accountant	Kandygs Handlooms (Exports) Ltd
6. Ms. D.R Nelka	Handloom Teaching Instructor	Department of Textile Industry
7. Ms. Ghanawathi Jayasinghe	Manager	Polgolla Handloom and Textile Centre
8. Mr. R Wijewickrama	Manager	Kurunegala Textile and Weaving Centre
9. Ms. A.N. Pethiyagoda	Assistant Manager-Production	Polgolla Weaving Centre (Laksala -Affiliated)
10. Ms. M. Weerakotuwa	Weaver	Polgolla Weaving Centre (Laksala -Affiliated)
11. Ms. Rohini Herath	Weaver	Polgolla Weaving Centre (Laksala -Affiliated)
12. Ms. M.M. Karunawathi	Weaver	Polgolla Weaving Centre (Laksala -Affiliated)
13. Ms. E.M. Bandara Manike	Weaver	Kurunegala Textile and Weaving Centre- Dept of Textile Industry
14. Ms. R.M. Sumanawathi	Weaver	Kurunegala Textile and Weaving Centre – Dept of Textile Industry
15. Ms. P.D. Wimalawathi	Weaver	Kurunegala Textile and Weaving Centre- Department of Textile Industry
16. Ms. Sriyani Malkanthi	Weaver	Kamala Weaving
17. Ms. Wagira Kumari Suraweera	Weaver	Kamala Weaving