

## TEXTILES AND CLOTHING SECTOR

### Overview

*In recent years, there has been a dramatic shift in the geographic location of the world's textile production away from the traditional production centers of the United States and Western Europe. The shifts in EU-15 apparel imports between 1991 and 2004 show that Turkey settled in the first supply ring together with China/Hong-Kong and Bangladesh. Global buyers currently dominate the Turkish apparel sector through strong links to the OEMs. Historically, the Turkish textiles industry started by providing assembly services to the nearby European markets. However, OEMs developed rapidly through upstream skill buildup. Growing out of the OEM position, with skills acquired by serving branded manufacturers, there are also pioneer ODMs and OBM in Turkey. It is reported that some global buyers who went to the Far East in anticipation of a quota-free period, have started working with Turkish textiles companies again.*

The textiles industry is the largest and one of the first established industries in Turkey. The export oriented economic policies of mid-1980s have been the main impetus in its development. Besides, low labour costs, a skilled workforce, cheap raw materials (including home grown cotton), high flexibility of the mills helped the Turkish textile and clothing industry's solid performance. The country's geographical position brought further advantages in terms of freight cost and delivery times compared with its competitors. Its growth performance outpaced the economy's average growth rate in the 1990s.

### STATUS IN TEXTILES

Turkey has a prominent global presence in textiles, with its local industry ranking as:

- the 4th largest clothing supplier and 10th largest textiles supplier in the world
- the 2nd largest clothing supplier and 5th largest textiles supplier in the EU region

*Source:* World Trade Organization

In the past, the state played an important role in the textiles and clothing industry, but now there are only two public economic enterprises, which have a minor role in the sector.

The performance of the textiles and clothing industry has been mainly fuelled by the existence of large domestic market. Other contributing factors included the availability of the domestic cotton production, proximity to the EU market, trained work force and the progress achieved in infrastructure and telecommunication systems.

The textiles and clothing sector has been the backbone of the economy since the early 1980s. The industry has expanded rapidly since then, and become a major contributor to the country's economy in the 1990s.

### **IMPORTANCE IN THE ECONOMY, 2004**

The textiles and clothing industry accounts for:

- About 7.8 % of GDP,
- 19.9 % of industrial production,
- 18.4 % of manufacturing industry production,
- About 23.9 % of the manufacturing labour force
- 28 % of total Turkish exports earnings

*Source:* ITKIB (Istanbul Textile and Apparel Exporters' Association)

Two segments dominate Turkey's textile and clothing industry:

- The spinners and weavers that use high quality domestic raw materials to produce textiles. These firms keep market standards high with original designs.
- Apparel manufacturers, which use a combination of domestic and imported cloth to produce finished non-branded goods. These include non-branded firms who market their products through 3rd party retail chains. Non-branded products currently make up the majority of the industry's domestic and export sales.

As regards the technology level of the industry, textiles and clothing industry is an outward oriented industry, using modern technology, and competing in the export markets. The main reason behind the good performance of the textile and clothing industry is the increase in modern machinery imports and new investments in recent years. It has a powerful and diversified textile machinery base, a developed finishing industry with some 400 finishing entities equipped with modern facilities, existence of developed side industries with 115 zipper, 300 buttons and metal accessories, 10 hanging, 100 label, 8 stiffening materials, 50-60 quilted materials and 10 fibre companies. The Turkish clothing industry consists of over 40,000 establishments, most of which are small. 1,000 out of the 40,000 companies accounted for 50-60% of the market. Most of these companies have their own brands and in-house designers and have been seeking to adapt to the ending of quotas in the industrialised world at the beginning of 2005.

As a global sourcing hub for both Asia and Europe, Istanbul attracts a number of international buying offices, trading houses and major retailers and department stores. The city is becoming a fashion and shopping center and most of the companies have shifted their production facilities to the inner provinces. Izmir, Bursa, Ankara, Denizli, Gaziantep, Kayseri, Tekirdag and Adana are now major cities for textile and clothing production.

The industry is sensitive about total quality:

- ✓ Most of the textile, clothing and textile chemical companies have ISO 9001 and ISO 9002 certificates
- ✓ Utilization of aril amines that may cause cancer (azo dyes) has been prohibited since 1995.
- ✓ There are a dozen of well-equipped testing laboratories, capable of doing all kind of tests.

The share of foreign capital investment has been limited. There are 337 foreign capital textiles and clothing companies operating in Turkey, accounting %5,2 of total number of foreign capital firms.

After Turkey concluded the Customs Union with the EU, many legal and practical measures have been taken by the Turkish government within the framework of harmonization. Turkey has completed its studies on the adoption of Technical Legislation of the EU on the following fields:

- ✓ Approximation of the Laws Relating to Textile names (Council Directive 71/307/EEC)
- ✓ Approximation of the Laws Relating to certain methods for the quantitative analysis of binary textile fibre mixtures (Council Directive 73/44/EEC)
- ✓ Approximation of the Laws Relating to the Ternary Fibre Mixtures (Council Directive 73/44/EEC).

Turkey has also enacted laws / decree laws on the protection of competition, protection of consumers and patents, copyrights, trade marks and industrial designs.

### Market Size

The textiles and clothing consumption realized as \$18.0 billion and production \$28.4 billion in 2004. The industry exported 55% of its production.

<b>TOTAL MARKET SIZE, 1990-05</b>							
<b>\$ million, at 1998 prices</b>							
	<b>1990</b>	<b>2000</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005 e</b>	<b>Change 2005, %</b>
Demand	7,986	17,035	17,418	17,460	18,080	17,039	-5.7
Production	12,108	26,111	27,728	27,961	28,484	27,780	-2.4
Imports	799	2,879	3,698	4,448	5,169	5,419	3.9
Exports	5,161	11,877	13,936	14,949	15,541	16,160	4.8

*Source: State Planning Organisation*

Indicators of the textiles sector are considerably larger than those of the clothing sector, excepting exports. The textile demand accounted 76% of the total sector demand, 84% of sector imports and 61% of the sector production in 2004, while it accounted 50% of the total sector exports.

<b>TEXTILES AND CLOTHING MARKETS, 1990-05</b>							
<b>\$ million, at 1998 prices</b>							
	<b>1990</b>	<b>2000</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005e</b>	<b>Change (%) 2005</b>
<b>Demand</b>							
- Textiles	6,931	12,242	13,455	14,042	13,838	13,604	-1.7
- Clothing	1,055	4,793	3,963	3,418	4,242	3,435	-19.0
<b>Production</b>							
- Textiles	8,862	15,282	16,680	17,348	17,334	17,307	-0.1
- Clothing	3,264	10,829	11,049	10,618	11,150	10,473	-6.1
<b>Imports</b>							
- Textiles	725	2,476	3,080	3,831	4,350	4,573	5.1
- Clothing	74	403	618	617	819	846	3.5
<b>Exports</b>							
- Textiles	3,125	5,485	6,272	7,162	7,815	8,280	6.0
- Clothing	2,037	6,392	7,664	7,787	7,726	7,880	2.0

*Source: SPO*

## Foreign Trade

The textiles and clothing sector's imports grew 13.6% annually, while exports grew 8.6% annually during the 1990-02 period. The imports continued to grow in 2003 and 2004 as well, increasing by 23.8% during both years, while exports grew 24.3% in 2003 and 16.3% in 2004.

The exports have increased significantly during the last two decades, from \$595 million in 1979 to \$12.1 billion in 2002 and \$18.8 billion in 2005 by more than 20 times. It continued to rise in 2005 despite surging competition from China in the post-quota period. A minimum one third of total exports is realised by the textiles and clothing industry in recent years, followed by automotive and electric-electronics. Turkey was the world's fourth largest clothing exporter in 2004 and Turkish clothing exports have continued to increase after the expiration of the global textile quota system at the beginning of 2005. In 2005, the total value of clothing exports reached \$13.4 billion, an increase of 6% compared to the previous year. The sector exports about 75% of its production. Knitted clothing, with an export value of \$6.6 billion, accounted for 58% of clothing exports, and woven clothing had a share of 42% with a value of \$4.9 billion in 2005. The compound average growth rate (CAGR) of exports in clothing exports was 10.7% during the period 1999-05

The imports were around \$6.2 billion in 2004 and \$6.6 billion in 2005. Clothing imports increased rapidly between 1999 and 2005, with a CAGR of 25.4%, reaching \$686 million in 2005, almost four times the limited amount of imports in 1999.

**TOTAL TEXTILES AND CLOTHING FOREIGN TRADE, 2001-05**

	Exports		Imports	
	\$ million	Change, %	\$ million	Change, %
2001	10,396	-	2,968	-
2002	12,156	16.9	4,094	37.9
2003	15,122	24.0	5,072	23.2
2004	17,600	16.3	6,280	23.8
2005	18,867	7.2	6,681	6.4

Source: ITKIB (The Turkish Textile and Apparel Exporters Association)

Knitted apparel is the most important product group in textile and clothing exports; 51% of Turkey's total apparel export value comes from knitted apparel. Woven apparel (35%) and other made-up articles (14%) follow knitted apparel.

Over 90% of the total textile and apparel imports are textile materials like fibers, yarns and fabrics, and the rest are ready-made garments and articles. Turkey is also among the leading importers of textile and clothing machinery, spare parts and chemical agents. The average imports of these items exceed \$1.7 billion annually.

The EU countries are the main traditional markets - the share of EU 15 in total export of the textile and clothing industry is about 63%.

**TEXTILES AND CLOTHING FOREIGN TRADE, 2001-05**

	Exports		Imports	
	\$ million	Change, %	\$ million	Change, %
2001 Textile	3,060	-	2,745	-
2001 Clothing	7,335	-	222	-
2002 Textile	3,204	4.7	3,830	39.5
2002 Clothing	8,951	22.0	263	18.4
2003 Textile	3,943	22.5	4,666	21.1
2003 Clothing	11,178	24.6	406	53.9
2004 Textile	4,950	25.5	5,657	21.2
2004 Clothing	12,650	13.1	623	53.4
2005 Textile	5,460	10.3	5,930	4.8
2005 Clothing	13,407	5.9	751	20.5

Source: ITKIB

**Prospects**

- Despite the fact that Turkey will face intensified competition in textile and clothing industry after quota elimination in 2005, Turkey has still a potential in this industry thanks to its advantages in the geographical location, raw materials production and trained workforce. In the medium term, with decreasing lead times, better quality/price ratio and creation of brands, Turkey will continue to

be one of the most competitive textile and clothing industries in the world. However, a restructuring is needed by improving its quality, management and marketing skills, logistic performance and certifications. Foreign investment can play an important role in increasing the product quality and institutional capacity.

- With its young and increasing population, Turkish internal market is gradually becoming more sophisticated, which will lead to increased product diversification in the textiles and clothing.
- Meanwhile, Turkey has intensified its legislative and institutional work on creating brand names in textiles, focusing particularly on quality in an effort to be better equipped to face the competitive challenge from China in 2005 and beyond. The common view is that Turkey needs to create further added value and quality goods, and hence, become an original design manufacturer and original brand manufacturer. A move into much higher quality segments require advanced design and marketing skills, and the financial incapability and SME structure of the industry are the biggest weaknesses. Two recent studies contribute to this debate concerning the quota-free era. A recent report by the Competitive Advantage of Turkey Group (CAT) called “Sustainable Development for the Textile and Apparel Industry – From MFA to ATC 2005” has put the following recommendations for the textile and apparel sector:
  - ✓ The sector has to change its strategies. Those companies which build their growth strategies on cheap labour and ordinary, simple products will get smaller, leading to a contraction in the sector in the very near future.
  - ✓ Turkey must give up its competition strategy based on cost leadership, i.e. lower cost and higher production. It should stop its efforts toward “creating little Chinas” within the Anatolia in an aim to create competitive advantages for the post 2005 developments. An end should be put to the price-based competition, with companies focusing on adding higher value to their products
  - ✓ No R&D centers exist for fabric production. Regional R&D facilities and flexible production systems have to be established, fabric delivery periods, currently 6 weeks, should be definitely shortened
  - ✓ Quotas and tariffs will be replaced with non-tariff limitations starting from 2005, therefore Turkey should pay more attention to environmental and labour standards, which are a burden for most Asian countries but could create competitive advantages for Turkey.
  - ✓ Those Turkish firms who mainly produce for large retailers such as Marks & Spencer, GAP and H&M should try to spread their market base to various countries since such retailers are expected to consolidate all of their production activities in China or India, which have huge production capacities under single roof.

Strategies developed by TGSD (Association for Turkish Clothing Industrialists) for the clothing industry also involve fundamental changes in production and marketing areas. A report called “Roadmap for 2010” sets the target of \$67.5 billion as total demand, \$34.8 billion as exports and \$32.7 billion as domestic demand for the year 2010 and recommends that:

As regards production strategies, Turkey has to

- ✓ reduce the share of subcontract production in total textile production;
- ✓ reduce the share of simple/ordinary products in total subcontract production, maximizing the share of medium-high products in subcontract production;
- ✓ sell medium -high fashion products under global Turkish brand names and account half of exports through such products (2010 target);
- ✓ sell medium fashion products under regional Turkish brand names;
- ✓ initially select niche markets for the functional products.

As regards marketing strategies, the industry has to

- ✓ replace squeezing production margins with expanding marketing margins;
- ✓ sell at a price in good match with the product quality;
- ✓ shift from “produce first sell later” approach to “market first produce later” approach;
- ✓ sell and market with global and regional brand names; and
- ✓ establish own marketing and distribution networks abroad.

The report foresees that, in order to reach the above-set targets, the apparel industry needs to realize the following capacity increases:

<b>CAPACITY INCREASES ENVISAGED BY “ROADMAP 2010”, 2005-10</b>				
<b>‘000 Tons</b>				
<b>Area</b>	<b>2000 Capacity</b>	<b>2000-05</b>	<b>Capacity increase</b>	
			<b>2005-10</b>	<b>2000-10</b>
<b>Under Competitive Strategy</b>				
Cotton	870	910	335	1,245
Yarn	1,600	530	390	920
Fabric	900	775	260	1,035
Dying and Finishing	1,600	400	365	765
Ready-to-wear	1,600	490	330	820
<b>Under Struggle Strategy</b>				
Cotton	870	1,055	565	1,620
Yarn	1,600	690	670	1,360
Fabric	900	930	545	1,475
Dying and Finishing	1,600	550	625	1,175
Ready-to-wear	1,600	690	680	1,370
<i>Source: “The Turkish Clothing Industry Horizon 2010 Roadmap” A report by TGSD – Association for Turkish Clothing Manufacturers</i>				

Many textile companies including Sarar, Ipekyol, Zorlu Textile have already followed this strategy, with opening their own stores abroad. Turkey has recently launched the concept of "Turquality" and provided incentives for promotion of Turkey's image and high-quality Turkish brand name exports.