

***Speech delivered by Mr. Kumar Mirchandani,
Past Chairman, at the Annual General Meeting
of the Association held on 9 November 2010***



Hon. Minister of Industry and Commerce, Rishad Bathiudeen, our Chief Guest today, Her Excellency Leoni Cuelaenare, Ambassador for the Netherlands, our Guest of Honour, Dr. Neville Gunawardena, Director General, Trade, Tariffs and Investments, Ministry of Finance & Planning. Thank you all for coming, it means a lot to us.

Today marks the end of my 2 years as Chairman and as dictated by the Constitution of our Association it is the day I hand over my official duties to our able leader, Rohan Abayakoon, but first a little walk down memory lane.

Let me take you back to the 6th of November 2008, at the beginning of my first term, the world was in financial turmoil. Companies, including some of our customers, were collapsing, banks were failing and circumstances were very challenging to say the least. This is when we saw the big changes starting to happen within our Industry but more on that later.

Over the next 2 years we had some excellent news with the end of our war but we had to face some difficult developments as well.

Exchange rates fluctuated wildly and eventually hurt us with the rupee getting stronger against our major sales currency, the US Dollar.

Our costs kept escalating. This ground reality cannot be ignored and our experience is very different from the low inflation statistics we keep reading about. Our members report a 15-20% increase in costs in 2010 alone.

GSP+ which helped us grow our exports to the EU from US\$1 billion in 2005 to US\$1.65 billion in 2009 was withdrawn earlier this year.

These events directly impacted the Sri Lankan Industry and we are seeing increasing consolidation of businesses,

where the stronger players expand and the weaker fade away. This is not necessarily a bad thing as it will eventually make the Industry stronger. It is not about the big getting bigger but its the better companies, whatever their size, that will thrive while those who are not evolving will fail.

While all this was going on, we were watching closely a few developments in our competing nations-in particular the huge surge in exports from Bangladesh and the pressure on the Chinese to revalue their currency.

The explosion of growth in Bangladesh brought them their own problems causing some tensions within the system especially with labour where we witnessed unrest for a while. Customers in the USA began to hedge their bets on the Chinese currency issue and wanted to find alternates for at least some part of their purchases.

Both of these issues will help us but please remember, even with the wage increase, Bangladesh factories pay about half the wages we do. Bangladesh with a modern holiday system also works over a month more than we do every year.

Chinese suppliers will sooner rather than later find a way to compete, not least with help from their government.

So all this sounds like conflicting signals but it is very clear to our industry that the dynamics of the industry here are shifting rapidly. There is opportunity but also many challenges to overcome.

As a first step, over the last year or so, we as an Industry felt it is crucially important that our relevance to Sri Lanka's future is clearly defined.

I would like to share a few facts with the audience here today.

I wonder if we have ourselves ever realized the influence we have had in the development of villages and communities in rural Sri Lanka in particular, and how many in those communities depend on our Industry.

In our estimation, our Industry pumps in \$95 million a month into the local economy, not even counting our ever increasing purchases of local fabric, \$60 million a month we spend on labour alone into the communities in which we operate.

Therefore I dare say our relevance is clear. Whatever vision is prepared for the future of Sri Lanka, we believe it is vital that our industry is given a firm place in that vision and the policies that support it. In fact, with our dynamism and "can do" attitude, our industry will in fact have enhanced relevance in the economic future of Sri Lanka.



To this end, our dialogue with policy makers must continue. Our voice must be heard. As a mature industry I would like to assure the officials here that we have the best interests of all stakeholders at heart and all policy suggestions that we have made are after careful and informed consideration.

A few things that I feel are crucial:

- 1) Create a dignified exit strategy for the businesses that cannot compete. Currently, the entrepreneur who is not viable has no way to escape a vicious cycle. The existing system of compensation for labour is not feasible if a business cannot continue. It is useless to force compensation when the business is already dead. Let us work out a system where all statutory dues are settled and a reasonable affordable plan, perhaps with some alternate employment offered within the Industry, if needed. This will strengthen the Industry as a whole, reduce tensions and also release more labour in to the market instead of labour depending on closed or terminally ill businesses forever.
- 2) Publicly define our Industry as a thrust industry once more. With our dynamic attitude, Brand name and reputation, we can only add to Sri Lanka's overall value.

- 3) Ensure that the contemplated tax reform is actually implemented. The current plethora of endless taxes makes running businesses a tedious task and increases costs of compliance and operations. Make it simple to be an honest taxpayer.
- 4) Liberalise and amend customs systems, port systems, exchange control regulations and other impediments to our progress in becoming a knowledge based apparel hub like Hong Kong and Singapore.
- 5) Continue to aggressively market Sri Lanka internationally as the bedrock of reliable, full service and ethical supply.

In conclusion, you will realize that our industry has the unique potential not only to continue to employ people all over the country, not only to pump in hundreds of millions of dollars into the economy, not only to develop rural communities, but we will also be thought leaders and champions of the new Sri Lanka brand identity through innovation, technology and first class business models. This is the undoubted relevance of our industry to the future of Sri Lanka.

