

Competitiveness of Turkish Clothing Firms in The
European Market After Customs Union And A Case Study:
Hasca Textile Industry Limited Company

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**COMPETITIVENESS OF TURKISH CLOTHING FIRMS IN THE
EUROPEAN MARKET AFTER CUSTOMS UNION AND A CASE STUDY:
HASCA TEXTILE INDUSTRY LIMITED COMPANY**

A THESIS

**SUBMITTED TO THE FACULTY OF MANAGEMENT
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OF BİLKENT UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION**

By

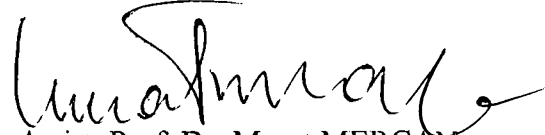
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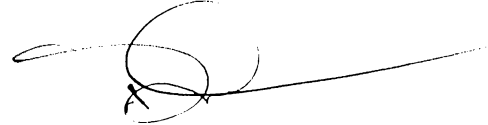
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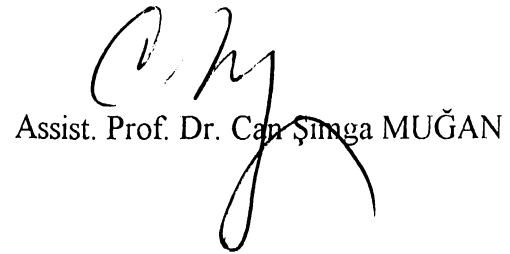
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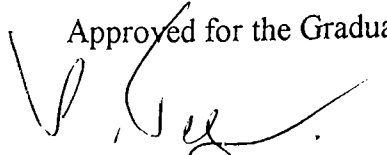
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ABSTRACT

COMPETITIVENESS OF TURKISH CLOTHING FIRMS IN THE EUROPEAN MARKET AFTER CUSTOMS UNION AND A CASE STUDY: HASCA TEXTILE INDUSTRY LIMITED COMPANY

ÖZLEM METE

Master of Business Administration

Supervisor: Assist. Prof. Dr. **Murat MERCAN**

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The main purpose of this thesis is to analyze and introduce the competitiveness of Turkish clothing firms in the European market after Customs Union. In doing that, trends in European clothing were also emphasized. Furthermore, an industry analysis by using Porter's framework (Porter, 1980) was also carried out. As a case study, Hasca Textile Industry Limited Company which is operating in domestic and European markets, is also introduced by making its competitiveness analysis and strategical planning with implementation proposals.

Keywords: Turkish Clothing Industry, European Clothing Industry, Customs Union, Competitiveness, Hasca, Clothing, Fashion

ÖZET

TÜRK KONFEKSİYON FİRMALARININ GÜMRÜK BİRLİĞİ SONRASINDA AVRUPA PAZARINDAKİ REKABET GÜCÜ VE BİR ÖRNEK ÇALIŞMA: HASCA TEKSTİL SANAYİ LİMİTED ŞİRKETİ

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Bu çalışmanın ana amacı, Türk Konfeksiyon firmalarının Gümrük Birliği sonrasında Avrupa pazarındaki rekabet gücünü tanıtmak ve analiz etmektir. Bunu yaparken, Avrupa konfeksiyonundaki eğilimler vurgulanmaya çalışılmıştır. Ayrıca, Porter'ın (Porter, 1980) önerdiği çerçevede bir endüstri analizi yapılmıştır. Bir örnek çalışma olarak, hem yurtiçi, hem de Avrupa pazarlarında faaliyet gösteren, Hasca Tekstil Sanayi Limited Şirketi ele alınmış, Hasca'nın rekabet analizi, stratejik planlaması ve uygulama önerileri sunulmuştur.

Anahtar Kelimeler: Türk Konfeksiyon Sanayii, Avrupa Konfeksiyon Sanayii, Gümrük Birliği, Rekabet, Hasca, Konfeksiyon, Moda

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CHAPTER 1

INTRODUCTION

Textile and clothing industries are the driving forces of Turkish manufacturing industry and together makes 40 % of total Turkish exports. Clothing industry alone takes a 30 % share in total exports(İTKİB, 1995). It is one of the most important industries of developing countries such as Turkey.

Textile and clothing industries are very dependent on each other. Textile industry acts as a supplier for 3 sectors.

1- Clothing

2- Home-textile products

3- Industrial textiles

On the other hand, clothing industry creates a big market for textile industry. More than 50 % of production of textiles is used in clothing sector. Therefore, changes in both industries are dependent on the development of the other.

Textile industry covers spinning facilities where yarn is produced for either weaving or knitting facilities that are also part of textile industry. Yarn is also offered to consumers as a finished product rather than only being treated as a semi-product. Dying and printing sectors can also be classified under textile industry. Clothing should be considered a different sector than the textile

industry and for this reason analyzed separately. However, available data does not allow two industries to be classified separately. Both industries have most of the times been treated as one.

Clothing industry being a market for textile industry, covers all steps for apparel production except for raw material supply. The steps start from design stage, continues with fabric sourcing, cutting, sewing, pressing, packing and ends with shipping. Some companies prefer to integrate backward into spinning, weaving/knitting and dyeing facilities. But in today's market conditions it is preferred to build up small-medium scale production units and co-operate in the network of backward and forward processes.

Economic measures taken in 1980 had given rise to huge increases in clothing export revenues of Turkey. Between 1983 and 1992 the exports of developing low cost countries to EU had risen and during this period incentives provided to new investments in the sector by Turkish government has created demands for clothing production. Therefore, Turkey became a good subcontracting country to EU ranking the third within EU suppliers. Now Turkey is not only a subcontractor but also a supplier in high value-added clothing goods.

China and other Far East countries captured a big share in the European market through considerable low prices but they lack proximity. Turkey being close to the EU market enjoys the advantage of short time delivery which is becoming very important as the number of collections a company is preparing increases within a season.

The European clothing industry has had to face strong growth of imports from low wage countries, in spite of import quotas under the MFA (Multi-Fibre Agreement). There have been significant job losses in the European Clothing industry in the recent years(Eurostat). Because of high-wage disadvantage, European firms started to practice Outward Processing Trade (OPT) widely, creating jobs in the sector for developing, low-wage countries around EU. In other words, EU producers have damaged their own economy in terms of employment and trade balance when trying to enjoy the benefits of OPT.

In 1980's when Turkish government chose textiles and clothing as the locomotive industry for exports and as new and prosperous incentives were provided to textile and clothing exporters, Turkish producers for the first time oriented themselves to exports. The incentives provided was so huge that many people decided to enter the market building up their own production units. By this mean Turkish clothing started its rapid growth and after 1980 made a remarkable progress.

In today's world the main criterion to survive in clothing industry is to be a model designer, creating your own design and brand therefore increasing your value-added. Co-operation has to exist among Turkish textile and clothing producers.

Because investment is no longer as cheap as it was in the early days, big and vertically integrated companies are not easily established. And among the big ones that exist, small companies has to survive through their flexibility and co-operation with others in a network of all down-stream, up-stream and parallel processes.

In this thesis, it is aimed to focus on Turkish clothing industry and the competitiveness of Turkish clothing firms in the European market after CU. As a case study, a newly established textile firm “Hasca Textile Industry Limited Company” is analyzed and strategies have been developed and recommended.

Accordingly, Chapter 2 makes an overview of the clothing industry. Technology used, steps of production, effects of fashion on clothing and some end products are introduced. In Chapter 3, Turkish clothing industry and the effects of CU on Turkish clothing industry is analyzed. The European clothing industry is also introduced in detail. Chapter 4 gives general information on “Hasca Textile Industry Limited Company”. Besides it, the area of function is described. In the following chapter, SWOT analysis of HASCA is done and industry is analyzed through Porter’s (Porter, 1980) framework. In Chapter 6, strategies are developed for Hasca Textile Industry Limited Company and some are recommended. The last chapter makes a summary of all the study and ends with the conclusion.

CHAPTER 2

CLOTHING INDUSTRY IN GENERAL

This chapter covers description of the clothing industry, its evolution, effects of fashion on the clothing business and on product life cycle.

Clothing industry is a manufacturing industry that is very much dependent on human force. The impact of clothing on the economies of developing countries is considerable. Because of its nature, it creates employment. The industry has shown many improvements in terms of technology and it had expanded in the geographical scope through Outward Processing Trade(OPT). The wide use of OPT has in many ways damaged the US and EU economies. It had created unemployment while deteriorating the economic balances.

2.1 Description of the Sector

Clothing industry covers manufacturing of garments and clothing accessories. It is strongly linked to the textile industry which provides various types of fabric (woven or knitted).

The production of clothing reaches from design stage(styling, prototyping, definition of collections) to development (fabric sourcing, pattern making, the planning of cutting) and manufacturing (cutting, sewing, pressing, finishing).

At the design stage, the product is styled, materials(fabric and accessories) are selected, and a prototype is developed. Once collections are defined, the product enters the development stage, where the actual manufacturing is prepared through the making of patterns, material requisition, and the planning of cutting. Clothing manufacturing consists of fabric cutting, sewing, pressing and finishing.

Important productivity gains have been realized in terms of production time, quality, and the reduction of losses e.g. through electronic cutting control, laser cutting, automatic sewing machines, and the computerized management of production and stocks. Many cost savings and improvements in industry's economies of scale have already been achieved.

Partial automation has been realized in almost all steps of production but the industry by nature does not lend itself to total automation. In other words, it is impossible to remove human effect in production. In technology intensive industries it may be possible that a robot takes necessary parts of a product, gathers them and takes them to the next work station. In the clothing industry, because the pieces assembled are not suitable to be received by a robot and gathered to be sewn together, the chances of full-automation are limited. Even automats which are semi-automatic machines need human support. Automats are designed to minimize the work of an operator.

An example is given below to compare the use of an automat with normal production. To produce pants, an operator who works at the overlock machine does the following operations.

- operator takes pieces (one front, one back)

- puts one front and one back piece together
- assures the pieces are in order
- overlocks the pieces

If an automat is used for this operation, the operator needs to do the following operations.

- operator takes pieces (one front and one back)
- places them neatly in the automat
- starts the automat
- automat does the sewing and the pieces are sewn together in order, through the help of an optic eye in the automat.

As can be seen from the above mentioned points, human effect cannot be canceled. Using an automat increases productivity but the use is limited by the type of product. In other words there are not many automats designed for every step of production. The operator is needed because the automat is not able to gather the semi-products and position them. But in technology intensive industries like computer industry, it is very easy for a robot to take a chip and carry it to the next work station.

In the cutting stage, the highest achieved technology is the laser cutting system. This is a completely computerized system starting from pattern making. The patterns are prepared and graded in sizes in computer. The graded patterns are laid in a marker in the computer screen according to the width of fabric used for production. All data regarding patterns and marker are

saved in the system and transmitted to the cutting unit. According to this data, fabric is spread on the cutting table automatically and vacuumed. The laser cutting machine then cuts the fabric according to the marker. The only thing that is not automatic in this system is the placement of fabric rolls on the spreader and the removal of the cut bunches. The system increases productivity, lowers operating costs and optimizes fabric savings. It also improves sewing operations due to high quality cut pieces.

However, when the capacity of most clothing producers is considered, this system is very luxurious and expensive to invest. A clothing producer with 20 machines in his production unit, invests approximately 70,000 DM in machinery. The industry mostly consists of this scale companies and it is not possible for such scale companies to invest 450,000 DM in such a cutting system. Rather they invest in mechanical cutting machines which are considerably cheaper.

The fact that there exists many small scale companies in the industry limits the chances of investment in high-technology and therefore full automation cannot be realized. As long as the scale of companies remain small, intense use of labor force is inevitable. Only with the “Sun System Model” that is suggested in Chapter 6, these companies will have the chance to take advantage of high technology machineries.

There are 3 cases for the major restructuring in textiles and clothing sector in the community and world wide(Cecchini, 1988).

- 1- A sustained surge in exports from the developing countries.
- 2- Slowdown in consumption in the industrialized countries.
- 3- The increasing impact of European market integration.

As this restructuring has proceeded, companies have in many cases developed the flexibility needed to respond successfully to these pressures. There were advances in technological innovation. Industry organization has become more flexible, mirroring in part the Italian model of dispersed manufacturing units balanced by centralized marketing structures. There was a sharp increase in the use of subcontracting. Labor intensive, clothing production has shifted in part to low-wage developing countries. There is limited potential for economies of scale in the clothing sector because the production does not lend itself easily to mechanization and automation.

“Total Quality Management”, “Just-in-time”, “Co-operation” has become very popular words in the business world and so in clothing industry. Companies are trying to maximize their value added in order to be successful and therefore “value chain management” is starting to take an important place for their survival. Now instead of two seasons of twenty-six weeks for the fashion sectors, it is said that there are twenty-six seasons of two weeks. This means smaller orders and many more styles. Capital is no longer as cheap as it was in the early days. *“Big is no longer Beautiful”*.

Now is the time of individual companies joining together, gathering their strengths into a network of partners in which power comes from the value of each partner’s skills and resources. Today one

does not have to be a giant company, because the small companies can obtain many of the same advantages as large ones by making use of the skills and power of their larger partners. Big customers often like the flexibility of having some small and hungry suppliers. The decreasing cost of information technology helps them in this competitive environment.

Today all suppliers fight in a market that is consumer led, rather than a product-driven market as the old days. To satisfy the consumer this group of suppliers, for their mutual benefit should be in co-operation and the key word of the 1990's is therefore "*partnership*". Today, these partners no longer need to be geographically close to each other. With the revolution in telecommunication methods, it is no longer a big problem as before that they are separated apart. However, the network, built among these companies, need to embrace all members of all teams. Communications have to be comprehensive. This is especially important when assembling a variety of components from different manufacturers and even countries. In the clothing business, this is important for companies who work with subcontractors in many different countries. In the textile and clothing industry, the development of CAD/CAM systems are of great help in shared understanding in information technology field.

In the rivalry of competition, one has to be flexible to be competitive and small to be flexible. And the small business has to co-operate with others to survive and catch the scale of economy in its smallest possible size. The challenge is not only building up a small business organization or downsizing an existing one; but also integrating it into an external network of all down-stream, up-

stream and parallel processes. Co-operation along the chain of processes of garment making is in a way inevitable.

2.1.1 Evolution of the Clothing Industry

The clothing industry has played a significant role in the industrial development of many developing countries. Especially the NIC's have benefited the most from the export oriented clothing industry. The low cost of labor was a competitive advantage for developing countries and developed countries could not fight against this factor because of high degree of labor intensiveness in the assembly stage of production. They had to protect their economy and industry some way. Then came the trade barriers, quotas, voluntary limitations on exports and etc.

The textile and clothing industries were already among the most highly protected in the 1930s and before. After the second world war, in 1946 during the Havana Conference two major institutions were agreed to be established; GATT (General Agreement on Tariffs and Trade) and Multilateral Trade Rounds for its organization. The main principles of GATT were reciprocity and the most favored nation clause. The new goals of the world trade were to minimize and at the end eliminate the trade barriers among the countries supporting GATT. In spite of the Multilateral Trade Rounds, new methods of protectionism started to grow and the last three rounds (Kennedy, Tokyo and Uruguay Round) were mostly concentrated on the matters about quotas, import restrictions, minimum import prices and voluntary restraints on exports.

Although the liberalization of the international trade was favored politically and economically, it could not be realized because of attempts of unfair competition. Soon the GATT terms were disregarded and the period of bilateral negotiations was started. In the postwar period, Japan first placed pressure on industrialized country markets. The USA negotiated bilateral restraints on Japan in the late 1950s.

Led by the US negotiators, GATT discussions in 1959 and 1960 developed the concept of “market disruption”, defined as the instances of sharp import increases associated with low import prices not attributable to dumping or foreign subsidies. In November 1960 GATT adopted the Decision on the Avoidance of Market Disruption. It provided that restrictions could be applied even if actual injury had not taken place, and against individual countries responsible for the import surge. It also established the presence of a price differential between imports and comparable domestic goods as a basis for determining the need for restriction.

By 1961, the United States led the international negotiation of the Short Term Arrangement (STA) for trade in cotton textiles and apparel, followed in 1962 by the corresponding Long Term Arrangement (LTA). As man-made fibres were produced and widely traded, by the early 1970s there was intense pressure to extend coverage to non-cotton textiles. Financial and trade conflict between the United States and Japan in 1970-71 before the first devaluation of the dollar caused “voluntary” Japanese export restraints on man-made fiber products, and the United States negotiated similar controls with some other East Asian Countries. The increasing production in the developing countries, where labor costs were lower, began to threaten employment in

industrialized countries. As a result, the developed countries realized that the textile and clothing industry is not likely to survive under a free trade regime. By 1974, the new Multi-Fiber Arrangement extended the international regime of restrictions to cover man-made fibers. Under the MFA, as in the LTA and STA before it, the United States and Europe restricted imports from the developing countries and Japan but not from each other. Countries included in this agreement were the US, Canada, and EU and 37 developing countries including Turkey. Textile and clothing products became an exception to GATT rules and regulations which were basically set to eliminate trade barriers(Cline, 1987).

The agreements on textiles and apparel between the EU and Turkey were held apart from the MFA. Because the Ankara Agreement and Additional Protocol were of higher level agreements rather than the MFA and because Turkey was an associative member of EU, negotiations between Turkey and EU were held. For a long time Turkey had to carry out “voluntary” restraints on its exports of textiles and clothing to EU. Turkey appeared as having agreed to limit its exports . Unilateral restrictions that EU applied appeared as internationally justified. On the other hand the agreements between the USA and Turkey are subject to MFA rules.

In December 15,1993, the final agreement in Geneva was signed and the Uruguay Round was concluded. Uruguay Round set the date for eliminating all trade barriers starting in year 2005.

The relations with the European Union and the effects of Customs Union on Turkish clothing industry will be dealt further in the corresponding chapter.

1900s

2000s

Limited number of Enterprises	----->	Unlimited number of Enterprises
Large scale Factories	----->	Small scale factories gathered in a network of partners (Italian model)
Traditional and Repetitious Products	----->	Product differentiation
Long Product Life Cycles	----->	Very short product life cycles especially with the effect of fashion
Backward/Forward Integration	----->	Co-operation with the network of suppliers

2.2 Clothing Business

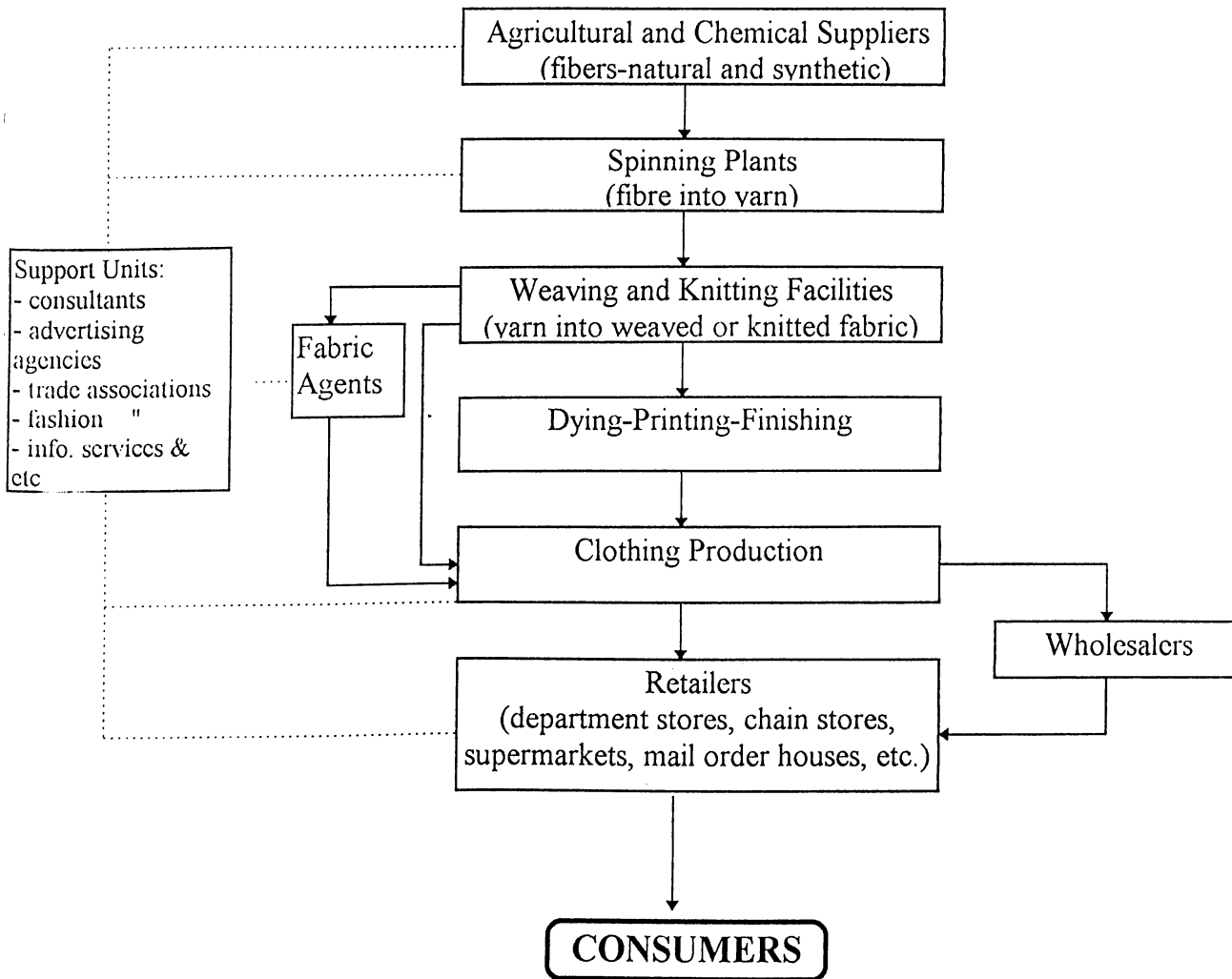
Plainly recognizable as part of the clothing business are industries involved in the production of under and outerwear products of women's, men's and children's apparel. There are three main segments in the production and distribution of clothing products:

- 1- Suppliers of the raw materials of clothing such as fibers, fabrics, leathers and furs.
- 2- Manufacturers of finished products of apparel and accessories
- 3- Retail distributors.

All three segments are interdependent. The suppliers of raw materials depend on manufacturers of finished products for the sale of their products; the manufacturers of clothing depend on suppliers to provide the materials from which to produce finished goods; both segments depend on the

retailer to present and sell the merchandise to the ultimate consumer. It is the retailer who is the final link between the consumer and the network of the clothing-producing industry.

Within the network are enterprises of many different types. Below is a flow-chart that illustrates the main segments and the interrelationships of each.



Source: Jarnow, J., Guerreiro, M., 1991

Each segment of the clothing industry chain periodically presents its new styles very early to those in the next level of production, so that producers and sellers may in turn prepare their collections well in advance of the consumer buying periods. The colors, weaves and fabrics that are expected to receive consumer acceptance are searched and decided on a year before the consumer will see them.

2.2.1 Effects of Fashion on Clothing Business

Fashion represents billions of dollars in sales to the group of enterprises concerned with the production and distribution of apparel and accessories. Fashion, itself, does not create consumer purchasing power, but whenever there is such purchasing power, there is interest in fashion. Today, with widespread ability to spend, the great masses of people follow fashion, and this fashion determines both the character and the direction of consumption of apparels. Although such factors as price, durability, convenience of use, and quality of workmanship are also of concern to the consumer, they mean relatively little unless the purchased articles are also clearly identified with the prevailing fashions. The clothing industry is aware of the many social and economic factors that influence the needs and wants of consumers; it is also aware that as consumers react to these influences, their fashion needs and wants change. The industry is constantly fine-tuning its awareness of these changes and its responses to them. Significant changes in the consumer market will have significant impact on the fashion-led industries. For example, the age mix of population, both present and projected into the future, has a definite bearing on the current fashions and those to come.

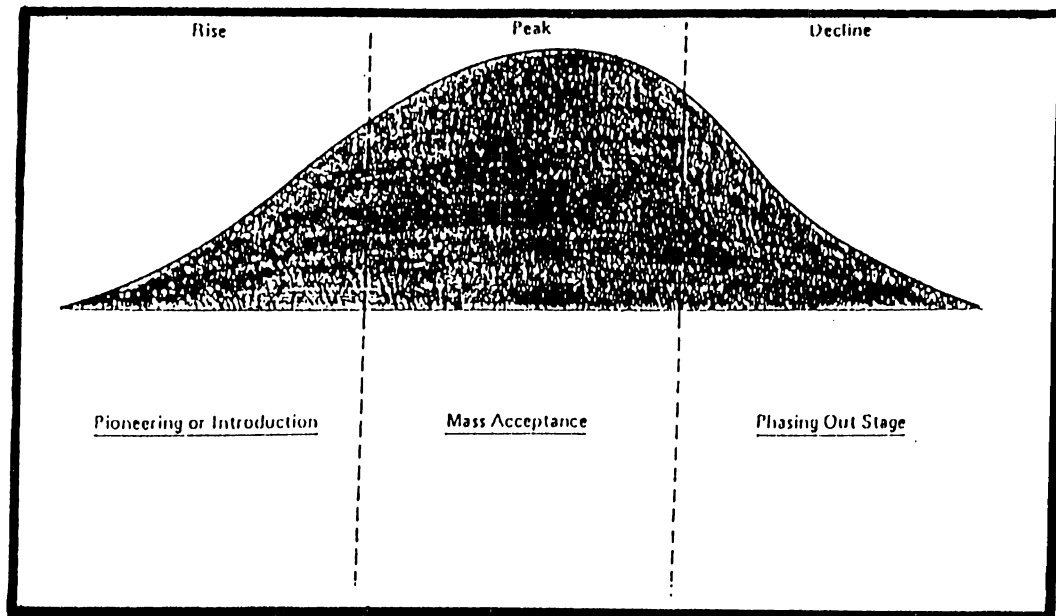
If there is one thing that is always constant in fashion; it is the fact that it is always changing- sometimes rapidly, sometimes slowly, but never static. One of the reasons for change is psychological. People become bored with the same colors, lines and textures after a time; what is new and different appears refreshing. On the other hand, environmental factors create new needs which affects fashion. When women started to gain economic freedom and move into executive positions, their style of dressing changed to mini skirts, tailored suit and other fashions appropriate to their career. The physical movement in 1970s and 1980s rose the need for exercise clothing.

2.2.2 Effects of Fashion on the Product Life Cycle

There are distinct stages in the sales of a product. Because fashion is a very important element of clothing industry, its effects on the product life should also be examined. The fashion life cycle has 3 stages(Kotler, 1991).

- 1- The distinctiveness stage
- 2- Mass acceptance stage
- 3- Decline stage

FIGURE 1
FASHION LIFE CYCLE

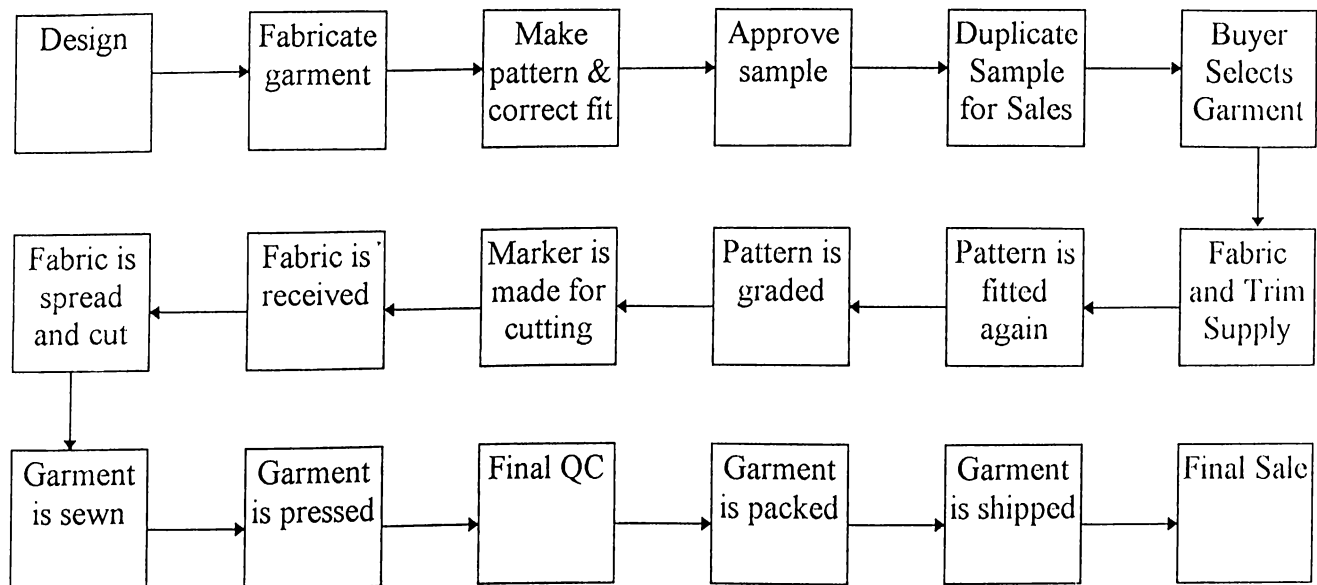


Source: Jarnow, J., Guerreiro, M. (1991)

In the distinctiveness stage, the product is adopted by people who like or can afford to be first with what is new, or who are highly motivated by a desire to dress differently from other consumers. The products are usually produced in small quantities and sales is limited. If the new fashion idea spreads and is widely imitated, the product reaches the stage of mass acceptance. The product is then in such demand that it can be mass produced and full assortments are available in regular prices. However, as consumers become bored of the fashion(color, line etc.) sales start decreasing and the product enters the decline stage. Some consumers will still be wearing it at this stage, but they are no longer willing to buy it at regular prices. This is when price reductions take place. Meanwhile, new fashions start to enter the introduction (distinctiveness) stage.

Fashions vary in their life cycles, in the acceptance they attain. The length of time a particular fashion may remain in any of its three stages depends on the extent to which it is gaining or losing public acceptance. Some fashions may endure for a year or more; others for a season; and, indeed, some may never get beyond the first stage of acceptance by small groups of people(Jarnow, J., Guerreiro, M., 1991).

2.2.3 Major Steps In Manufacturing A Garment



2.2.4 End Products In Clothing Industry

All end products makes up a different segment in the market by itself and in a group. For example, a manufacturer may target to produce children's T-shirts and jogging suits but not women's. Another may choose to produce men's and women's jackets but not children's. The segments vary according to the nature of the fabric used for production or by the age group. The knitwear(T-shirt, jogging suit and sweatshirt, etc.) machinery is not suitable for woven clothing(jackets, shirts, etc.) production.

Basic end products of the clothing industry are as follows:

- Blouse
- Bath Robe
- Jacket
- Vest
- Socks
- Weaved Pants
- Knitted Pants
- Dress
- Sweatshirt
- Jogging Trousers
- Truck Suits
- Shirts
- T-shirts
- Underwear
- Coats
- Pullovers
- Raincoats & etc.

CHAPTER 3

CLOTHING INDUSTRY IN TURKEY

In this chapter, Turkish clothing industry, problems of Turkish clothing firms compared to EU will be introduced. Furthermore, effects of Customs Union on Turkish clothing industry is analyzed together with European clothing industry.

3.1 Turkish Clothing Industry

Turkish textile and clothing industry benefited from trade liberalization that began in 1980s. The export growth in clothing between the years 1980 and 1995 has been spectacular, rising from USD 106,000,000 to USD 6,188,502,000 showing an increase of 6000 % (İTKİB, 1995).

Today 35% of the world trade in clothing is still subject to restrictions of the MFA. In spite of all these restrictions the Turkish share in world textile and garment trade had risen to around 3% (Ger, 1995).

Of the 15 leading world apparel exporters of clothing eight are from Asia: Turkey, Taiwan, Hong Kong, Thailand, China, Indonesia, South Korea and India. In all these countries exports of clothing grew faster than exports of textiles.

TABLE 1
SHARE OF CLOTHING EXPORT IN TOTAL EXPORTS (%)

	1980	1992
BANGLADESH	0.2	51.5
INDONESIA	0.4	10.8
PAKISTAN	3.9	19.9
SRI LANKA	10.2	52.3
TURKEY	4.5	28.5

Source: Ger, 1995

As can also be seen on Table 1, clothing industry has become a leading sector in all these countries. The share of clothing export in Turkey's total exports reached to 30% in 1994.

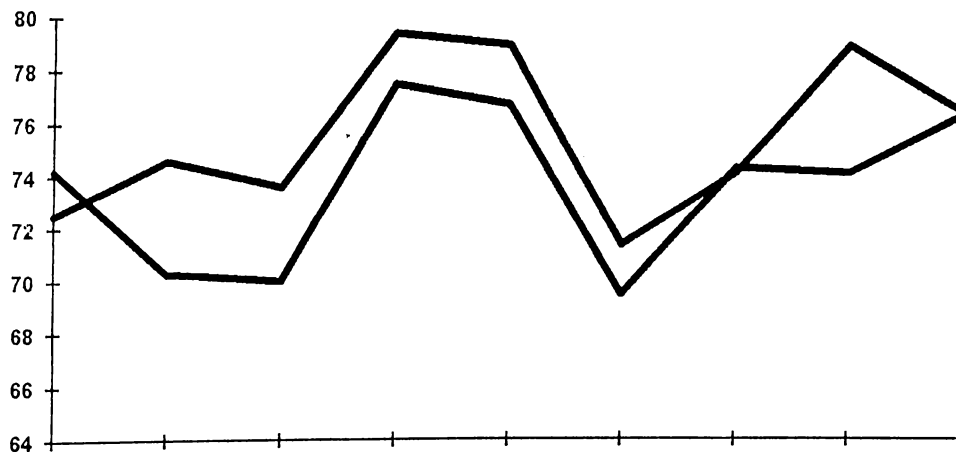
Turkish clothing exports have developed much faster than textile industry. Turkish Clothing Industry has a capacity utilization rate around 75 % which is higher than the average rate of manufacturing industry and alone meets ~ 12 % of the industrial employment

TABLE 2
CAPACITY UTILIZATION RATE OF TURKISH CLOTHING INDUSTRY

YEARS	CLOTHING (A)	MANUFACTURING (B)	RATIO (A/B)
1984	72.5	74.2	97.7
1985	74.6	70.3	106.1
1986	73.6	70.0	105.1
1987	79.4	77.5	102.5
1988	79.0	76.8	102.9
1989	71.4	69.5	102.7
1990	74.2	74.4	99.7
1991	79.0	74.2	106.5
1992	76.5	76.4	100.1

Source: SIS

FIGURE 2
CAPACITY UTILIZATION RATE OF CLOTHING AND MANUFACTURING
INDUSTRIES



The table indicates that the capacity utilization rate of clothing industry is higher than the capacity utilization rate of manufacturing industry.

TABLE 3
EMPLOYMENT IN CLOTHING INDUSTRY (JULY 1995)

Clothing (A)	456,245
Manufacturing	3,905,118
A/B	0,12

Source: İTKİB, 1995

The table indicates that the clothing industry alone meets 12 % of total industrial employment.

Today clothing industry employs almost 500,000 people.

TABLE 4
SHARE OF TURKISH TEXTILES & CLOTHING EXPORTS IN TOTAL EXPORTS
(Thousand \$)

Years	Exports of Clothing	Exports of Textiles	Total Exports	% C ¹	% T ²
1980	106,000	671,000	2,910,000	4	23
1981	302,000	915,000	4,703,000	6	19
1982	367,000	1,069,000	5,746,000	6	19
1983	544,000	1,055,000	5,728,000	9	18
1984	989,000	1,181,000	7,134,000	14	17
1985	936,000	1,151,000	7,958,000	12	14
1986	1,069,000	1,043,000	7,457,000	14	14
1987	1,728,000	1,133,000	10,190,000	17	11
1988	2,127,000	1,334,000	11,662,000	18	11
1989	2,448,000	1,338,000	11,625,000	21	12
1990	2,898,349	1,424,249	12,959,289	22	11
1991	3,219,350	1,374,357	13,593,539	24	10
1992	4,009,615	1,369,322	14,365,414	28	10
1993	4,157,997	1,457,490	15,345,000	27	9
1994	4,490,043	1,944,818	18,107,000	25	11
1995	6,188,502	2,310,665	21,635,901	29	10

¹ Share of clothing exports in total Turkish exports

² Share of textile exports in total Turkish exports

Source:ITKIB, 1996

As can also be realized from the table, share of clothing exports in total exports show an increasing trend. This increase is expected to continue especially with the effect of CU. Producers should take advantage of this chance and try to increase their market share. The trend also shows the potential of clothing industry and how it effects total exports. The industry therefore needs to be supported

in different ways. Government incentives must therefore be in the same standard as the European Communities’.

TABLE 5
TURKISH CLOTHING EXPORTS WITH RESPECT TO REGIONS
(MILLION USD)

	1991	%	1992	%	1993	%	1994	%
EU	2590.0	80.4	3164.6	79.0	3130.6	75.3	3041.5	70.3
USA	250.7	7.8	334.6	8.3	386.8	9.3	511.3	11.8
CANADA	20.1	0.7	15.2	0.4	13.1	0.3	14.5	0.3
EFTA	149.3	4.6	185.1	4.6	169.4	4.1	201.5	4.7
OTHER	209.3	6.5	310.1	7.7	458.1	11.0	556.1	12.9
TOTAL	3219.4	100.0	4009.6	100.0	4158.0	100.0	4324.9	100.0

Source: Ger, 1995

The leading share of EU can also be seen from Table 2. However, it should also be realized that this share is narrowed through time. The reason for this decrease is totally due to anti-dumping tariffs imposed on Turkish textile goods by EU and the lost of competitiveness in lower value-added goods.

Although there was intensive restriction and during a period when approximately 50 %

of the Turkish clothing export was composed of products subject to quotas, the industry managed to succeed. The main reason of the success is totally up to the fact that Turkey is a cotton-producing country. The cotton production amounts to 600 thousand tons annually. Between 1991-2005 it is projected that the increase in cotton will be 2.2 % doubling the annual increase of 1.1 % (Hedef, 1995). This is directly related with the completion of the South Eastern Anatolian Irrigation Project.

The share of cotton products in total exports of the textile and clothing sectors is over 70%.

A comparison of import prices shows competitiveness of clothing goods in terms of price. As price has become one of the most important criteria in decision making of buying units, Turkish producers must try to stabilize their prices to be able to compete with their Far Eastern rivals. They must supply high value added products with the lowest possible prices in short-time delivery.

TABLE 6
COMPARISON OF IMPORT PRICES OF E.U. (USD)

	from Turkey	Non-EU	Intra-EU	World
T-shirts	6.7	3.2	5.5	4.1
Sweater	13.7	11.1	15.5	13.3
Woven Trousers	13.3	10.7	18.5	13.6
Women's shirt	11.1	5.9	20.9	10.0
Woven Men's shirt	9.6	7.0	12.8	8.0
Stockings	0.6	0.9	1.1	1.0
Underwear	0.8	0.9	1.2	1.0
Short overcoat	45.8	26.2	50.6	31.3
Jacket	42.9	32.5	55.8	40.5
Bathgowns	13.3	10.0	19.5	11.8
Montgomery	32.3	23.5	41.3	27.2
Dress	8.1	9.1	21.7	12.1
Knitted Trousers	5.3	4.7	8.6	5.7
Jogging pants	13.4	10.2	12.8	11.1

Source: TCS

As can be seen from the table, the unit prices of Turkey are higher than non-EU and world prices. Turkey's clothing export is mostly composed of high value added quality goods. It is getting harder for Turkish textile producers to compete with the cheap labor-cost countries in low value-added products. Therefore, textile producers prefer to sell their products in the domestic market to clothing companies with great potential of exports. Unit price in Turkish clothing exports into EU has gone beyond unit prices of EU imports from the world and has come close to intra-EU import prices. Turkish clothing industry has shifted its exports to higher value added goods with higher unit prices.

The average cost structure of the Turkish clothing industry is indicated in Table 7 below.

TABLE 7
AVERAGE COST STRUCTURE OF TURKISH CLOTHING INDUSTRY

Raw Material	45 %
Labor Cost	25 %
Others	30 %

Source: TCS

3.1.1. Labor Costs and Productivity

TABLE 8
THE LABOR COST OF CLOTHING INDUSTRY
USD/HOUR; 1991

COUNTRY	Labor Cost	Country	Labor Cost
SWEDEN	18.52	HONG KONG	3.39
NORWAY	15.92	S.KOREA	2.75
DENMARK	15.91	SINGAPORE	2.72
NETHERLANDS	14.95	PORTUGAL	2.65
W.GERMANY	14.81	TURKEY	2.31
SWITZERLAND	14.19	ARGENTINA	1.81
FINLAND	13.98	TUNISIA	1.46
ITALY	13.51	VENEZUELA	1.38
BELGIUM	12.57	PANAMA	1.23
FRANCE	12.41	HUNGARY	1.19
AUSTRIA	9.84	COLOMBIA	1.18
AUSTRALIA	9.58	MEXICO	1.17
CANADA	9.53	S.AFRICA	1.12
UNITED KINGDOM	7.99	MOROCCO	0.99
IRELAND	7.51	PERU	0.88
JAPAN	7.44	COSTA RICA	0.88
SPAIN	7.11	JAMAICA	0.83
USA	6.77	BULGARIA	0.78
ISRAEL	5.73	BRAZIL	0.76
PUERTO RICO	5.07	CHEKOSLAVAKIA	0.64
VIRGIN ISLANDS	4.97	EL SALVADOR	0.61
GREECE	4.26	CHINA	0.24
TAIWAN	3.74	INDONESIA	0.18

Source: Werner International

One of the problems Turkish industry is facing is the increasing labor costs. However, as long as labor costs show an increasing trend, clothing industry will lose its competitive advantage considered labor costs makes-up 25% of total cost. When compared with the EU countries Turkey seems to have a competitive advantage but the comparison should be made with the other clothing suppliers of EU. When compared with the Far East labor costs Turkey seems to lose this price advantage. The only solution for Turkish clothing industry to survive is therefore create its own brand and produce high value-added products. It seems that Turkey will soon lose its advantage of being the subcontractor of European firms. The labor cost is USD 0.78 in Bulgaria which is one third of Turkish labor cost. Shifts of subcontracting to such cheap countries is therefore inevitable.

On the other hand, the increase in the labor cost is not supported with an increase in productivity. Increase in labor costs must go hand in hand with increase in productivity. A Turkish worker can only produce one fifth of a European worker. This is one of the main reasons of high labor costs in Turkey.

Between the years, 1980-1993, among OECD countries, the highest increase in income was realized in Turkey. High inflation in Turkey led to faster growth of nominal wages. By contrast, the devaluation of lira could play an important role in bridging the gap in wage growth.

TABLE 9
PRODUCTIVITY/WORKER IN TURKEY AND EU COUNTRIES

USD

	1980	1985	1986	1987	1988	1989	1990	1991	1992
BELGIUM	20,237	13,148	18,338	22,049	23,478	23,144	27,832	28,607	31,581
GERMANY	19,194	13,554	17,951	21,637	22,470	21,203	25,101	24,768	27,340
DENMARK	15,784	11,646	15,718	18,803	19,814	18,619	22,316	21,706	23,410
SPAIN	13,477	9,706	12,347	14,481	15,934	16,224	18,598	18,068	17,935
FRANCE	19,625	13,264	18,645	22,335	24,242	23,421	28,528	27,008	29,535
IRELAND	14,439	12,719	16,472	19,157	20,858	20,657	23,881	23,986	27,020
ITALY	14,828	11,802	16,304	19,928	21,412	21,426	24,720	24,062	24,613
LUXEMBOURG	21,514	15,622	21,632	23,493	26,839	28,191	31,840	30,919	33,647
NETHERLANDS	20,096	14,142	20,438	23,828	25,712	24,603	29,526	29,665	31,977
PORTUGAL	5,627	4,101	5,685	7,044	7,630	8,208	10,089	10,701	12,255
UNITED KINGDOM	13,405	11,047	13,906	15,987	18,550	17,593	19,376	19,180	19,288
GREECE	4,879	3,281	3,755	4,161	4,576	4,444	4,877	4,465	4,630
EC AVERAGE	14,085	10,310	13,938	16,377	17,809	17,518	20,514	20,241	21,787
TURKEY	4,826	3,667	3,769	4,163	4,110	4,057	4,637	4,590	4,408
TURKEY/EC	34.3	35.6	27.0	25.4	23.1	23.2	22.6	22.7	20.2

Source: İTKİB(T.İ.S.K.)

It can also be realized from the table, Turkish productivity is lower than the European productivity. When it is compared in country basis then the difference is even wider. The ratio of Turkish productivity to European productivity is getting smaller and this means that productivity gains in Turkey are smaller compared to EU.

In Turkey;

-salaries are subject to collective agreements

-criteria for salary increase is inflation

-to increase productivity either salaries are increased or workers are promoted

-role of government is to be an example through public employment practices and to influence income structure through administrative decisions

In EU;

-salaries are subject to collective agreements

-the criteria for income increase is productivity

-to increase productivity either high technology is used or employees are trained

-role of government is to avoid unfair competition and to support rational market formation.

What should be done to decrease the cost of labor in Turkey in order to increase the chances of competitiveness?

1- Remove the funds that are not directly related to production.

2- Develop policies targeting productivity increase.

3- Establish a relation between productivity and income.

4- Take increase in productivity, national income, inflation rate and financial status of companies into consideration for increase in income.

As can be seen from Table 8, the labor cost of clothing industry is USD 2.31/hour. When compared with EU countries, the labor costs may seem low and it may seem that Turkey has a competitive advantage over others but labor costs should as well be compared with those of the EU suppliers. Then it can be better realized how hard it is to compete with countries that are 10

times cheaper than Turkey. We can conclude that there exists an inverse relationship between labor costs and export capability and those suppliers with high labor costs have a low chance in exports.

Apart from the problems of low productivity and high labor costs, Turkish clothing industry also faces difficulties that originate from governmental policies and legal restrictions. The most important of these problems is inflation, instable foreign exchange markets, macroeconomic imbalance and structural problems which barriers investments in new technologies in the sector. The increase in raw material costs has become a considerable problem because this increase is not supported with the increase in exchange rates. Therefore, exporters of clothing goods face the difficulty of buying raw material with higher costs and still selling their products with the same prices. Government authorities should appreciate the difficulty of explaining this high inflation and continuous adjustment of prices to the importers in foreign countries who are only used to 2.5 % of annual inflation. The rise in cotton prices has been spectacular in the last two months. The increase has been almost 60 % which could not be supported with the increase in end product prices. On the other hand, Turkey has to adopt the same external policy as EU which covers implementing the same protection to third countries. This creates the difficulty of raw material supply. Turkey can no longer import raw material from third countries and export finished product to EU without adding the common customs tariff which increases the costs and therefore risks the competitive advantage of Turkey.

Among the external problems Turkish clothing industry faces, first comes the economic recession

in EU. The consumption on clothing has shown a decrease until the end of 1994. In 1996 and 1997 it is estimated to increase. However, this increase in consumption will be through the increase in low-priced import goods. This will further decrease employment which will at the end create a reaction to imports. Although Turkey has signed the CU agreement with EU, anti-dumping investigations on Turkish textile products and problems arising from intellectual and industrial property rights will continue to disturb the relations with EU.

Besides these, Turkey is held responsible of implementing social dumping because of employing workers without social security. The reason for low prices is therefore attributed to social dumping. It seems that this behavior in EU will last longer through campaigns held by industries whose benefits are hurt.

3.2 Customs Union and Its Impacts On Turkish Clothing Industry

In 01.01.1996, Turkey had entered the Customs Union with EU. The main idea behind CU was to remove the trade barriers between Turkey and EU. The agreement also included the statements of adopting the same external policy towards third countries and government incentive policies.

Through a common external policy, Turkey and EU are adopting the same trade barriers against the third countries. Now, Turkey removes protection against EU countries and implements quotas

and surveillance measures for third countries. On the other hand EU has removed the quotas that it was adopting to some Turkish textile and clothing goods since 1985.

The anti-dumping regulations that EU was trying to implement were expected to fade away together with CU. However, up until now EU had continued on the anti-dumping investigations against Turkish textile goods. This behavior of EU endangers the reliability of the CU agreement.

3.2.1 Removal of Protection Against EU

Until 01.01.1996, all EU originated goods were subject to customs duty and funds. After 01.01.1996, these goods are traded freely.

Below table indicates the quantity of the protection that was implemented on basic cotton goods.

TABLE 10

PROTECTION ON EU ORIGINATED COTTON GOODS BEFORE AND AFTER CU

PRODUCT	PROTECTION	
	1995	1996
Cotton Yarn	10 %	0 %
Cotton Fabric (Weaved)	15 %	0 %

Source: Official Gazette

By 1995, the protection rate (customs duty + funds) for European cotton yarn was 10 % and it had become 0 % after CU. The application was the same for cotton fabric also. The protection

rate had decreased to a zero level from 15 %. This elimination in the protection of cotton yarn and fabric is not expected to have a considerable impact on the industry for these two items are not generally imported from EU countries.

Similar decrease in the protection rate is valid for clothing goods as well. The protection rate has been lowered to zero. The customs duty for 6204 coded ladies outerwear used to be 5.7 % before CU and 14 % of CIF value was being charged as funds. Although the protection has been eliminated, only items with a good brand are imported from EU. These items are Escada, Max Mara, Hugo Boss and etc. So the producers fighting in the high ends of the market are likely to face a lot of competition from such brands in EU.

3.2.2 Decreasing Protection Against Third Countries

Because Turkey has to adopt the same external policy against third countries, it has to lower the trade barriers that it is applying to third countries. Although the application of temporary imports are no longer allowed from third countries for goods to be exported to EU countries, the protection is lowered in imports of textile goods from these third countries.

TABLE 11**PROTECTION ON THIRD COUNTRIES ORIGINATED COTTON GOODS**

PRODUCT	PROTECTION	
	1995	1996
Cotton Yarn	16 %	5.8 %
Cotton Fabric (Weaved)	27 %	9.8 %

Source: Official Gazette

Before CU Turkey was implementing 16 % protection for third country originated textile goods but after CU this protection rate had decreased to 5.8 % in cotton yarn and 9.8 % in weaved cotton fabric.

It can be concluded that there will be a decrease in the price of a third country originated cotton yarn and fabric and it may seem that there will be an increase in the imports of these goods. However, under Export Subsidization Policy, it was allowed to temporarily import the goods from third countries and turn them into finished products and export them to EU countries without paying any duty or fund. So the protection that was applied for years actually was not of great importance for exporters. It may now seem even worse to import such goods from third countries because now the companies have to pay customs duty which is also named as CCT (Common Customs Tariff) when importing from third countries. If a third country good is turned into a product in Turkey, it can be exported to a third country without paying any customs duty.

Even with this rate of protection it may seem attractive to import cotton yarn from third countries regarding the increase in the price of cotton yarn in Turkey.

For apparels, the protection rate is decreased as well and imports of third country originated, low quality products are expected to increase, effecting the competition in the low-end of the market.

3.2.3 Quota Restrictions for Third Countries

Turkey should adopt the same textile policy as EU to 51 supplier countries. Turkey has started bilateral negotiations with these countries. Agreements with 13 countries are made and rest of the negotiations are still continuing. Some of the countries that Turkey will adopt quota restrictions and surveillance measures are indicated in Table 12.

At the moment, EU uses many of such barriers in trying to protect its industry. Since Turkey is in a customs union with EU, she has to adopt a similar policy in terms of quotas. This statement is a prerequisite for removal of quotas on Turkish textile products and also a guarantee of traffic disruption in the free circulation of goods. Although some countries reject quota limitations depending on GATT rules and regulations, agreements are still being made.

The settlement of quotas are made in two different methods:

a- For items that Turkey does not have a considerable import amount, a system named “Basket Exit Mechanism” is decided to be implemented. In this system, a specific amount of EU quota is assigned for Turkey regarding the population, GNP and GNP per capita in Turkey. For goods that Turkey does not have considerable imports, the quota is set to be 2.5 % of relative quota in EU.

b- The rest of products are imported within the quota that is set regarding the imports of the last three years. The quota quantity is the average of the 1992, 1993 and 1994 import amounts.

3.2.4 Arrangements On Government Incentives

A change has been made regarding the import of products through the Export Promotion Document. Before CU, semi-finished products could be imported with the Export Promotion Document without paying any customs duty and then these products were used in manufacturing goods to be exported to EU where no customs duty was also paid and a competitive price advantage was gained. After CU, this application is no longer valid relying on the fact that it creates a traffic disruption and an unfair competition.

So now common customs tariff is applied for third country originated goods to be exported to EU and to be freely circulated. If the import of goods are subject to quota or surveillance measures, then the importing company can only import the goods if it has the import license of these goods. However, if these goods are imported to be later exported to a third country, then they are not subject to quotas.

3.2.5 Intellectual, Industrial and Commercial Property Rights

Agreement of Custom's Union, Article 6 states quantitative restraints and equally efficient measures, that are in force between Turkey and EU, to be eliminated. One of the prerequisites that

EU implements to eliminate the quotas that are carried out in imports of some Turkish textile and clothing goods is that Turkey should carry out some measures on the intellectual, industrial and commercial property rights and fair competition (including government subsidies). Turkey has prepared the necessary laws that are related to intellectual, industrial and commercial property rights and has already put them in force.

TABLE 12

COUNTRIES TO WHICH TURKEY ADOPTS QUOTA RESTRICTIONS AND
SURVEILLANCE MEASURES

	COUNTRY	Quota Restriction	Surveillance Measures
1	ARGENTINA	X	
2	ALBANIA		X
3	AZERBEYJAN		X
4	BANGLADESH		X
5	BRAZIL	X	
6	BULGARIA	X	
7	CHEC REPUBLIC	X	
8	CHINA	X	
9	INDONESIA	X	
10	ESTONIA		X
11	MOROCCO	X	X
12	PHILIPPINES	X	
13	S.KOREA	X	
14	HONG KONG	X	
15	INDIA	X	
16	LETONIA		X
17	HUNGARY	X	
18	EGYPT	X	X
19	PERU	X	
20	POLAND	X	
21	ROMANIA	X	
22	SLOWENIA		X
23	SRI LANKA	X	
24	SINGAPORE	X	
25	THAILAND	X	
26	TAIWAN	X	
27	VIETNAM	X	X
28	BOSNIA	X	
29	CROATIA	X	
30	MACEDONIA	X	
31	N.KOREA	X	

Source: İTKİB

Bilateral negotiations with countries have come to an end and quota restrictions are set. However, some countries like Hong Kong and India reject to this application and they have applied to newly established World Trade Organization (WTO) to solve the problem. They, as some other countries as well, believe that these types of restrictions are against the GATT rules. In the Uruguay Round it was decided that the trade barriers would be eliminated by the year 2005 completely. The countries that are against these quota restrictions and surveillance measures claim that Turkey and EU have not actually signed up a Customs Union agreement but a proprietor trade agreement.

It can be concluded that textile and clothing industries were the most effected industries with the CU. However, it cannot be concluded that all results of CU are positive. The most important result is the removal of quotas for Turkish textile and clothing products in EU. Through this result, an increase in the amount of exports to EU is expected because the removal of quotas increases the price advantage and also minimizes the bureaucracy. With the removal of quotas, foreign investments are also expected to increase. This investment is expected from EU companies who are willing to benefit from the advantages of labour force and raw material and from third countries who are willing to benefit from the special status Turkey has today with EU. It is important that Turkey protects its advantage in EU market that she had created with the high value-added products.

An increase in the cost of raw material will be realized since temporary imports are no longer allowed through Export Promotion Documents although there is a decrease in the protection rate of third country originated goods. Imports of clothing products with recognized brands are

expected to increase and this will also increase the rivalry among companies who are competing in the high-end of the market. Imports of low-cost, cheap products will be increasing the rivalry in the low-end of the market.

Turkish textile and clothing industry is not restricted by MFA for its exports to EU. Therefore, elimination of quotas with EU is not related to MFA and adjusting to a MFA calendar is unnecessary. Today as a member of CU, Turkey has gained an advantage of 10 years than its competitors. In this respect Customs Union has created an unprecedented opportunity.

3.3 European Clothing Industry

In Europe, the clothing industry do remain one of the most important industries, at least in terms of employment. It employed 1.1 million people in 1993, 5.2 % of EU manufacturing employment(Eurostat).

The industry has become less competitive over the last few years, mainly due to:

- the deterioration in the cost factors affecting competitiveness, particularly labour costs;
- unfair competition in the international market;
- the difficulties with the modernization process and adaptation to technical change and new methods of organization in certain regions and branches of the industry.

TABLE 13**EUROPEAN CLOTHING INDUSTRY'S MAIN INDICATORS IN CURRENT PRICES⁽¹⁾****ECU**

	1984	1988	1989	1990	1991	1992	1993	1994(2)	1995(3)	1996(3)	1997(3)
Consumption	49171	60475	63403	68525	73749	76040	70336	69200	69500	70700	72700
Production	46630	55172	57689	61471	63747	66301	59438	57100	56000	55500	55500
Exports	4240	5093	6218	6727	6682	6853	7086	7300	7500	7900	8200
TradeBalance	-2541	-5303	-5719	-7054	-1002	-9739	-10898	-12100	-13500	-15200	-17200
Employment	1358	1304	1287	1251	1210	1166	1119	1050	1020	990	970

(1) Except for trade figures, estimates are used if country data is not available, especially from 1990 onwards.

Production, employment and trade data are for all sizes of firms.

(2) DEBA and OETH estimates.

(3) OETH forecasts.

All figures are in millions. Only employment figures are in thousands.

Source: Eurostat (OETH, DEBA, Eurostat)

TABLE 14**EUROPEAN CLOTHING INDUSTRY'S EXTERNAL TRADE IN CURRENT PRICES****ECU**

million ECU	1985	1986	1987	1988	1989	1990	1991	1992	1993
Exports	5057.5	5132.6	5039.8	5093.2	6218.4	6727.1	6682.4	6853.2	7085.8
Imports	7156.5	7882.0	9432.3	10396.4	11936.7	13781.3	16684.4	16592.1	17983.6
Trade Balance	-2099.0	-2749.4	-4392.5	-5303.2	-5718.3	-7054.2	-10002.0	-9738.9	-10897.8
Exports/Imports	0.71	0.65	0.53	0.49	0.52	0.49	0.40	0.41	0.39

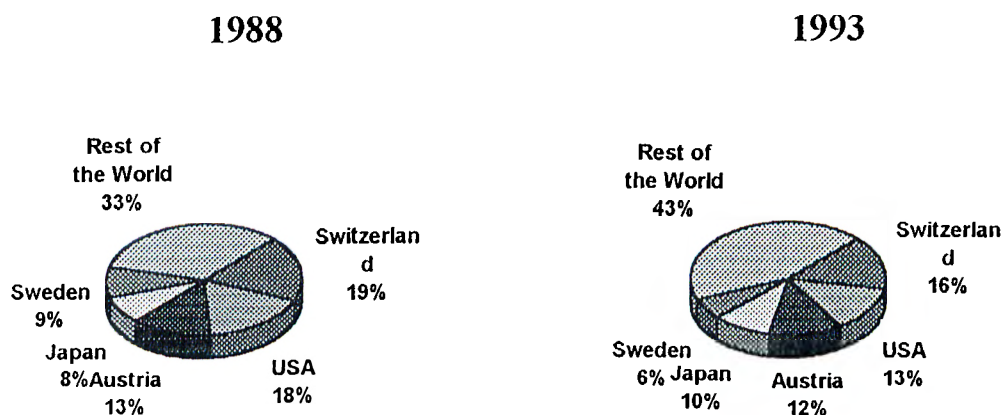
Source: Eurostat (DEBA)

The trade balance is negative and has been deteriorating. The industry has had to face strong growth of imports from low wage countries, in spite of import quotas under the MFA (Multi-Fibre

Agreement). There has also been consistent increases in exports of 4 % between 1984 and 1988 and 6 % between 1989 and 1993, imports grew at an average annual rate of between 11 % and 14 % over the same two periods, in constant prices. The trade deficit has widened over 10 billion ECU in 1994, over four times the level in 1985.

The main destination for EU clothing exports are other developed countries. The main customers are Switzerland (15.5 %), the USA (13.1 %) and Austria (12.2 %).

FIGURE 3
DESTINATION OF EU EXPORTS



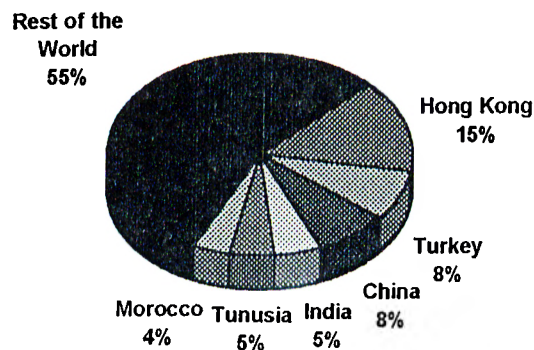
Source: Eurostat

The major origins of EU imports of clothing are low-cost countries in the Far-East, the Mediterranean rim and Eastern Europe. The principal suppliers in 1993 were China (15.3 %), Hong Kong (9.9 %) and Turkey (7.6 %). The share of many of the more important suppliers increased over this period, with the exception of Hong Kong which saw a significant fall in its

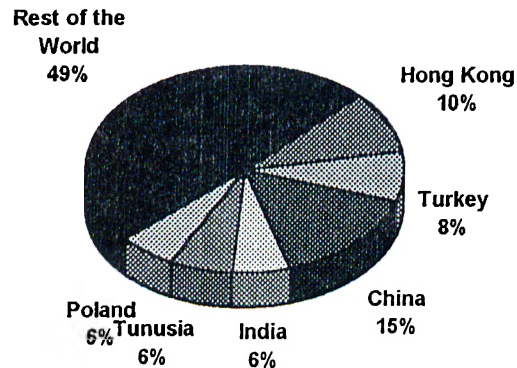
share of the EU market. Much of this has been taken up by China which has seen a rapid increase in its share of EU clothing imports since 1988. This has been the result of the transfer of production away from Hong Kong to China, and other countries in the region, in response to rising wage costs.

This is similar to what has taken place in EU, where production has shifted to neighboring countries, such as Tunisia, Poland and Morocco. For countries such as these, production of clothing for the EU is often conducted by or on behalf of EU manufacturers. Fabrics are exported from the EU, to be made up into clothing for subsequent re-importation within the framework of Outward Processing Trade(OPT). This practice has expanded in recent years. In 1993, OPT imports of clothing accounted for 15 % of total EU imports of clothing, in tones(Eurostat).

FIGURE 4
ORIGIN OF EU IMPORTS
1988



1993



Source: Eurostat

The outlook for the clothing industry depends partly on the effects of phasing out the MFA, which was agreed upon in the Uruguay Round of the GATT. Moves towards higher quality, new fibres and fabrics, quick turn-round time- as well as the further development of the OPT- will be factors helping the firms in the industry. This is however likely to lead to further reductions in the size of the industry's labour force.

3.3.1. Recent Trends

In current price terms, production rose until 1992 before falling in 1993 and 1994. Apparent consumption also fell in the last two years, but grew more strongly in 1992 as rising imports replaced EU production. The trade balance deteriorated continuously and reached a peak deficit in 1993 of 11 billion ECU. The EU clothing industry has had to face a growing impact from lower-

cost countries, whose clothing imports to the EU increased by an annual real average rate of 11.4% between 1983 and 1992.

There have been significant job losses in the EU clothing industry over recent years. Between 1984 and 1994 around 300 000 jobs were lost- a fall of 23 %. It is estimated that 70 000 jobs were lost in 1994 alone(Eurostat). This has been the result, not only of the loss of production because of foreign competition and the general economic recession, but also to gradual improvements in productivity.

On the world market for clothing, major shifts in market shares have benefited Far East suppliers like Hong Kong, Thailand, and China, whose exports to third countries have risen dramatically over recent years. Among countries nearer the EU borders, export-oriented clothing industries have developed mainly in Turkey, Tunisia and Morocco, and recently among East European countries. These have been partly linked to the development of outward processing strategies on the part of European clothing firms.

3.3.2 Labour Costs in European Clothing Industry

As can also be seen in Table 4, there are big differences in labour costs, both within the EU and between the EU and non-EU countries. Gaps like these cannot be attributed primarily to special economic conditions or to employment practices too far removed from European standards,

notably child labour and the absence of trade union freedoms, but must be put down more to structural factors:

- the generally higher skill levels of the European workforce which must be reflected by higher productivity
- the low level of industrialization and abundant supply of unskilled labour for primary activities in the developing countries and the surplus manpower released by industries in the midst of restructuring in Central and Eastern Europe.

Between 1988 and 1992 the labour cost gap, expressed in dollars, widened between most Member States and their rival both in the industrialized world (USA) and in Asia or North Africa. Only the recently industrialized countries in the middle of the wage scale (Taiwan, Turkey, Korea and Hong Kong) recorded bigger wage increases than most EU countries.

Higher inflation in EU than USA and Japan also led to faster growth in nominal wages. The devaluation of certain currencies within EU since 1992 could have an important role to close the gap in wage growth.

3.3.3 Productivity in European Clothing Industry

In unit labour costs, EU countries are at a distinct disadvantage over non-EU countries. Because of these high labour costs, EU countries make high investments in modernization of the

production plant, so that the gains in productivity partly compensate for their disadvantage on wages.

Although the clothing industry has also benefited from technological innovations, particularly computer-aided design (CAD), it remains labour-intensive, particularly the making-up operations. This makes it more difficult to reduce the wage disadvantage by modernizing production plant.

Consequently, higher labour productivity cannot be achieved by modern plant alone. It also depends on the dynamism of the industrial base and on the quality of the human resources available. In clothing industry, where economies of scale are of minor importance, small firms are a driving force towards higher productivity by virtue of their flexibility to adapt to change and their lower overheads. The trend in the clothing industry throughout the 1980s in every EU Member State has been towards smaller firms, particularly at the production stage.

Table 9 also indicates the productivity of European labour force in numbers. As can also be recognized from the table, productivity has shown gradual increases in EU partly due to the reasons explained above.

3.3.4 Changes in the Structure of the European Textile Industries

Changes in the structure of the textile industries in Europe show some results:

1- Structures of national textile industries in Europe have been changing in different ways: There were tendencies towards concentration and oligopolisation. But the share and role of small business has, nearly everywhere, remained important and the textile industries have also been characterized by a very high degree of competition.

2- No clear pattern of relationships between structure and performance has emerged. Two opposite types of firms, multinationals and medium and small-scale businesses, have shown the best performance within this highly competitive environment. The capacity to adjust to a rapidly changing situation has been much more important from the standpoint of performance, than the precise market structure in which firms are operating.

3- The textile industries have been performing well in terms of technical progress and innovation.

4- Internationalization process must be taken into account. The international division of labour and the external competitive pressures, have affected the national textile companies' structures and performances.

3.3.4.1. Analysis of these structural changes

1-Concentration in the industry

The density of the European textile industries is much less than at the beginning of the 1960's. At the same time, the effect of the disappearance of a large number of production units and of firms

has not been an increase in the size of those firms which survived. Taking the average number of employees per firm or production plant into consideration, there has clearly been no tendency towards large size in Europe.

2-The Geographical Diversity of the Clothing Industry Structure

In the structure of the clothing industry, 3 different models- those respectively of the UK, of Germany, and of Italy- have emerged.

a- the UK and the building up of mammoth-sized firms:

The industry in the UK, is, by far, the most concentrated of Europe. These groups have an explicit strategy, aiming at integrating to maximum the various stages of production, in order to control strictly the markets of both inputs and outputs.

b- Germany: Medium-sized specialized firms

The firms have put the main accent on the modernization of their equipment and on specialization in precise, narrow fields.

c- Italy: The dynamics of small firms

Opposite of the UK: small enterprises have a larger & larger share of the industry. But also large groups (like Benetton) do exist(Cecchini, 1988).

3.3.5 Foreign Trade

The EU clothing industry has had to face increasing competition from lower-cost countries, mainly in the Far East and Mediterranean rim, through growing clothing imports in the low- and medium-price and quality segments of the market.

In 1992, imports represented 16.6 billion ECU, or 25% of EU apparent consumption of clothing, against 12.6% in 1983. EU exports of clothing are mainly oriented towards other developed countries, such as the EFTA countries, the USA and Japan. The main extra-EU customers used to be Switzerland (15.5 % of EU exports of clothing in 1993) , Austria (12.2 %) - now a member of EU - and USA (13.1 %).

For EU clothing producers, the internal EU market still remains a major customer, as intra-EU exports are double extra-EU exports.

The main countries of origin for extra-EU imports of clothing are the lower-cost countries, in terms of labour costs and raw material prices. While Hong Kong was the major supplier to the EU in 1988 (15 % of the total), this position has shifted to China in 1993 (15 %), the most rapidly expanding clothing supplier in terms of exports to the EU. As labour costs rise in the traditional low-cost countries like Hong Kong and South Korea, clothing production has moved to even cheaper Far Eastern countries like China, Indonesia, the Philippines, and - more recently - Vietnam

and Laos. Apart from these Far Eastern Countries, most other suppliers are geographically close to the EU, such as Tunisia, Turkey, Morocco, and Poland.

For some Mediterranean countries, notably Turkey making exports to the EU are mainly direct exports of garments. For Poland, on the other hand, 75% of clothing exports are linked to previous EU exports of fabrics, in the framework of outward processing trade (OPT) subcontracting relations.

3.3.6 Market Forces

3.3.6.1 Demand

In the EC, the share of consumer expenditure on clothing, as a proportion of total consumer spending decreased from 8.4% in 1980 to 7.4 % in 1993. This trend has been related to decreasing relative clothing prices, compared with all consumer prices. Some of this change in relative prices is a consequence of the increase in lower priced imports. Declining EU output of clothing from 1983 to 1992 meant that, despite an expanding market, EU clothing producers lost market share during this period.

In terms of product lines(in numbers of garments), apparent consumption has been strongest for shirts, jerseys, and blouses. Consumption has increased for most clothing products, but slight falls in demand occurred in 1992 for trousers and parkas.

An increasing part of the demand for clothing has been supplied by extra-EU imports. The decrease in EU production can be linked to important price differences between EU produced items and imports from outside the EU. These are mainly explained by substantial labour cost differences, as clothing manufacture is a highly labour-intensive process.

Partly because of the influence of cheap imports on the low-quality segment of the clothing market, there has been a swing from cheap, low fashion, mass production in recent years towards higher quality, more classic, yet individual clothing. Consumer demand has grown to become more and more subject to fluctuations in fashion and taste. In response to these changes, EU clothing producers are moving towards shorter production runs and quick-response manufacturing. In the fashion-led segment of the market, consumption trends cannot be fixed for a whole season in advance, thus making long runs difficult. The success of companies like Benetton indicates that quick response to fluctuations in consumer preferences, within a season, can be a major element of success.

3.3.6.2 Supply and Competition

EU clothing producers have to operate in a highly labour-intensive environment, although recent technological innovations (e.g. CAD- computer aided design) indicate that the labour content could become less important in the long run.

Growing import competition from lower-cost countries, mainly due to important wage differences, have forced EU firms to adopt delocalisation strategies in order to achieve lower costs of production. International subcontracting, in the form of outward processing trade (OPT), has expanded in recent years. Fabrics of EU origin are exported to lower-cost countries like Poland, Tunisia, or Morocco, to be processed into garments and reimported as clothing into the EU. Such production may be granted special quotas and tariff conditions(such as duty paid on value added only).

The major OPT importers in the EU are Germany, France and the Benelux countries.

The major countries of origin for OPT imports are either located in East Europe or the Mediterranean rim. This indicates that **proximity** of the subcontracting country is an important element of OPT strategy.

As quick response systems, reduced stock policies and just-in-time strategies develop, delivery times appear as an essential element of OPT. Average lead times for orders in China or other Far East suppliers range between 4 to 7 months. In East Europe and the Mediterranean countries, the lead time is 3 to 6 weeks, depending on the availability of fabrics. But the selection of potential subcontractors always takes place within a certain price range. Therefore, distant countries can be expected to be less attractive OPT partners for the EU as long as nearby subcontractors remain price competitive.

The competitiveness of EU clothing producers is strongest in the higher-quality and fashion-led segments of the market. Among factors which can determine the competitive advantage of EU manufacturers-in addition to movements in exchange rates and inflation- are quality, reliability(in respect of delivery times), short cycle time, availability of high quality fabrics, technical know-how, production flexibility, and the possibility of repeated runs. These competitive criteria, it is claimed, are better fulfilled by EU producers than by their foreign counterparts in lower-cost countries.

3.3.7 Industry Structure

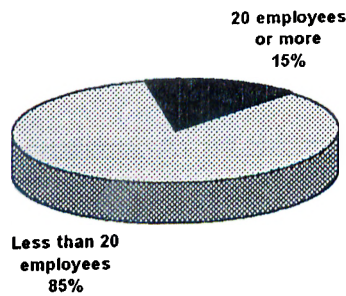
The clothing industry includes a large number of small and medium sized firms. In 1993, the industry was composed of nearly 68 000 companies, of whom 32 % had less than 20 employees. A large part of these small manufacturers operate as subcontractors for larger producers or traders.

TABLE 15
BREAKDOWN BY SIZE OF ENTERPRISES, 1993

	Nr. of Employees	Nr. of Enterprises	Share In Employment
Less than 20 employees	353	57,078	31.5
20 employees or more	766	10,328	68.5
Total	1,119	67,406	100.0

Source: Eurostat (OETH, DEBA)

FIGURE 5
PERCENTAGE OF ENTERPRISES WITH REGARDS TO THE NUMBER OF
EMPLOYEES



As a labour-intensive industry, the clothing industry has few entry barriers in terms of capital required.

Although some companies are specialized in certain products(e.g. Levi-Strauss in jeans and related products), most large companies have a diversified range of clothing lines, operating at the same time in knitwear, women's outwear, children's wear and sportswear(e.g. Steilmann)

3.3.8 Industry Strategies

Among the main EC clothing producers, different marketing and selling strategies have been adopted. While some firms follow specialization strategies in terms of product lines and/or markets, others use a more diversified approach, operating within several different product groups,

combined to more export-oriented selling policies. Companies like Hugo Boss focus on high-quality men's wear, whereas a company like Laura Ashley(UK) has diversified beyond the limits of clothing, into home textiles and decoration accessories.

In terms of production strategies, companies choose between their own production, and local or international subcontracting, or a mixture of both. These options depend on criteria like quality, price, and short-cycle and long-cycle products. As proximity to the subcontractor and long-term relationships have developed, regional textile and clothing areas like Prato in Italy find their "job" in short-cycle products, while long-run and often lower-quality products are processed within lower-cost countries outside the EU.

Four major strategies can be identified for the restructuring of the European textile industry.

3.3.8.1 Modernization of Production Plant

The clothing industry has benefited from CAD and CAM systems but the nature of the industry does not lend itself to further improvements in terms of technology to decrease the labour-intensity. Because it is a making-up operation, it is difficult to reduce the disadvantage of high wages by modernizing production plant.

3.3.8.2 Relocation to Lower-Wage Countries (OPT)

Clothing firms' relocation (OPT) strategy has taken the form of international subcontracting: fabrics or semi-finished clothing are delivered to producers in low-wage countries, which perform generally highly labour-intensive but simple tasks such as making-up and finishing and then return the finished product to the firm which placed the order.

Originally relocation was targeted on the production of long runs of simple products. Today it is gaining ground for short production runs and more complex products. Many factors encourage further development of this strategy in the clothing industry, including the widening wage gap, the impact of telecommunications revolution and the sustained heavy pressure on production costs on a market in recession.

3.3.8.3 Specialization in Specific Markets or Products with the Adoption of a Product Strategy

Product differentiation is achieved by :

- the spread of the fashion factor to stimulate repeated purchases consecutive seasons;
- the fragmentation of the markets into quality and price ranges;
- the response to the new social, environmental and industrial requirements.

In this way, product differentiation reduces the price elasticity of demand and improves the profit margins through creating a brand image in niche markets.

However, recent trends show that price is becoming a more important criterion than brand image in consumer choice.

3.3.8.4 Change of Organization and Methods to Encourage Globalization and Flexibility

In clothing industry, production costs often account for less than half of the consumer price. Consequently, the biggest margins are downstream, in the distribution division. Globalization strategies aim at improving the firm's positions in the chain, by co-operating with the other suppliers and focusing on the activities with the highest added value. The producers move back along the chain and find the reliable suppliers to secure quality of their goods. Co-operation is the union of these producers into a network of suppliers. Some producers move further in this chain and go into distribution of their own products to maximize their profits. Co-operation increases firm's ability of quick response and flexibility.

CHAPTER 4

HASCA TEXTILE INDUSTRY LIMITED COMPANY

4.1 General Information on HASCA

Hasca was established in 1993 as a limited company with a capital of 500.000.000 TL. The total facility area is 12.000 m² of which 1 500 m² is ready for production. The factory building is located in the biggest industrial zone in İzmir. However, the economic crisis and 5th April decisions prevented and delayed Hasca to start functioning. With a change of strategy, the owners decided to go into clothing business which offered a prosperous future. In October 1995, the main agreement of the company was revised and its area of function was enlarged. Hasca as a textile industry limited company started as a textile agency. The responsibility of the firm was then, to find foreign customers and to introduce them to Turkish clothing producers. It acted as an intermediary between two sides, providing a fluent communication and following up orders on behalf of the foreign company. However, market conditions pushed Hasca to reposition itself with a new strategy. Still Hasca functions as a textile agency but besides it creates its own collection under its own brand. The brand name will not be announced until it is legally registered. The registration will be made both for the domestic and European market. Applications have been made to Turkish Registration Institution and to the Office for Harmonization In the Internal Market (Trade Marks and Designs).

As a design company, Hasca has to protect its own collections from other customers. Therefore, the company decided to invest in machinery and become a collection producer. The company will be attending the fairs twice a year with its own collection. It plans to become a collection supplier to European wholesalers and department stores. The whole production is projected to take place in subcontracting companies who are experts in their fields and who have the ability to make their own exports. Only collections and small lots will be accepted for production in the factory. The company also targets to establish a marketing unit in Europe (Holland or Germany) which is projected to be a joint-venture with an agency in that country.

In 1996, total number of employees is 15, production capacity is approximately 500 pieces a day. The firm has made an investment in machinery and equipment of 4 billion TL.

The firm is aware of the significance of the impact of microelectronics on the nature of production and design and therefore targets to install CAD system for design and preparation of patterns. However, this is a long-term project because the investment in CAD systems is high. The managers believe that international competitiveness can only be protected or increased through new technology, in spite of the sector being defined as labour intensive. The investment in technology will be maximized for the design unit since production will be made in subcontracting units.

In the assembly, traditional sewing machinery is used. On the other side, subcontracting companies are furnished with high-technology electronic machinery. Also subcontractors with CAD systems

in pattern department are preferred. The firm has one stylist and one pattern maker in the design unit. The patterns are being made manually for the moment.

Random quality control is made for the assembled pieces in the subcontractors. The plant is usually visited before, during and after assembling process to assure quality. Before the assembly stage, the details of assembly are given to the subcontractor. During the assembly stage production is controlled and necessary precautions are taken to produce the garments within tolerances. After assembling, the conformity of products with standards are checked and allowance for shipment is given. It is under the subcontractors responsibility to produce garments that are within tolerances. Approximate lead time is 6 weeks after the confirmation of the order.

Hasca targets foreign markets for its collections but in the long run plans to sell its products to the domestic market but only through its own retail stores.

The subcontractors work in a satellite type organization mostly concentrated around Hasca. Since Hasca is located in the industrial zone, most subcontractors are very close. The important point in the relationship is the quality control mechanism. Although the subcontractors are furnished with high-technology production systems, managers of Hasca believe that it is always good to keep an eye on the work.

The consumer relations are accepted to be strengthened mostly in international fairs which are known to increase the knowledge of the manufacturers of new market conditions, new technologies used and other innovations in the industry. However, there are not sufficient

promotions for joining these fairs. Taking this point into consideration, Hasca decided to join the international fashion fairs twice a year with its new collections.

CHAPTER 5

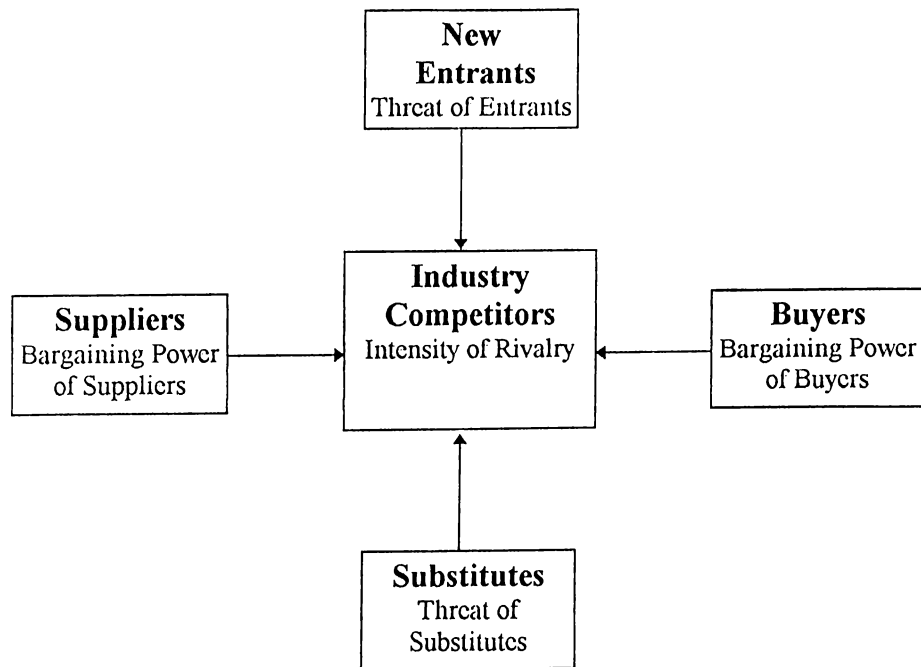
INDUSTRY AND SWOT ANALYSIS

The first fundamental determinant of a firm's profitability is industry attractiveness. Competitive strategies of Hasca Ltd. will grow out of this analysis of competition in the clothing industry.

Porter's five competitive forces will be the criteria for this analysis:

- the entry of new competitors
- the threat of substitutes
- the bargaining power of buyers
- the bargaining power of suppliers
- the rivalry among the existing competitors (See Figure 6)

FIGURE 6
THE FIVE COMPETITIVE FORCES THAT DETERMINE INDUSTRY
PROFITABILITY



Source: Michael E. Porter(1985), Competitive Advantage

The strength of these forces are more different in textile industry than the clothing industry. For example, in textile industry the threat of new entrants is weaker than the clothing industry in terms of capital required. On the other hand the forces keep changing as the industry evolves (the bargaining power of suppliers is decreasing whereas the bargaining power of buyers keep increasing day by day).

5.1 The Entry of New Competitors

Economies of Scale: Because clothing is a highly labour intense industry, by nature there does not seem a lot of possibility for economies of scale through automation and high technology. However, firms are making high investments in microelectronics to minimize the human force effect on production.

Capital Requirements: There exists a considerable threat of new entrants in terms of capital requirements. However, the decrease in sales, low cost imports from Far East and the high cost of labour are the factors that would be barriers for new entries. Since clothing is a labour intensive industry, labour costs become one of the most important criteria in terms of cost advantage. The capital required to build up a production unit with approximately 20 machines ranges between 5 and 7 billion TL.

5.2 Threat of Substitutes

The buyer always has the chance to switch to another brand and price is an important criteria for switching. However, brand loyalty must also be taken into consideration. In general, the consumer group may be classified into two groups:

- 1- Consumers with brand loyalty
- 2- Consumers without brand loyalty

The first type of consumers are not very sensitive to prices because brand is a more important criterion than price and the customer is always ready to pay for that quality(customers of Levi's, Armani or Calvin Klein can be listed in this class). For them the product they are buying are more unique than the others in the market.

On the other hand, the second type of consumers are sensitive to prices and are not brand loyal. For those price is a more important element in decision making and they have a propensity to substitute. They can easily compare the quality of substitutes. Customers of Karstadt, C&A, Macy's, and H&M are of this type. Buyers are very price sensitive for standard goods like basic T-shirts, sweatshirts or casual wear.

5.3 Bargaining Power of Suppliers

The bargaining power of suppliers is getting higher because of the new external policy Turkey adopts to third countries. Until 1.1.1996, cotton could easily be imported in cheaper prices from third countries and then produced into apparels and then exported to EU. This created a great competitive advantage for Turkish firms as they were enjoying low input (raw material) costs together with the advantage of proximity to the European market. As Turkey has entered CU with EU, this type of subsidy is no longer permitted because it creates a traffic disruption. If a Turkish company wants to import raw material from third countries and export goods made from such material to EU countries, then it has to pay common customs tariff. The only other alternative is to buy it in the domestic market where prices are considerably higher. Turkish suppliers of cotton and cotton yarn are enjoying this advantage they have gained. However, this threatens the competitive

advantage of Turkish clothing firms. On the other hand dyeing and finishing processes do not give satisfying service. The prices of the good quality suppliers are high and besides they are not very precise about delivery times. Because they do good quality dyeing or finishing, they have a high bargaining power in terms of the quality of goods provided and lack of competition. The fabric suppliers, will soon start losing market share against their Italian rivals, because they lack providing collection and design. They prefer to produce large meter, one type fabric and sample yardage in color variations is most of the time not available. However, as Italian fabric is not competitive for 100 % cotton, Turkish fabric suppliers enjoy the lack of competition in this segment.

Switching costs of firms in the industry from one supplier to another is high because any problem the buyer has with its supplier do at the end reflect to the final consumer and directly affects the companies' reputation and sales revenues. No department store would sell pullovers in the middle of summer because its supplier was not able to ship the goods on time. The final effect to the department store is the decrease in sales because the goods were not on the shelves on time and a claim to the clothing producer.

Switching costs are high for the suppliers as well, especially when it is very hard to find customers they can trust.

5.4 Rivalry Among the Existing Competitors

The industry is in a maturity stage with a declining sales growth rate. There are two types of competitors in the industry. Dominating the industry are a few giant firms that produce a large

proportion of the industry's output (e.g. Steilmann-Germany) These firms serve the whole market and make their profits mainly through high volume and low cost. They are somewhat differentiated in terms of reputations for low cost, high quality, high service, and the like. Surrounding these dominant firms are the nichers. These companies include market specialists, product specialists and customizing firms (e.g. Versace)

The companies reap all benefits in terms of value added and have a cost advantage in taxation because the companies that often use outside processing only pays tax for the value added in the subcontracting country. In other words, the company increases its sales revenues because of high value added on the goods and pays little tax for the limited value added because of outside processing.

The industry is not concentrated and includes a large number of small and medium sized firms. In 1992, the European Clothing Industry was composed of nearly 68,000 companies, of whom 32% had less than 20 employees. In Turkey, there exists nearly 35,000 companies that employ less than 25 employees.

The exit barriers are not high because the capital required and investment is lower when compared with textile or other technology-intensive industries.

5.5 Bargaining Power of Buyers

In general we can say that the bargaining power of buyers is high and the buyers enjoy the rivalry among firms in the industry. However, this power decreases as switching costs are considered and especially if the buyer has some unfavorable business relationships with suppliers which many face today especially with subcontracting in low-cost countries. The bargaining power of these buyers are extremely high in countries where they do OPT(outside processing trade) because in these countries there exists many hungry small suppliers.

When the firm is one of the most outstanding names in the market, and when brand identity becomes a factor in decision making, then the power of buyers are relatively lower(e.g. buyers of Armani, Versace, Calvin Klein, Hugo Boss etc.)

5.6 SWOT Analysis of HASCA

5.6.1 Strengths

- the investment is not high: since Hasca is not a manufacturing firm there is relatively less investment in the business when compared with a clothing manufacturing company. However, because the company is now taking a step to fashion business in the form of preparing its own collections the investment will grow higher in the coming years.

- there is less risk when compared with other parts of the industry. For the moment the risk is less because the investment is less. But because the collection business requires more know-how, the risk will grow higher proportional to the investment made for the collections.
- Hasca has its own brand name for children's wear and it aims to sell to the European market under this brand. Selling a whole collection under its own brand will increase the profits of Hasca in the short-run.
- one of the first companies that is only design and collection oriented
- the company has already invested in new machinery and is planning to install CAD systems in future
- has wide product portfolio, works with many suppliers in almost all fields of clothing
- works with subcontractors who are specialized and experts in their fields
- provides a continuous and fluent communication (as this is not directly available with most of the subcontracting companies)
- price level is medium (almost same as normal production) but Hasca also offers a collection.

5.6.2 Weaknesses

- the company is very new and does not have a brand recognition
- they are concentrated in the European market but they must as well take other markets into consideration
- organizational weaknesses: all work is operated by the managers personally and the work load is high

- price advantage of integrated Turkish firms who also have their own collection

5.6.3 Opportunities

- Textile and clothing industries are the locomotive industries of Turkish manufacturing industries. There is great potential in the business. Turkey is a strong and qualified cotton producer. Soon Turkey will be the Italy of Europe selling its own brands and collections to European consumers.
- Customs Union increased the interest in the Turkish market decreasing the bureaucracy through elimination of quotas and European companies are starting to switch to the Turkish producers from Portugal and Greece.
- proximity to the European market
- Europe is a big market
- administrative and political support of Turkish government

5.6.4 Threats

- economic stagnation in the European market
- the negative approach to imports in foreign countries
- advantageous positions of the competitors
- exchange rate
- increases in raw material costs

- inflation
- increase in labour-costs
- high cotton prices
- presence of many design producing firms in Europe
- subsidies in the textile and clothing industry came to a peak in 1990 and then started to decrease. It can be concluded that government chose to subsidize some other industry than textile and clothing industry. According to CU, most of the subsidies are eliminated and no longer provided by the Turkish government.

CHAPTER 6

STRATEGIES AND RECOMMENDATIONS

In this chapter, the business strategies formulated for Hasca by using all the analyses and information given up to now will be presented together with the implementation plans.

6.1 Penetrate European Market with Joint Ventures

Pros:

- The big European market is promising with the opportunity to gain long-term business relations.
- Due to its wide portfolio of subcontractors, Hasca has the advantage of having new and different kind of orders.
- Collaborating with a European firm will enable the firm to create new designs and collections. Besides it will give Hasca the ability to finance the collection that is made in Europe.
- Number of such joint ventures is not very high.
- The European market is close to Turkey (proximity).

Cons:

- Because Hasca is a new company, it is not very experienced in running a joint venture; therefore the firm may face difficulties arising from cultural, economic, legal and political environment.
- The firm may not be able to send managers from Turkey.

6.2 Extending the Core Business - Backward Integration: Establishing a Production Plant

Pros:

- The firm has a wide portfolio of customers that they work on agency basis.
- Can produce the orders in its own plant rather than subcontracting.
- Can work as a subcontractor to other companies and profit.

Cons:

- In the clothing industry, by its nature, the orders vary from season to season. Therefore there is the risk of functioning below normal capacity utilization.
- Economies of Scale
- Requires investment
- Competition, existence of many clothing producers in the market

6.3 Extending the Core Business -Forward Integration: Establishing Its Own

Retail Chain

Pros:

- Short term sales revenues
- Shops with the brand name of the company will increase brand recognition
- Maximize profits through distribution channels

Cons:

- Company is not experienced in local market
- Rents are high
- Purchasing power of domestic consumers is still not very strong, although there is a very young generation.

6.4 Preserve The Current Strategy

Pros:

- Long-term oriented
- Concentrated its efforts around its core business(design)
- Working with subcontractors and eliminating the risk of low capacity utilization when orders show an irregular pattern
- Internal financing

Cons:

- Companies prefer to eliminate the intermediary to maximize profits.
- Concentrated on European market only

6.5 Recommended Strategies

Among the strategies developed above, Hasca is recommended to implement the following strategies:

- Preserve the current situation
- Penetrate in European market
- Extend the core business: Backward Integration

Currently, the agency and design business of Hasca is quite satisfying and successful. For that reason Hasca is recommended to preserve the current situation. However, to differentiate itself from the rest of suppliers and to be close to the market, it should penetrate in Europe through a joint venture. The partner should be a company who has experience in the European market and a good reputation. It must as well know the means of access to big buyers.

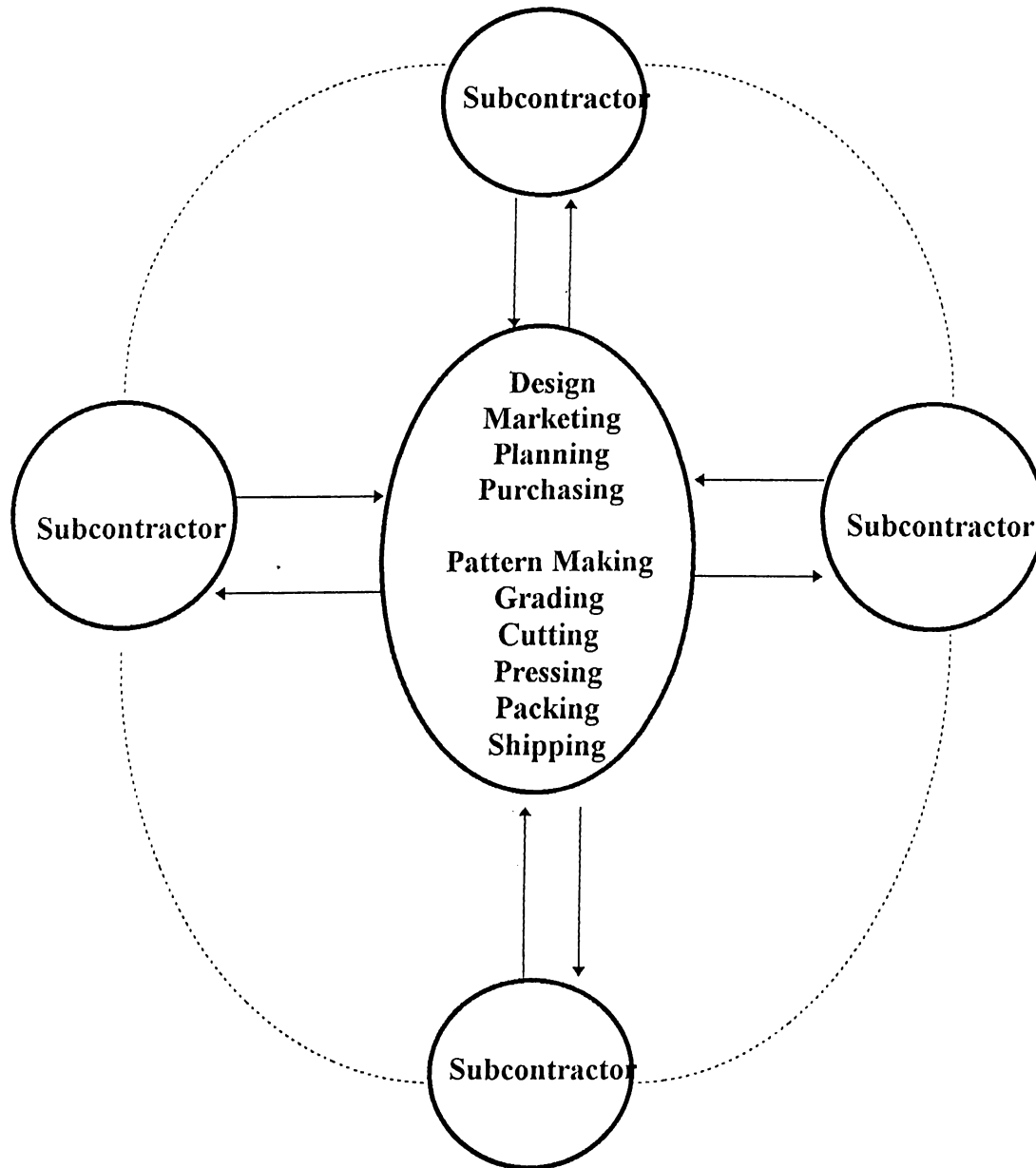
As Hasca sells its own collections to European market and enlarges its customer portfolio, it should extend the core business and establish a production unit. This production should not be very big and Hasca should concentrate on maximum use of automation in preproduction stage. It should implement the satellite model and should organize itself accordingly. Where Hasca will stand in this satellite model is described below.

6.5.1 Sun System Model (Satellite Model of Production)

The “Sun System Model” has been used in many ways until today. Benetton was the one to start it and later it was implemented by many companies around the world in similar ways. The model has also been recommended by Prof.Dr.Işık Tarakçıoğlu at the 1st Clothing and Confection Congress in İstanbul, in 1992.

The system is basically based on the use of subcontracting. In the core of the system stands the company “The Sun” which is furnished with high technology pre-production and post-production units and only the sewing operation is made by the subcontractors who stand as the satellite around the sun. Figure 7 illustrates the satellite model of production in general.

FIGURE 7
SATELLITE MODEL OF PRODUCTION



Source: Işık Tarakçıoğlu(1992)

The company standing at the center makes the designs, markets them in international exhibitions, receives orders and have them produced in the satellites. The fabric is financed by this company and cutting is also made by its own unit. The sewing of goods is made by the satellites and after this stage semi-products are shipped back to the sun where they are turned into finished products and shipped according to order. "The Sun" is furnished with all high-technology machinery and equipment for pre and post-production. The design and cutting units are supported with CAD and CAM systems. Marketing unit has an access to foreign markets, exhibition centers, fashion centers and buyers. The satellites are supported during production with technical knowledge when a need arises.

The main idea lying behind this system is "Co-operation". Co-operation is inevitable in the clothing industry which is saturated with many small subcontracting units who need to be supported in many ways to survive. Therefore, the small producers must be in co-operation with such a company who would do the marketing on their behalf and would support them technically. The satellites might as well be a partner of this "core unit" and take share from the profits. The important point is to last this co-operation to be able to survive.

In this satellite model, Hasca stands at the center with not very big capacity of production unit itself. All designs are made in Hasca and the collections are as well marketed through its own units. The satellites are experienced producers all with the ability to make exports and furnished with updated technology. The preproduction stage (design, pattern making etc.) are automated through CAD system in Hasca and the patterns are tested and fitted in the company. However, the subcontractors make corrections if necessary. This is why, the subcontractors are needed to have

CAD systems in their pattern department. This model will both increase sales of Hasca and exports of clothing producers who work with Hasca. Because most clothing companies (manufacturers) resist making their own collection, this will reduce the burden of preparing collections on their side, and will increase the service ability of Hasca to its customers. Where the trend is toward marketing your own brand, Hasca should prepare its own collections taking a big step ahead of its competitors. The success of the system lies in co-operation among Hasca, subcontractors and the chain of suppliers.

Hasca should also look for possibilities of Outside Processing Trade(OPT). Like European companies make their own design and collection and move labour-intensive production stage to countries where labour cost is cheap, Hasca should also implement such strategies. OPT in East European countries like Romania and Bulgaria might be interesting in terms of very cheap labour costs.

6.6 Quality

Although managers of Hasca state that they are medium to high quality oriented, and they spend too much effort for this, there exists not a formal quality policy. One of the most important problems of clothing sector is unqualified and uneducated workers. This has created severe problems in the sector, but it is still a common practice to employ unqualified workers to minimize labour costs. Because this is a very labour intensive industry, and as qualified workers cost higher, clothing manufacturers are still after low cost unqualified workers. However in the long run the gains in productivity and quality may overcome the cost of employing qualified workers. Schools

have been established where operators are trained. Most companies cannot benefit from graduates of these schools. When attempts to train workers do not give a beneficial result for all parties involved, then the only solution for the companies is to train their own workers in their own unit. Therefore, Hasca has to employ qualified workers for its small production unit where it produces samples and collections. In the future, when it establishes a production unit, it has to train its employees. Quality can only then be attained and preserved. This is important since quality cannot be achieved only by inspection and efforts of managers, commitment of workers is also required.

As the turnover is very high in the industry, Hasca should develop means of keeping the same workers over time. Workers should feel responsible for the quality of work through commitment to quality.

As Hasca employs qualified workers for its sampling unit, it will minimize the cost of training for a small unit and the final product (samples) that reaches buyers will have a high quality. However, when Hasca establishes its production unit, it can employ unqualified workers and train them itself. This will increase the motivation of these workers as they will be improving themselves but Hasca will always carry the risk of high turnover of the industry. Company should differentiate itself from rest of companies by implementing a total quality system rather than a finished product control. Training programs and control systems need to be installed into the company and the advantages of such a system is indicated below:

- Decrease in the quantity of goods to be sold in cheap price as second quality
- Fabric savings in the clothing companies

- Decrease in the number of people employed for process and end product control.
- Ability to produce and therefore sell high quality, high priced products.
- Increase customer trust in the company

As clothing companies face a lot of competition from low priced low quality garments, the differentiation should be with the quality of the garment. One of the dimensions of quality is conformance. That is any garment produced should meet established standards. There are many standards that a garment should be in conformity with. These are:

1- measurement

2- ecological standards

The garments must be within tolerance limits regarding measurements and also certified to be ecological. Many clothing companies in Europe, and in particular textile processors are successful to supply such products that do not contain any harmful substances. In the era of ecological discussions, Hasca should produce such garments that are in conformity with the Oeko-Tex Standard 100 which means that the product complies with the conditions laid down in the Oeko-Tex Standard of the "International Association for Research and Testing in the Field of Textile Ecology". The goods should carry the Oeko-Tex label.

As a last word, Hasca needs to install a formal quality policy taking the following points into consideration:

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As a last word, Hasca needs to install a formal quality policy taking the following points into consideration:

- Products must be in conformity with standards
- Training programs must be organized to prevent failures
- Failure should be reduced through workers' commitment to work
- Inspection costs must be minimized. There are two groups of inspection:

1- Inspection for incoming products from suppliers (subcontractors as well)

2- Final acceptance inspection

Co-operation with suppliers and subcontractors solves mutual problems and strengthens the quality system.

As workers perform inspection for their own work, final acceptance inspection is reduced.

- Workers should be trained so as to prevent any mistakes. This is possible only through necessary work instructions that are realized by the worker.
- Work flow must be clearly indicated.
- Eliminate the problematic machinery - the root cause- of the error
- To improve quality, necessary appraisal systems must be developed.

CHAPTER 7

SUMMARY AND CONCLUSION

In this MBA thesis, it was focused on clothing industry of Turkey and particularly, Turkish clothing firms and their competitiveness in the European market after CU. In addition to this, Porter's framework was used to analyze the forces effecting the competitiveness of firms in the industry. As a case study, a newly established textile company "Hasca Textile Industry Limited Company" was analyzed and strategies were developed. The new trends were also emphasized and taken into consideration during this development.

Clothing industry is very closely tight to textile industry. Both industries are interdependent and developments in one directly effects the other. It is hard and sometimes impossible to give information on one industry alone because the data available sometimes covers both of them together. Clothing industry is a big market for textile producers and without improvements in textiles, clothing could not develop.

Until 1950, ready to wear producers did not have brand and style and were subcontracting whatever their customers had requested. But the industrial and commercial progresses soon forced the producers to differentiate themselves through quality, service and style.

After the second world war, during the Havana Conference, GATT was formed and many trade rounds have been held to eliminate trade barriers among countries. By then, textile and clothing industries were the most protected ones among others. Although the original rationale for their special protection was to provide temporary relief so that the industries could adjust and become sufficiently competitive to face international competition on their own, the protection was never ended and soon textile and clothing industries became an exception to GATT rules.

The developed countries were threatened with the low priced imports. Besides unemployment in the industry created a considerable problem. First came the STA (Short Term Agreement) in 1961, then LTA (Long Term Agreement) in 1962. These two agreements brought “voluntary restraints” on most textile and clothing exporting countries. However, they only covered the cotton products. By 1974, the new Multi-Fiber Arrangement extended the international regime of restrictions to cover man-made fibers. Under the MFA, as in the LTA and STA before it, the United States and Europe restricted imports from the developing countries and Japan but not from each other. The restrictions and restraints still dominate the world textile and clothing trade.

Under all protection international trade has increased together with the increasing competition. 1980s were the years of big quantity large orders but taste of the customers changed. Now is the time of small amount quantities and customized products. Small and flexible production units are the winners of the 1990s. As size of production units became smaller, co-operation grew among them to survive. Creating your own collection, marketing your own brand to increase the added value and therefore profits has become a common practice.

Turkish textile and clothing industries, as the corner stones of the Turkish manufacturing industry, has shown great improvements after 1980 with the changes in the structure of Turkish economy. Vast amounts of government subsidies were provided to the sector and soon the number of firms in the industry increased. However, there was always need for qualified workers in the market as training was not given enough of importance.

Turkey, as a new member of CU, has many expectations especially for the textile and clothing market. As CU is projected to increase the foreign investment, there arises many hopes for the future. Through CU, protection was lowered to zero and quotas were eliminated. This has decreased the bureaucracy and increased access to European market.

During the years of heavy quota restrictions Turkish clothing exports kept growing and Turkey soon became the second biggest supplier to EU after China. In 1980, the European imports of textiles and clothing from Turkey was USD 298 million. In 1994, this amount has risen to USD 3,041 million showing an over ten times increase. In 1992, share of exports of clothing in total exports was 28.5 %. These developments are very significant for Turkey since clothing exports constitute one of the main revenue generating source for Turkish economy. The growth and importance of the sector generated one of the reasons to write this thesis.

It should be realized that in today's world, the main criteria to survive in clothing sector is to differentiate your products through high quality, low prices and through your own label. Whereas, in previous periods, clothing business only meant to produce the developed countries' brands

through mass production. Therefore, this change in the dimensions of competitiveness for clothing should be taken into consideration.

The main strengths of the Turkish clothing companies are proximity to the European market, the availability of cotton and experience gained so far.

The main orientation of Turkish exports has been towards Europe and USA. The European market has got the biggest share in exports and this can be directly linked with the proximity of the market. However, Turkey should also give importance to the American market.

The main strength of Turkish clothing producers is the low labour costs when compared with Europe. However, this strength turns to a weakness when the comparison is made with ten times cheaper Far East countries. Therefore, Turkey has only the chance to compete on the high value-added part of the market and has already lost the price advantage as a subcontracting country. The fact that Turkey is a cotton producing country is also an advantage. But the high cotton prices threatens the competitiveness of Turkish clothing firms in Europe. Low productivity which can be directly linked to the fact of unqualified workers in the sector, is another weakness that producers have to face. When labour intensity of the industry is supported with the lack of training and qualified workers, the problems double at the producers side. Today clothing industry provides almost 12 % of industry employment.

Turkish clothing companies have shifted to production and exports of high value added garments. In 1980s, Turkey acted as a subcontractor to EU countries having low value added in the

garments they produced. All fabrics and accessories were provided from Europe and the most labour intensive part - making up operation- was done in Turkey. Now, Turkish clothing companies have the ability and the know-how to produce their own collections and sell them under their own brand. The reason why Turkish export prices of clothing products are higher than world prices is mostly related to this fact.

On the other hand, Turkish clothing companies suffer from several weaknesses and threats. Particularly, unstable Turkish economy, high inflation and exchange rates, the negative approach to imports in European market, increase in labour costs. As a member of CU, Turkey has to adopt the same external trade policy. Accordingly, government subsidies has been revised and some has been eliminated due to the fact that they cause traffic disruption. The opportunity with the CU is the estimation of increase in foreign investment and the elimination of quotas. Although quota elimination required some prerequisites like adopting the same external policy in textiles as EU, it has a very positive effect in terms of minimizing bureaucracy and the risk of not being able to export your products. However, the hopes of eliminating anti-dumping investigations on Turkish products have faded away together with new investigations started in February, 1996. It should be noted that with the vast human resource, low labour cost, high capacity and know-how, Turkish clothing producers will always stand as a threat for the European market. Therefore, attempts to barrier imports of Turkish clothing products will always take place.

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