



CHANGING WORLD TRADE CONDITIONS FORCE THE TURKISH TEXTILE AND APPAREL INDUSTRY TO CREATE NEW STRATEGIES

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ABSTRACT

Textile and clothing industry has played an important role in the industrialisation process and market orientation of the Turkish Economy. The yarn making, cloth manufacturing, garment finishing, and related activities presently make up over 6% of the gross national product, 17.5% of industrial production, around 19% of total industrial manufactured goods, 21% of employment. The Turkish apparel industry is currently transitioning from a volume oriented, cost-based contractor role in the global apparel industry to assume more value-added activities such as design and product development. The goal of Turkish apparel manufacturers in this transition is to capitalise on their experience, skilled labour, and technological advantages to establish new markets for high quality, Turkish-designed apparel.

Keywords: Industrialization, manufacturing strategies, Turkey, production, economics

1. An Overview of Turkish Textile and Apparel Industry

Apparel and textile industries have always had a forefront position in the economy of Turkey. Such activities at the industrial level date back to the early Ottoman period. Since those times, the highest levels of employment, production and profits in the economy of the country were obtained in textiles and related fields. The yarn making, cloth manufacturing, garment finishing, and related activities presently make up over 6% of the gross national product, 17.5% of industrial production, around 19% of total industrial manufactured goods, 21% of employment. In 2000, Turkey's textile and apparel exports were 10 Billion dollars and this figure represented 36.1 % of Turkey's total general exports. So, textiles can be said to be the power horse of the Turkish economy since the beginning of the 1980's.

In the 1980's widespread change took place in the textile and apparel industry. Turkish entrepreneurs then learned and practiced an up to date manufacturing philosophy. Entrepreneurial policies became more efficiently export oriented. The government gave the entrepreneurs a helping hand in this field because the textile and apparel industry was the most important hard currency earning sector of the Turkish economy. The industry has kept this important position for decades. This situation can be observed from statistics concerning the period of 1980 – 2000 (Table 1). The exports in 1980, inclusive of garments, came up to US \$777 million of which US \$ 106 million was for apparel items only. In 2000, the total figure came up to a little more than US\$10 billion, whereas the apparel exported was recorded as US \$ 7 billion. These great increases in textile and apparel trading have also been occurring in many other developing nations. Industrial countries of the world gradually moved their activities toward

developing nations for considerations of price competition. Turkish businessmen then were forced to act to prove their worth in order to retain their market share.

Forces behind the Industry:

1. Turkey is the seventh largest cotton producer of the world. Cotton is still the most important raw material needed in textiles.
2. Turkish producers enjoy a relatively cheap, flexible and skilled workforce,
3. Europe is the most active market for textiles; Turkey is advantageously close to this market.
4. It belongs to the Customs Union with the EU.
5. Compared to the developing nations, Turkish businesses have a superior information technology and technical infrastructure.
6. While methods and philosophies were changing throughout the sector, Turkish businessmen were already experienced in the expertise and know-how that they had inherited from their forefathers.
7. In the 1980's the government undertook the beginning of a liberal monetary policy.

Turkish producers and manufacturers had to develop better ways to move ahead in a volatile world. Better methods of productivity brought the Turkish share of world exports from 0.3 % in 1980 up to 3% in the 1990's. Now, according to the WTO statistics, Turkey is the 7th biggest clothing supplier and 14th biggest textile supplier of the world. There is, of course, a lot of work to be done in order not to fall behind in this fast changing world.

About half of the shipments from Turkey are directed to the EU members. Turkish exporters rank second after China in garments and market share of 11.6 %. They are the fifth leading textile supplier of the EU with market share of 8% as of 2000. The second most active market for Turkish manufacturers is the United States of America for both textiles and garments. Turkey is the 19th apparel supplier of the USA, with a share of 1.8 % and 10th textile supplier of the USA, with a share of 2.87 %. The Russian Federation was the third biggest market for the Turkish textile and especially apparel until the summer of 1998.

In 1996, Turkey established a customs union with the European Union. The result is that Turkey levies zero duties on imports from the EU. Now, duties on goods from the so-called "third countries" cannot exceed those imposed by the EU members. Turkish import duties before the accession agreement were much higher than the common EU taxes. Basic expenditures for raw materials, energy, finance, and work force are still much higher in Turkey than those of its competitors. As a result, costs of man-made fibers, cotton yarns, and cloth making cannot compete against those in such countries as India, Pakistan, Indonesia and China. Furthermore, Turkish entrepreneurs cannot compete with the developed West even in basic costs, especially when productivity is taken into consideration.

Investment in Turkey in the field of textiles and ready-made garments began to increase considerably in 1995. In Turkey, the government sometimes supports an industry by guaranteeing loans made by banks. Seventy-one percent of all the state guarantees made in Turkey in 1995 went towards the textile industry. Table 2 shows Turkish textile machinery imports from 1995 to 2000. It is worth noting that sectorial investments were mainly focused on the Open-end production of yarns.

A study conducted by the International Textile Manufacturers' Federation points out that 5% of all rotary engines worldwide were deployed by the Turkish industrialists by the end of 1997.

1.1 Effects of Global Economic Chances

In 1997, the monetary crisis in Asia influenced the Turkish renewal in the negative starting as of 1998. This Asian Crisis proved to be detrimental to a great number of developed economies, including those in Europe. Industrial management faltered and International trade was slowed down. The change to the Euro caused new difficulties for the Turkish exporters, which led the way to a new tight money philosophy. All of this proved that Turkish manufacturers had depended too much on the European market, one solution for this problem was increasing the diversification of new foreign markets.

The Asian crisis also affected the Russian economy starting in August 1998. A healthy border trade had started between the Russian Federation and Turkey, but it declined when

the Russian economy collapsed. There was a fall of 43% in Turkish ready-wear exports to the Russian Federation. This meant a loss of US \$ 316 mil for the Turkish exporters.

Table 2. Turkish textile machinery imports.

TEXTILE MACHINERY, DYESTUFF AND SPARE PART IMPORTS OF TURKEY 1995 - 2000						
Unit: Million \$	1995 ANNUAL	1996 ANNUAL	1997 ANNUAL	1998 ANNUAL	1999 ANNUAL	2000 ANNUAL
TEXTILE MACHINERY, EQUIPMENT AND SPARE PARTS	1.518	2.365	1.952	1.351	505	920
CHEMICAL TEXTILE RAW MATERIALS AND POLYMERS	1.180	1.208	1.446	1.417	1.365	1.745
TEXTILE DYESTUFFS	482	545	588	546	465	487
TEXTILE SOAPS AND OTHER CHEMICAL MATERIALS	123	149	170	168	159	160
BALANCES AND FORKLIFTS	210	260	344	353	321	252
LABORATORY EQUIPMENTS	162	229	240	239	205	232
TOTAL	3.675	4.757	4.740	4.075	3.020	3.796

Source: Undersecretariat of Foreign Trade / General Directorate of Economic Researches and Evaluations

Far eastern nations slashed their raw material prices by about 20 to 50%. The result was a surge in imported yarns and fabrics in Turkey. Forced labor reductions and even insolvencies became common events. Turkish state authorities had to start anti-dumping regulations to prevent total chaos.

2. The New Century

The conditions for competition are much harder in this new century. The reasons can be summed up as:

- 1- China is now an active World Trade Organization member.
- 2- The United States of America, Canada, and Mexico together established the North American Free Trade Agreement.
- 3- European Union entrepreneurs are now using the ex-east European countries for cheap labor centers.
- 4- 2005 will bring about totally new international trade conditions with new rules and laws.

Business activities today are both global and local. The EU, NAFTA, and ASEAN today make up the three largest and strongest economic trade blocks. The USA authorities

are taking steps to diversify centers of production. Special deals are signed between the US and such countries as the Dominican Republic, Honduras, El Salvador, Guatemala, Costa Rica and some others. As a result, certain types of production are run in these countries for the American consumers. The USA and these countries practice a so-called "9802 production (formerly 807 program)". Accordingly, the American entrepreneurs export to these lands the necessary US made yarns, fabrics, etc. Afterwards, finished garments from these lands are imported into the USA for the benefit of the American buyers. The US entrepreneurs are thus making good use of cheap labor in those countries while keeping the Latin American producers under strict US control. The end result is inexpensive goods for US consumers. The EU countries are putting into practice the same type of price reducing plans with the ex-eastern block countries in Europe.

There is, thus, a dichotomous situation emerging. World leaders keep themselves busy trying to establish a global free trade. Still, these same leaders are actively devising highly protective policies for their own business circles. In 2005, international trade will perhaps be a lot freer than in the past, but

there are bound to be sharply drawn borders between trade blocks replacing the present borders between nations. In this newly developing situation, Turkish companies realize that they work in a stretch of land which is in between the EU countries and the mid-eastern nations, including those of the Caucasians e.g. Azerbaijan, Uzbekistan, and Cossackistan. This situation may prove advantageous for the Turkish textile and apparel industry only if they successfully plan ahead to carve a profitable niche for themselves in these fast changing world conditions.

The above-mentioned developments may help the Turkish entrepreneurs to master new philosophies of world trade management. Indeed, Turkish producers today are learning to market their goods beyond the already accepted destinations. There is also a healthy and rich diversification of products to satisfy the requirements of buyers worldwide. Better machinery and more efficient production methods are now being employed. Lead times have been reduced considerably. At the present moment, most businesses can successfully respond to orders in a few weeks. Not so long ago, this time lag would have been measured in months. The textile industries are no longer a labor-intensive activity. It is one of the most highly capital-intensive industries, perhaps, after petro-chemicals, paper mills, and steel industry. Garments, on the other hand, still make up a labor-intensive activity worldwide. As a result, Turkish investors, planners and managers have the right to be examples to those in developing countries. There are also some revolutionary achievements obtained in the fields of electronic trade and information gathering. These advances have not yet reached maximum efficiency for domestic and international application. Current methods are being revised at increasing speeds.

3. Observations

The following observations are based on interviews with sample of 15 companies.

These companies are located in Aegean region. The region is one of the most important textile and apparel production centers in Turkey. The purpose of this study was to investigate the successful and weak areas of the production system in this region. During the interviews, we asked 22 questions on such topics as company characteristics, market condition, company potentials and strategies, distribution typologies, services and professional profiles needed. The companies selected were visited in September 2001. Six of these companies export %100 of their production and their turnovers are approximately US \$10million each, two of them sell only on the domestic market and their turnovers are about US\$ 5 million. One company produces boutique type items for both domestic and foreign markets. The other six companies produce mainly for export purposes and their turnovers are between US 10 million to US \$50 million. The respondents were company owners or those who decide company strategy.

Observations about the market;

Therefore, almost all are internationally oriented; Northern Europe and the USA being the main export countries.

Competitive advantages of Turkish Textile and Apparel Industry according to company owners;

- Large variety of designs and colors, etc.
- Quick response
- Just in time delivery allows retailers to work with minimum stock
- Fine workmanship
- Business is conducted in all currencies
- Flexible payment terms
- Good packing and efficient delivery.

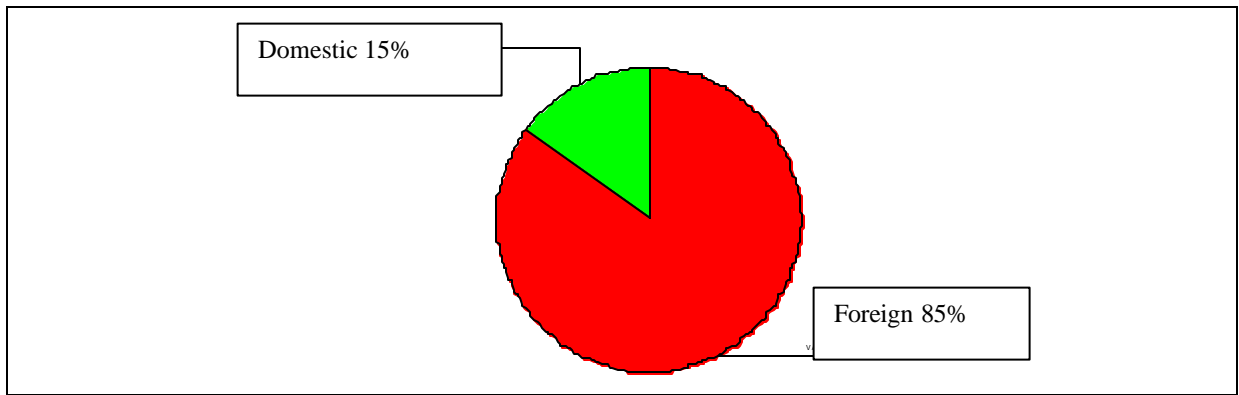


Chart 1. Market locations.

Companies main success factors towards the market as shown in chart 2.

- 1- Competitiveness based on the relation between price and quality.
- 2- Having similar lifestyle and cultures help us to produce garments suitable for the taste and life style of consumers in the EU
- 3- Management, production and distribution efficiency

Companies profiles: mostly works as a contractor, supplying high quality and at low cost finished goods. This is why product

quality and services are indicated as the most important factors in chart 3. Some of them prepare own collection to recommend to customers

Increasing need to be converted into innovation and development promoter through:

- Gradual integration of own innovative product lines, adopting a policy of creativity and product research development
- New and independent market positioning, through the adoption of a marketing and communication strategy

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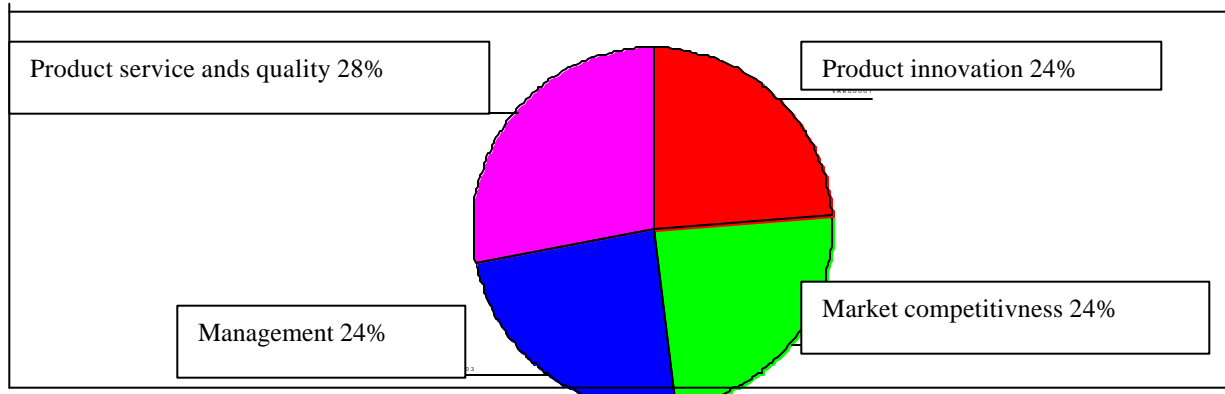
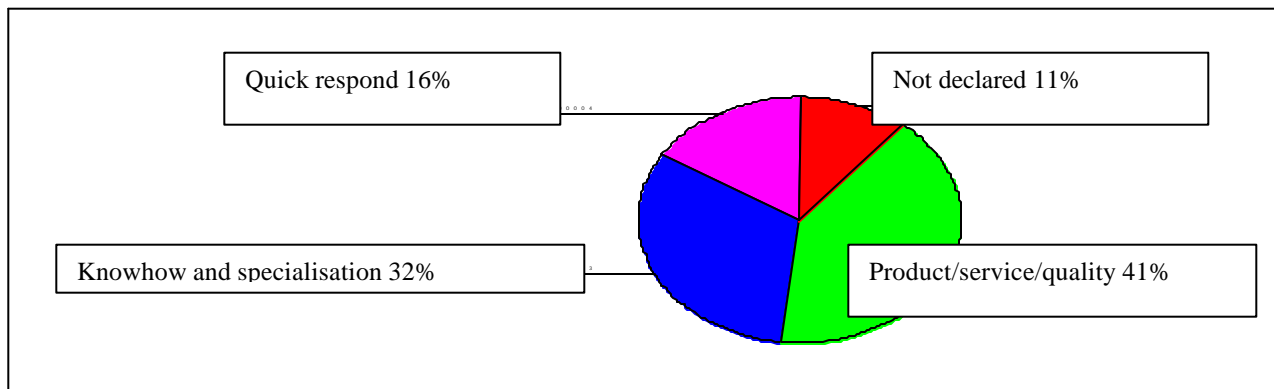


Chart 2. Companies' success factors



Until 1996, most of investments were directed to improving productivity and quality control equipment. Now most of companies indicate that technological investment was adequate. In the future most investments will be committed to marketing and communication.

Most companies will focus on creating and promoting their own brand name and selling their own collection. That's why many companies want to build internal structures dedicated to creative innovation of products and to the strategic and operative development in marketing and communication.

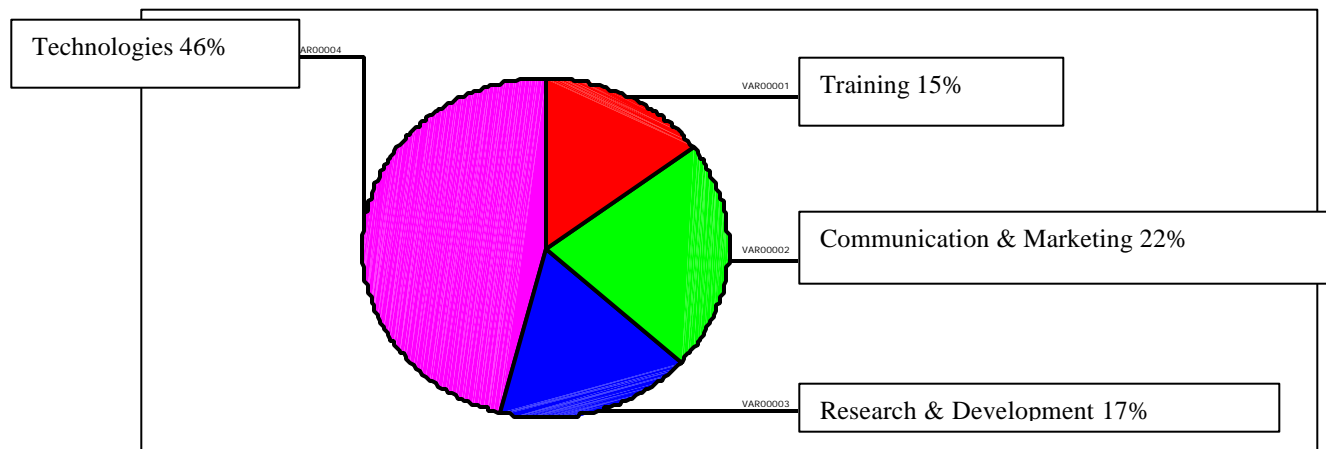


Chart 4. Investment areas

3.1. New Strategies for the 21st Century

There was a time when Turkish producers were more interested in QUANTITY than QUALITY. Now quality has gained prominence. This is truly an important decision of strategy. Producers, managers, and workers now know the value of quality for business. There is already a well-established world-fame for the Turkish textiles and clothing industries. With a little bit of care and attention, this fame is bound to be increased and strengthened as time passes. Prices of Turkish products are now determined by creativity, trademark, quality, and marketing decisions all brought together. Not so long ago, production costs alone decided the prices. This is no longer valid. The aim at the present is to keep the interest of the end-consumers in wealthy circles active and alive. Textiles and clothing industries as a whole are well integrated. They are also marvelously diversified. One may even state that few nations can match the existing level of technical integration achieved by Turkish textile and garment activities.

Turkey is now following the accepted norms of the advanced nations in planning, production and marketing. Both material and non-material property rights are well protected. Up to date attention is given to the well being of the work force and the environment in general. Outdated

technology is upgraded regularly. Efficient utilization of humane working conditions is favored.

Turkish companies will need new investment and competition strategies for the year 2005.

- 1- To be a source of fashion and trademarks as Italy is at the moment
- 2- To be masters of their own brand names in the global market
- 3- To establish new trade segments and appropriate niches
- 4- To devise new designs, products, stylistic materials for high quality and posh looking fashion.
- 5- To find new growing markets.

The said points can be established by:

- 1- Strategic cooperation between entrepreneurs in Turkey and abroad.
- 2- Participating in International fairs to promote Turkish textile and apparel.
- 3- Taking into account such factors as
 - human health
 - environmental protection
 - employee rights, and
 - Intellectual property rights

- 4- More efficient use of technology for
- 5- Shifting their operations to the production of value added, high quality and fashionable products
- 6- Encouraging fashion designing
- 7- Establishing efficiently run global purchasing and sales network.

4. The Conclusion

To sum up: Turkey's geographical situation gives textile and garments industry natural advantages. Both developing and developed markets are close by. In manufacturing, finishing, and marketing, all the entrepreneurs concerned have successfully updated their technology. Exports surged ahead starting as of 1980. The Turkish workforce is skilled and its managers are entrepreneurial. Modern machinery is widely employed, and unused capacity in the shop floor is negligible. Output has risen steadily since the late 1980's. Low prices from the third-world countries and the increasing costs of production within Turkey have had positive effects on Turkish entrepreneurs. They have become more innovative and have established more successful ways of marketing and producing quality goods. Turkish exporters can now meet orders within a matter of weeks.

customs documents and shipping.

All these factors have helped to make Turkey a world leader in the field.

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