

The Effects of the Textile and Clothing Sector on the Economy of Turkey

Abstract

The textile and clothing sector is one of the most competitive and high value-added sectors of the Turkish economy. Its advantages include qualified labour and an integrated structure which includes all the processes starting from obtaining raw materials through to delivering the goods to the consumer. This means it can win an important share in exports, employment and gross national product. Despite the contribution of this sector to the economy, in recent periods, significant difficulties have occurred due to global competition.

Key words: Turkish textile and clothing sector; advantages in competition, Turkish economy, productivity indexes.

Introduction

Nowadays the most important factor that increases a country's competitive power is the success of its companies in the international markets, where competition is becoming more challenging and complex from day to day. In plain words, the performance of the companies in both domestic and international markets clearly indicates the development level of that country.

The textile and clothing sector, which comprise about 11-12% of the gross national product, 30% of the export and 12% of total employment, indisputably has effects of great importance on Turkey's development and growth. However, the sector is currently experiencing difficulties owing to poor decisions, behaviour and applications within its own structures as well as macro-factors outside the sector. It should be remembered that negative developments in such a large sector would inevitably affect the national economy in the same way. Therefore, to neglect the sector or leave it alone could have very negative effects on the country.

The sector has developed greatly since 1980, when Turkey put liberal economic policies into operation which opened it up to foreign markets; its export potential has been raised from about US\$1 billion up to US\$19-20 billion, and it has become a dynamo of national growth. Today Turkey is the 9th biggest textile producer in the world, and the 5th biggest clothing producer, and strategies are being developed to improve and maintain this position. With this objective, while endeavouring to improve the quality of both product and production, our country is preparing a project called 'Turquality' in order to acquaint the world with the quality of its trademark. Moreover, the

government is taking precautions against some countries from unfair competition, with the permission of the World Trade Organisation.

The textile sector has successfully passed through all the stages in the so-called 'the value chain' from producing raw materials up consumption. Consequently, the number of personnel employed in the sector has reached two million, and together with those employed in the sub-sectors it already totals about six million. Taking into view increasing globalisation and the cancellation of quotas from 2005 on, this prominent sector must re-evaluate its situation, determine opportunities and risks, and develop strategies to take advantage of opportunities and avoid risks. To this end, it is necessary to activate the internal dynamics of the sector, improve the quality of the administration, and public organisations must render regulation, supervision and consulting services correctly and on time.

The share and importance of the Turkish textile sector within the Turkish economy

The principal criterion and factor that affects and determines the competitive power of a country is the performance of its companies in both the domestic and international markets and the value-added

income they create. The textile sector in Turkey, as in other countries, has become the principal sector in the development and growth of the country, as well as a main focus for investments. However, it is affected by its labour-based structure dating from 20-25 years ago, when raw materials were produced locally. Today this labour-based structure has disappeared (except for the clothing) and since the locally produced materials no longer meet this need, Turkey has begun to import them (cotton, textile chemicals, machinery etc.) in great quantities.

With its performance and the value-added income it creates, the Turkish textile sector has the biggest advantage for the competitive power of the national economy. The sector has reached such a size and efficiency that it involves nearly 13% of the gross national product (Table 1), 30% of exports (Table 2), about 10% of the total industrial production, and 2 million persons directly and 6 million indirectly in total employment. Moreover, it surpasses all the other sectors with its share of 15% of the total investments. Thus, with its economic size and labour-based structure, it is the most important sector supported by the government, in order to eliminate the existing inequity in the distribution of the income and to reduce and improve the differences in development between the regions.

Table 1. The share of the Turkish textile and clothing sector within the gross national product (US\$ billions); **Source:** Data obtained from the Undersecretariat of Trade, the Ministry of Finance and the State Planning Organisation.

Quantity	Year							
	1997	1998	1999	2000	2001	2002	2003	2004
Export	9.8	10.4	9.8	10.0	10.5	12.2	16.6	19.2
Local consumption	12	11	8.5	10	8	11	14	15
Suitcase trade	5.8	3.7	2.3	2.9	3.0	3.8	3.9	4.1
Textile	27.6	25.1	20.6	22.0	21.5	27.0	34.5	38.3
GNP	196.8	204.4	187.3	189.7	148.2	179.9	239.2	298.3
Share of textile, %	14.2	12.8	11.0	11.5	14.5	15.0	14.4	12.8

Table 2. The share of Turkish textile and clothing sector within the national export (US\$ thousands); Source: Data obtained from the Undersecretariat of Foreign Trade and Istanbul Textile and Clothing Exporters Association.

Quantity	Year							
	1997	1998	1999	2000	2001	2002	2003	2004
Total export	26,261,072	26,973,952	26,588,264	27,165,000	28,568,297	32,918,191	47,880,277	64,010,231
Textile & clothing	9,819,090	10,455,814	9,878,964	10,050,364	10,429,776	12,160,892	16,578,378	19,198,373
Share in total, %	37.4	38.8	37.2	37.0	36.5	36.9	34.6	30.0

There are approximately 40,000 companies in the sector, with 25% of them being exporters and about 96% small and medium enterprises.

When we examine the indexes of Turkish industrial production (Table 3) we see that in 2001, the year of economic crisis, the industrial production fell below the values of 1997, the year taken as the basis for the index, although in the last two years it has increased considerably. Similarly, there has been an important growth in textile and clothing production in recent years. Clothing production is surpassing both the total industrial production and the textile production.

Table 4 above shows the capacity-using ratios in the local industrial production. We see that they have increased since 2001, the year of economic crisis, reaching a level of 80%. Regarding the capacity-using ratios, the clothing production is surpassing both the industrial production and the textile production, agreeing with the production indexes in Table 3.

Table 5 gives partial productivity indexes. In it we see that the total industrial productivity has improved greatly in the last three years, similarly to the textile and clothing industries.

Table 6 shows a drop in the wages of the industrial workers. The drop in the clothing sector is looking worse, as it is 15% lower than wages in 1997, the year taken as the basis for the index. The drop in the real wages affects the operational costs positively and increases the companies' competitive power, but at the same time it causes a decline in the purchasing power in the local market, and thus reduces the demand, paving the way for a deflationist pressure on the macro-economy.

The Turkish textile sector is also confronting some serious difficulties and problems parallel to its weight in the national economy as described above. The principal reasons for these problems are serious increases in the operational costs (the cost of energy, the high level of taxes and the

social security deductions of 41% on the wages, the high level of other tax rates, etc.), the decrease in the local demand as the result of the anti-inflationist policies of the government, unequal and illegal competition in the local market which has also been caused by the cancellation of the quotas, and unjust regulations and applications falling within the scope of the customs union agreement signed with the EC. We know that for these reasons many companies, and the textile companies in

particular, are in difficulty and are being sold (usually below their value) in order to supply the operational capital. These developments accelerate the re-constitution of the enterprises and force them to rapidly re-target towards products with high value-added income, to renew their technology and to create their own trademarks.

Whatever the difficulties may be, the sector has the world's biggest competitive

Table 3. Indexes of industrial production, in per cent (1977=100); Source: The Ministry of Finance and the State Institute of Statistics.

Year	Index of textile products	Index of clothing products	Index of total industrial products
2000	97.93	119.00	100.95
2001	95.31	111.20	92.02
2002	94.58	120.70	100.47
2003	102.55	123.57	108.97
2004	115.70	130.01	118.81

Table 4. The industry's capacity-using (I.C.U.) ratios (%); Source: The Ministry of Finance and the State Institute of Statistics.

Year	Textile products I.C.U.	Clothing products I.C.U.	Total industrial production I.C.U.
2000	79.40	82.62	100.95
2001	76.25	79.00	75.50
2004	82.55	84.15	80.34
2005	81.02	84.77	79.75
2006	79.77	84.95	81.65

Table 5. Partial productivity indexes in the industry (Productivity per employee) (1977=100); Source: The Ministry of Finance and the State Institute of Statistics.

Years	Index of textile products	Index of clothing products	Index of total industrial production
2000	116.37	127.77	114.45
2001	120.12	129.72	113.12
2002	127.87	120.50	124.57
2003	131.55	123.42	133.77
2004	131.46	139.40	144.27

Table 6. Index of real wages in the industry (per working hour) (1977=100); Source: The Ministry of Finance and the State Institute of Statistics.

Years	Index of the textile sector	Index of the clothing sector	Index of the total textile industry
2000	103.22	91.30	111.32
2001	86.80	79.85	98.50
2002	85.32	74.12	90.02
2003	82.90	77.30	88.30
2004	89.20	86.33	90.23

force. Therefore, if the sector is neglected or weakened, all the economical, political and social balances in Turkey will be disturbed where the total capital is already limited and in short supply. Likewise, the sector has greatly influenced the fall of the gross national product in 1999 (Table 1). For this reason, while protecting some of the advantageous aspects of the sector, it is necessary to make good use of the opportunities existing in the micro and macro-environment in order to avoid risks and take precautions against them. We have tried here below to evaluate and describe the opportunities that the sector already has or is able to achieve, as well as the present and future risks which are likely to reduce the growth of the sector.

The opportunities for the Turkish textile sector

As a result of the dynamism caused by globalisation, opportunities for taking part in the new markets are growing rapidly. As long as these opportunities can be turned into advantages, there is no doubt that the sector will flourish. Turkish companies have to find new markets (such as the former Eastern Bloc countries, Canada, Australia, northern European countries etc.) while taking part in the well-established markets where competition is testing. Therefore they must concentrate on marketing and distribution. We see that in recent years Turkish enterprises have inclined to alternative markets which provide production and marketing possibilities. This has increased the profitability, reduced the risks and enabled the companies to make better use of their competitive power.

New customer groups are continuously entering into and taking part in the markets. The rise in the financial and cultural level of the customers has increased the demand for textile and clothing products, and products which create value-added income have gained importance. In the last decade, worldwide economic growth has enlarged the markets, and stimulated the consumption trends in the developed countries in particular.

Developments in communications and the internet have opened up the new markets, and have thus changed the companies' marketing strategies. This technological development has brought the companies as well as products and service qualities closer to the customers.

Local and international fairs are gaining prominence day by day. The Turkish textile and clothing enterprises are quite active participants in these fairs, and thus enrich their vision and scope for activity.

Development in the sub-sectors of the textile industry is affecting the sector positively, especially in the finishing sector and the sub-sectors of the clothing industry, ensuring product variety while at the same time improving quality. Our country has very large investment and production capacities (printing, embroidery etc.).

The short time of product processing facilitates the introduction of new and different products. The increase in product variety makes it easier to reach larger and more diverse customer groups. The sector's constant openness to new designs and innovations is one of its advantages. The sector is keeping a close watch on the technological developments and is acquiring suitable products and production processes.

The improvements in the financial sector are contributing to the development of the Turkish textile and clothing sector. Developments have occurred in recent years in the banking, leasing, factoring and forfeiting sectors, and present solutions and alternatives to financial problems while mediating between the buyer and the seller, thus ensuring an effective marketing economy.

Wages in Turkey are considerably lower than those in the EC, USA or other developed countries (Table 7). They have dropped further since the local and foreign economic crises in 1999, 2000 and 2001. However, this advantage is only temporary because, as can be seen in Table 7, other countries have wage advantages better than Turkey's and they will always do so. Moreover, as economic growth and social justice progress and the labour unions gain power, increases in workmanship costs will become natural and inevitable. Besides, the increase in the value of the Turkish lira against the US dollar and the euro, amounting to up to 30% since 2003, has raised workmanship costs by foreign exchange. However, taking pride in cheap workmanship reveals the distortion existing in the country. Nevertheless, because the clothing sector, which creates the highest value-added income, has still been unable to change its labour-based structure,

the workmanship costs have an important share within the total costs.

The enterprising spirit and resolution of the Turkish people are known throughout the world. They have distinguished themselves by their predisposition to change (both of the producers and the consumers) and they have acquired new products, new markets and different co-operations by using their creativity. This structure arises from the long-lasting difficulties and experiments which our country is going through. These capacities and qualities of the enterprising spirit are an advantage and opportunity for the sector, which has in fact been making good use of them.

Qualified personnel: In few countries are the wages of qualified personnel as low as they are in Turkey. Although this is favourable for the sector, it is disadvantageous for the working class. The sector is equipped with competent and skilful staff who have been trained in the last twenty years. Together with other management factors, this will positively affect production quality and productivity.

Geographic location: It is known that Turkey has an important geographic location, but it cannot benefit from it sufficiently. The textile sector is nearer to the EC than its rivals; the EU is its biggest market, with a capacity of 65% of the total export of the textile sector, a factor which reduces the termination period and also positively affects transportation costs. However, technological developments all over the world are affecting the transportation costs in the same way, implying that our country's advantageous location is destined to lose

Table 7. Workmanship costs per hour in some countries.

Country	Workmanship cost per hour, \$
Switzerland	24.08
Denmark	23.10
Belgium	21.70
Germany	21.48
Norway	20.25
Portugal	4.51
Turkey	2.75
Mexico	2.33
Slovakia	1.48
China	0.62
Pakistan	0.60
India	0.50
Madagascar	0.41
Bangladesh	0.40

its importance in the future. We should also remember that our country is far from Asia, the USA and South America, which may become important textile markets in the future, where the markets are not yet satiated and are open to new developments.

Integrated infrastructure: Only three countries in the world, China, South Korea and Turkey have an integrated infrastructure beginning from the cotton, thread, weaving, braiding, finishing and clothing up to the last stage of distribution, thus increasing the synergy between the sectors and reducing supply problems to a minimum. In this way, the sectors are enabled to stimulate each other, transfer technological developments more quickly and easily while making it possible to plan capacity more reliably.

Good quality cotton production: Turkey is the 6th biggest cotton producer (800,000 tons/year) in the world. The cotton product is of high quality, and is in demand all over the world. This sector is a great opportunity for the national economy, and should be given priority. The production of high quality cotton in large amounts is becoming an important competitive advantage. We see that cotton has turned into a strategic product in recent years, increasing its importance. Likewise, our country is also one of the biggest cotton importers, besides being the 6th biggest cotton producer in the world. Turkey imports about 400,000 tons of cotton each year, mostly from the USA. A solution to the problems concerning importation has been delayed by the facts that the GAP (South-Eastern Anatolian Project) area is not yet totally active, and the appropriate socio-economical regulations have not been put into effect in the region.

The risks in the Turkish textile sector

Although it is always possible to take part in new markets, it is also likely that it will not be possible to conform to their standards. Therefore the enterprises should make a detailed analysis of the economical, socio-cultural, technological, political and natural environmental conditions of the new market. Turkish textile and clothing companies have advanced in this field in recent years, but more effort is needed.

Though foreign markets are attractive, they require competitive power. Turkey

is competing with developed countries rather than Southeast Asian countries. The medium- and long-range objective is to catch up Italy in quality and technology. The competition is growing due to the fact that the EU countries, the USA, Italy and certain other countries have been making bigger investments in the sector than others. These countries give great importance to technological development, research and improvement, and are consequently leaving the others behind. In this way the textile sector, which is generally known as a characteristic industry of developing countries, has also become an industry of developed countries. The rapid technological development has become textile industry the fourth capital-based industry in the world, forcing the companies to make more technological and more frequent investments. The companies need larger operational and fixed investment capitals, and they have serious problems in this field.

We see that rival companies and countries which produce textile and clothing with lower costs are entering onto the markets. Some Far Eastern countries like India and China, former Eastern Bloc countries such as Bulgaria and Romania, North African countries like Morocco, Tunisia and Algeria, and the countries of South and Central America have lower production costs than Turkey, and thus they stimulate competition in the markets. Moreover, these countries are also gaining advantages by making free-trade agreements with developed countries, and so increasing their exports to these markets. The cancellation of quotas will increase the competition. As it is almost impossible to avoid powerful foreign competition, the sector is faced with a serious risk.

Some other countries and companies are introducing substitute products which are rapidly increasing in sales. In order to avoid this risk or at least reduce its effects, it is necessary to improve our capacity for inventing and developing new products, in other words, to give importance to research and development, which have as yet been underrated.

The changeability and unpredictability of government policies created risks for the textile and clothing sector. These negative effects make it impossible to predict the future and develop appropriate strate-

gies, and also cause fluctuations in the cost of items.

The Turkish textile and clothing enterprises are usually unfamiliar with the concepts of image and culture. Big enterprises place greater importance on such concepts. In the sector, the concept of company culture is generally approached rather loosely. Research has shown that instead of one culture in a given company, different cultures exist in each section. In other words, the culture of each section is inspired by the culture of the respective administrator. With such a structure, the sector and the companies are not well represented in the local and foreign markets, and the administrative unity is damaged. As a consequence, the sector is affected negatively, and is faced with the risk of a permanent crisis.

The fact that Turkey does not have a widely-known trademark is one of the weaknesses of the Turkish textile and clothing sector, and has limited its development. In recent years the companies have advanced a good deal in this respect, but not enough. The sector must create its own distribution channels and also acquire product expertise.

The energy cost is high (8 cents/kW) when compared to international prices, a circumstance which negatively affects the Turkish textile and clothing sector. After the 1994 economic crisis, investments in new energy power plants have been cancelled owing to financial difficulties. This increases the country's dependence on foreign countries, which has negative effects on the cost and quality of the energy, and poses a risk for the competitive power of the sector.

Conclusion and suggestions

A new period has begun in the world economy since the turn of the 1980s. The 'unlimited market conditions', with the understanding of 'you sell whatever you produce', have disappeared, and a new period has begun which we may call 'exhausted market conditions'. This new period has provided the enterprises with some new opportunities, but at the same time has created new risks. In the 1990s we began to feel the effects of this new period, and since then the companies have started to fight to strengthen their positions with new 'weapons'. These are high-quality product and service,

customer-centralised administrative policies, changes in behaviour towards personnel, and the strategy and vision to be selected by the top management. These items will simultaneously affect the quality of the administration. Two steps should be taken in order to take advantage of these opportunities and develop strategies against potential risks, as mentioned above. The first is the elimination of internal weaknesses; in other words, to improve and develop the quality of the administration, which is the most important indicator of success or failure in the company management. The second is to give importance to research and development, concentrating on technological products which will create high-value added income and give priority to investments that will ensure expansion and remove the bottle-necks. To sum up, the government must render its regulation, co-ordination and consultation services properly and correctly.



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