

EFFECTS OF THE CUSTOMS ON TURKISH
TEXTILE AND CLOTHING INDUSTRY

M. B. A. THESIS

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June, 1994

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A THESIS
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By

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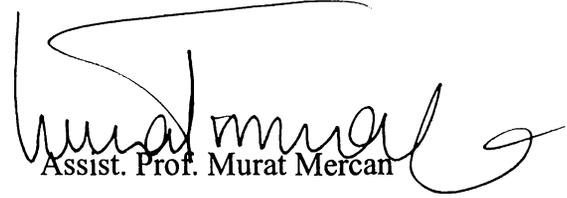
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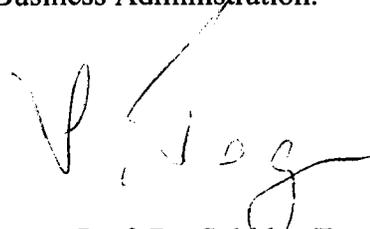
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ABSTRACT

EFFECTS OF THE CUSTOMS UNION ON TURKISH
TEXTILE AND CLOTHING INDUSTRIES

Uğur Tozşekerli

M.B.A.

Supervisor: Assoc. Prof. Gökhan Çapoğlu

June 1994

Turkish textile and clothing industries are expected to be affected by the Customs Union from several aspects. In this study, both positive and negative possible consequences of the Union have been evaluated. Besides, some necessary precautions, which can be taken in order to increase the competitiveness of the Turkish textile and clothing industries in the international markets, have been proposed.

ÖZET

GÜMRÜK BİRLİĞİNİN TÜRK TEKSTİL VE KONFEKSİYON SEKTÖRLERİNE ETKİLERİ

Danışman: Doç.Dr. Gökhan Çapođlu

Türk tekstil ve konfeksiyon sektörleri Gümrük Birliğinden bir çok biçimde etkileneceklerdir. Bu çalışmada Birliđin getireceđi olası olumlu ve olumsuz sonuçlar incelenmiş, ayrıca, bu sektörlerinin uluslararası pazarlardaki rekabet edebilme gücünün arttırmak için alınabilecek olan önlemler sunulmuştur.

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I. INTRODUCTION

The objective of this study is to investigate the macro effects of the Customs Union, between Turkey and EC, on the Turkish textile and clothing industry. Being the driving power of the Turkish manufacturing industry, textile and clothing have been expected to be affected by this union from several aspects. Since these effects may lead to positive or negative consequences, along this study both scenarios have been examined in order to name the necessary measures to be taken.

This study consists of five sections. The first section provides general information about the structure of the world clothing industry. In the second section, the place of the textile and clothing industry in the Turkish economy is explained depending on the related information and data. The third section examines the relationship between the export of Turkey and trends in globalization in the European markets. In addition, the effects of the recent developments in the European textile and clothing markets, and EC textile policy are further detailed. The fourth section deals with the effects of the 1995 Turkey-EC customs union on the Turkish textile and clothing industry. Finally, in the fifth section, possible alternative actions that can be taken are discussed.

I.1 DEFINITION OF TEXTILE AND CLOTHING INDUSTRIES

The sub-sectors of both the textile and the clothing industries can be classified as follows;

A. TEXTILE

I. Man-made fibers

II. Threads (Yarns)

- Wool
- Cotton
- Silk
- Synthetic

• Jute

III. Woven

- Wool
- Cotton
- Silk and Synthetic
- Carpets and Kilims

IV. Knitting

B. CLOTHING

I. Knitted or Crocheted

- Fabrics
- Apparel and accessories

II. Unknitted

- Ready-made Fabrics
- Ready-made Apparel

II. WORLD CLOTHING INDUSTRY

The clothing industry has historically played a significant role in the industrial development of many developing countries. Especially, the early industrialization efforts of the NICs are accepted to have benefited substantially from the dynamic export-oriented expansion of their clothing industry, which has encouraged other developing countries to follow the same path.

These developments have long been one of the key sources of tension in the North-South trading relations due to the increasing unemployment in the developed countries. Trade barriers have by no means totally removed the threat of low wage imports, since for most countries, these barriers have been permeable rather than absolute. Manufacturers and capital goods suppliers have become increasingly preoccupied with the search for cost reduction via technological change.

Given the low wages in the developing countries, it is easy to see that the source of the tension lies in the degree of labor intensiveness in the assembly stage of clothing production, which accounts for more than 35% of total costs. The importance stems from the fact that the developing country exporters face only slightly lower material costs and use the technology that is essentially the same. Matters of quality and flexibility, although important as the source of competitive strength in export markets, are outweighed by the labor costs effect on competitiveness for most product categories in most price ranges.

II.1 WORLD CLOTHING TRADE

In 1963, the volume of international trade in clothing was about \$ 2.2 billion, 80% of this trade originated in developing countries. In the 1970s, the picture had changed

remarkably and by 1978 the international trade in clothing had grown swiftly to \$ 28.3 billion, whereas the share of developed countries in total exports had declined to 51%. By 1989, the international trade had risen to \$ 98 billion, and the share of the developed countries fell to 39 %. Until 1984, the intra-trade among the developed countries constituted the largest portion of the total trade. However, the increase in the exports of the developing countries had caused an impressive reversal in this trend (Table 1).

In 1989 shares of the world trade by main areas, where the developed countries are the main markets for the exports of clothing, and the developing countries are the main suppliers, can be traced from Table 2.

Table 1
Distribution of World Trade in Clothing
(bn. \$ 1989)

ORIGIN	DESTINATION		
	DEVELOPED	DEVELOPING	WORLD
WORLD	82.3	10.00	97.25
DEVELOPED COUNTRIES	34.2	3.75	38.45
DEVELOPING COUNTRIES	39.7	2.50	43.70

Source: Duruiz, L. and Yenturk, N. (1992), Facing the Challenge (taken from GATT, 1991)

Table 2
The Shares of Imports of Clothing of Developed Countries %

	1985	1986	1987	1988	1989	1990
DEVELOPED AREAS	44.0	47.0	45.5	43.4	41.6	45.1
DEVELOPING AREAS	48.1	45.0	46.4	47.5	48.2	44.3
EASTERN AREAS	7.9	8.0	8.1	9.1	10.2	10.6

Source: Duruiz, L. and Yenturk, N. (1992), Facing the Challenge (taken from GATT, 1991)

II.2 TRENDS IN THE IMPORTS OF THE DEVELOPED COUNTRIES

Table 3 displays the growth trend in imports of the developed countries from 1985 to 1990. Although the composition did not show a great deal of change, both developed and developing countries lost a little of their shares to the Eastern Trade Areas during this period. However, the composition in 1990 might be an indication for increase in the competitiveness of the developed countries under new conditions.

II.2.1 The Main Exporters

During 1980-1990, clothing exports from the developing countries (excluding NICs) showed a remarkable rise (Table 3). In 1990, the EC (mainly Italy, Germany, France, UK, and Portugal) with \$ 30 billion of clothing exports, took the first place. The EC exports of clothing in value rose moderately during 1980-1990.

Table 3 Leading Exporters of Clothing and Annual Rates of Change

	EXPORTS (bn. \$)	ANNUAL AV. CHANGE
	1990	1980-1990
EC	30.0	5
HONG KONG	15.4	12
CHINA	9.7	20
S. KOREA	7.9	10
TAIWAN	4.2	5
TURKEY	3.3	38
THAILAND	3.3	29
USA	2.6	7

Source: Duruiz, L. and Yenturk, N. (1992), Facing the Challenge (taken from GATT, 1991)

Hong Kong continued to be the second largest exporter with about 13% of the world clothing trade in 1990. It is significant that between 1980 and 1990 Turkey moved from twentieth to ninth position among the leading exporters of clothing with an annual average of 38%. In 1989, export growth regained its momentum and recovery came with a 22% annual increase in 1990. New market conditions and government policies designed to move Turkey towards external markets have started to influence competitiveness of the country. Today, Turkey ranks fifth among the developing countries after Hong Kong, China, South Korea, and Taiwan.

II.2.2 The Main Importers

The clothing trade has been highly concentrated in certain areas. Eight countries have accounted for more than 80% of clothing imports (Table 4). The EC has, by far, dominated the world clothing imports, taking more than one third of total.

Table 4
Leading Importers of Clothing
(bn. \$)

WORLD	113.0
EC	38.0
USA	27.0
JAPAN	8.7
HONG KONG	6.9
SWITZERLAND	3.4
CANADA	2.4
SWEDEN	2.5

Source: Duruiz, L. and Yenturk, N. (1992), Facing the Challenge

III. TURKISH CLOTHING INDUSTRY

Introduction of the textile industry to Turkey goes back to 1835. During the reign of Ottoman Empire, a small woolen mill named "Feshane" was first founded to produce "fezes" to the army. In 1839, this mill (now belonging to Sumerbank, with the name of "Defterdar") was expanded by importing spinning, weaving and finishing machinery from Europe, and was recognized by the use of steam-power in 1843. This was followed by the establishment of the "Hereke Factory" in order to supply goods to the army and satisfying the needs of the Imperial Palace, such as silk upholstery, curtain fabrics, carpets, and other woven materials.

The Chinese textile machinery entered the Turkish industry first and Russian machinery was installed in Gaziantep afterwards. Machinery from Europe and USA has followed these.

After the foundation of Turkish Republic, the measures, related to the development of textile sector, were taken in the First Economic Congress in Izmir. The organizational responsibilities of the factories as Feshane, Bakirkoy and Hereke were given to the "Bank of Industry and Mines". With the help of this bank all the small plants scattered around the country had been brought under a central planning. The control mechanism was transferred to Sumerbank when it was founded in 1933. Main breakthrough in this industry had been achieved by Sumerbank Merinos Mills. The personnel sent abroad for textile education had been the founders of the industries.

The private sector before 1950s was dominant with small scale firms. However, it developed a lot by the help of the incentives after 1950, and was more established after 1971. The export-orientation affected the structure of the textile firms. Today, in clothing sector, there are four main categories of firms. One of them is the clothing

producers and exporters. The second one is the subcontracting firms which work for domestic and foreign companies. The third one is the export-capital firms which do not produce but only deals with exporting of the goods of small firms. There are also homeworkers which are organized by individual traders.

Turkish textile and clothing industry is the steam engine of the Turkish economy. It is possible to find the relevant data to support this argument. However, along this study, in order to determine the importance of Turkish textile and clothing industry in the Turkish economy, production, capacity utilization ratio, employment and foreign trade data will be used.

III.1 PRODUCTION

Eventhough it is very difficult to find any information on production in Turkey, there are several valuable studies conducted by State Statistics Institution (SSI). The production information submitted by SSI forms a base for annual government programs. Therefore, there is no doubt about validity of this information.

The production figures of Turkish T&C industries between 1984 and 1993 are given in Table 5. Graph 1, on the other hand, helps us visualize the values in Table 5 in the graphical form.

The production of Turkish textile industry in 1984, based on 1988 fixed prices, was TL 4.2 trillion . The total T&C production had increased along the years and reached TL 5.6 trillion , at the end of 1992 with an annual average of 3.8 %.

Table 5
Textile and Clothing Production (1988 Prices)

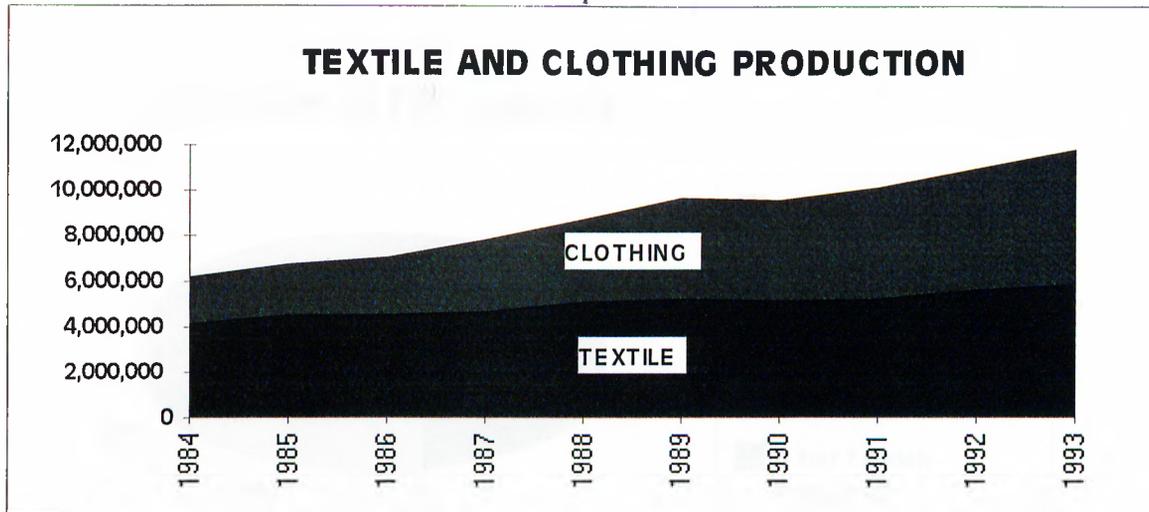
YEARS	TEXTILE		CLOTHING		TOTAL	
	Value (mn TL)	% Change	Value (mn TL)	% Change	Value (mn TL)	% Change
1984	4,166,761		2,041,560		6,208,321	
1985	4,573,612	9.76	2,207,130	8.11	6,780,742	9.22
1986	4,562,839	-0.24	2,513,176	13.87	7,076,015	4.35
1987	4,682,638	2.63	3,145,928	25.18	7,828,566	10.64
1988	5,123,638	9.42	3,617,248	14.98	8,740,886	11.65
1989	5,242,177	2.31	4,460,651	23.32	9,702,828	11.01
1990	5,169,200	-1.39	4,431,764	-0.65	9,600,964	-1.05
1991	5,238,500	1.34	4,911,200	10.82	10,149,700	5.72
1992	5,628,500	7.44	5,368,600	9.31	10,997,100	8.35
1993 ¹	5,878,600	4.44	5,941,400	10.67	11,820,000	7.48

Source : SSI (taken from the department of Public Relations)

Developments in the clothing industry, on the other hand, have been more remarkable compared to the developments in the textile industry. Turkish clothing production increased from TL 2 trillion in 1984, to TL 5.4 trillion with an annual average of 12.8 %.

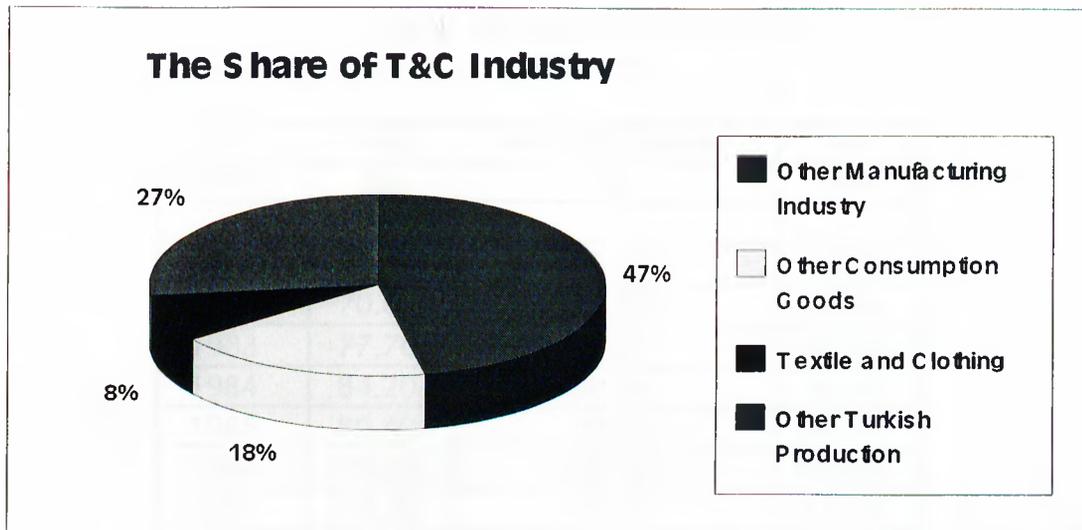
The collective production of the textile and clothing industries had grown swiftly from 6.2 trillion to TL 11 trillion with an annual average of 7.5 %, which was higher than the growth rate of the Turkish economy during the same period.

Graph 1



T&C industry is one of the largest industries which constitute Turkish industry production. Total physical production figure for TL Turkey in 1992 was 134 trillion based on 1988 fixed prices¹. Manufacturing industry had the greatest portion of this production (TL 98.4 trillion). Production in the manufacturing industry is classified as consumption goods, investment goods and intermediate goods. T&C industry is considered under the consumption goods category. The production of consumption goods in Turkey in 1992 was TL 35.5 trillion. On the other hand, the production value of T&C industry in 1992 was above TL 11 trillion. According to the given data, T&C industry occupied 31.8 % of consumption goods production, 11.5 % of manufacturing industry production and 8.4 % of the total production in Turkey. These values are sufficient to emphasize the size and importance of T&C industry production in the Turkish economy. The share of the T&C industry in the total Turkish production in 1992 is shown in Graph 2.

Graph 2



The importance of the T&C industry in the Turkish economy, from the production point of view, is clear considering the aforementioned values. Another source of data which will support these figures is the production indices of several industries in the Turkish economy. Table 6 shows the changes in the Turkish T&C industry production index between 1981 and 1993 on the basis of annual production index averages and annual production index of manufacturing industry. In addition, Graph 3 shows the annual production index of Turkish T&C industry together with the advances in the production index of Turkish manufacturing industry.

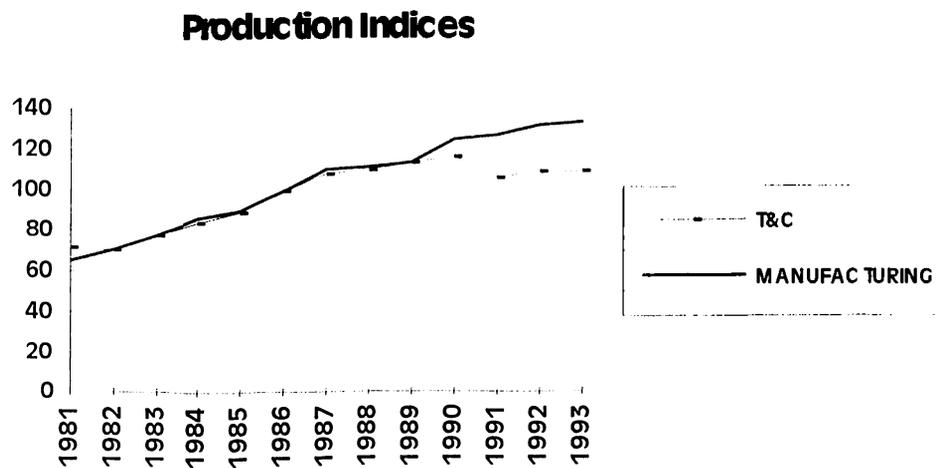
According to the Production Index data which are based on 1986, the production index of T&C industry in 1981 has equaled to 71 points. This index has steadily increased and reached 116 points in 1990. However, during the 3 years following 1990, unfortunately, the production index level of 1990 could not be achieved. Although there were increases in the production index of the T&C industry in 1991, 1992 and 1993, these increases were not sufficient to surpass the decrease in 1991.

Table 6
 Turkish T&C Industry Production Index
 (1986 = 100)

	T&C	MANUFACTURING	A/B
YEARS	(A)	(B)	(%)
1981	71.40	65.00	109.85
1982	70.60	70.70	99.86
1983	77.70	77.70	100.00
1984	84.20	86.40	97.45
1985	89.40	90.20	99.11
1986	100.00	100.00	100.00
1987	108.40	110.70	97.92
1988	110.40	111.80	98.75
1989	113.90	114.20	99.74
1990	116.50	125.10	93.13
1991	106.50	127.40	83.59
1992	109.50	132.80	82.45
1993	110.10	134.50	81.86

Source : SSI (taken from the department of Public Relations)

Graph 3



While facing these developments in the production index of Turkish T&C industry, there has been a different tendency in the production index of Turkish manufacturing industry. Turkish manufacturing industry production index has been continuously increasing since 1981. The manufacturing industry production index, which increased 65 points in 1981, went up every year and reached 134 points in 1993.

The advances in T&C industry and manufacturing industry production indices showed similarities until 1989. As can be seen in Graph 3, it is very difficult to distinguish the advances in these sectors till 1989. However, after 1990 T&C industry production index has remained below the manufacturing industry production index. Thus, while the difference between these two indices in 1990 was 7 %, it reached 18 % in 1993. According to these data, it is easily observed that production index of T&C industry remained significantly below the production index of the manufacturing industry. This situation may be a sign of change in effectiveness of the T&C industry in total production of Turkey.

III.2 CAPACITY UTILIZATION RATIOS (CUR)

Another data base, that is constructed by SSI according to pool results, is the capacity utilization ratios of various industries.

The capacities of the Turkish fiber production and woven industries have been among the top 10 in the world². For example, at the end of 1992, 2.4% of the world's short fiber thread production (closed-end) capacity and 2% of the world's open-end thread production capacity is held by Turkey³. Similarly, 2.5% of world's "**mekikli tezgah**" capacity and 1.4% of world's "**mekiksiz tezgah**" capacity have been established in Turkey. In addition,⁴ Turkey accelerated the procedures for developing the quality of

machines used by means of the investments made in the recent years. To illustrate, Turkey is the third largest country in investing on open-end system in the world⁵.

This volume of capacity explains the importance of Turkey in world textile industry. Eventhough there is no robust data about the capacity of clothing industry, it is possible to claim that Turkish clothing capacity is also among the largest capacities in the world.

Although Turkish T&C industry has an important portion in the total established capacity, the capacity utilization ratio will determine the effectiveness of this sector. Table 7 shows the capacity utilization ratios of Turkish T&C industry and manufacturing industry. Besides, Graph 4 displays the advances in these two CURs along the years.

Table 7
Turkish T&C Industries Capacity Utilization Ratios

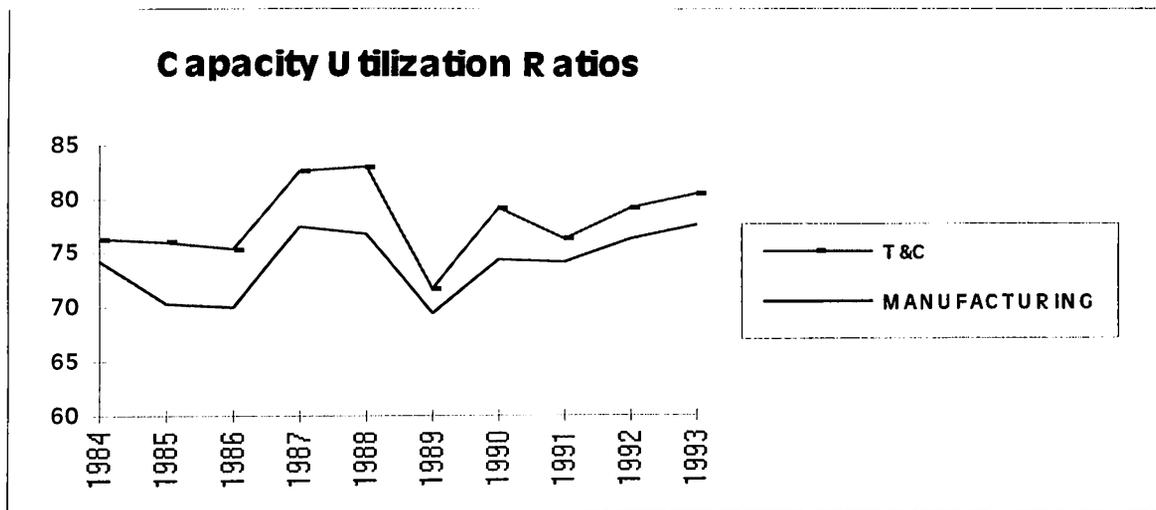
	T&C	MANUFACTURING	(A/B)
YEARS	(A)	(B)	(%)
1984	76.30	74.20	102.83
1985	76.00	70.30	108.11
1986	75.40	70.00	107.71
1987	82.70	77.50	106.71
1988	83.10	76.80	108.20
1989	71.70	69.50	103.17
1990	79.30	74.40	106.59
1991	76.40	74.20	102.96
1992	79.30	76.40	103.80
1993	80.60	77.70	103.73

Source : SSI (taken from the department of Public Relations)

The CUR of Turkish T&C industry in 1984 was 76.3%. This rate remained above 75 % until 1993. The highest CUR of Turkish T&C industry was 83.1 % reached in 1988. On the other hand, the lowest rate was 76.4 % in 1991. In 1992 and 1993, a significant increase was observed.

While CUR of Turkish T&C industry witnessed these changes, CUR of manufacturing industry showed a different trend. The latter in 1984 was 74.4 %. Along the following years, it proved a highly fluctuating trend, reached its peak in 1987 by 77.5 %, its lowest in 1989 by 69.5%.

Graph 4



When a comparison is made between CURs of Turkish T&C industry and manufacturing industry, it is observed that former is always above the latter. There is an average difference of 4 % between these two CURs. This result, once again, proves the driving power of T&C industry in Turkish manufacturing industry.

III.3 EMPLOYMENT

T&C industries have been highly labor intensive in all around the world. Eventhough the recent technological advances have caused textile industry to become capital intensive, clothing industry still keeps its labor intensive characteristic.

In the light of these determinations, the importance of the cost and the quality of the labor seems obvious in the T&C industry. According to various arguments, employment in Turkish T&C industry occupies almost 20% of the total employment in Turkish manufacturing industry. However, no legal data to support these claims is available. Eventhough it is possible to estimate the total number of employees accommodated in the textile industry approximately, it is impossible to make such an estimation for the clothing industry, where there is a tendency of hiring uninsured workers and there is a high rate of sub-contract production. It is suggested that the Turkish T&C industry has employed 2 million people.

The only solid data base about the volume of employment in T&C industry is the one constructed by **Ministry of Working and Social Insurance**, called as “Working Life Statistics”⁶. Basically, these data, which are used to determine whether the unions have a right to present an industry or not, are not reliable due to the tendency of unions’ double counting of their members to gain more power.

According to the mentioned data base, there were 3,596,459 workers employed in the manufacturing industry at the beginning of 1993⁷. All of these workers were insured and registered. 351,427 of these 3.5 million workers were employed in the textile industry. According to the same data 9.8 % of the Turkish manufacturing industry was accommodated in the textile industry. If the value is doubled considering the clothing industry as well, it is observed that Turkish T&C industry has a share of 20% in total employment as suggested. This employment share constitutes an important degree for the Turkish economy and business life.

III.3.1 Cost of Labor in the Textile Industry

The cost of labor is as important as the size of employment in an industry. Table 8 examines the cost of labor of the workers who are insured and who are members of a union in various sectors in Turkey by 1st of July, 1993. However, all the data presented in this table belong to textile industry.

Table 8
Cost of Labor in Various Sectors in Turkey

Industry	Gross Wage (Av.) (TL/Year)	Labor Cost (Av.) (TL/Year)	Labor Cost Index
Textile	3,560,642	91,900,000	43.64
Wood	3,675,750	78,600,000	37.32
Glass	8,325,000	199,800,000	94.87
Cement	8,550,833	203,600,000	96.68
Leather	5,250,000	128,100,000	60.83
Food	6,718,800	145,200,000	68.95
Construction	4,905,625	149,800,000	71.13
Paper	7,308,845	175,600,000	83.38
Chemistry	8,202,469	210,600,000	100.00
Metal	5,914,350	161,500,000	76.69
Soil	4,630,000	164,300,000	78.02
Sugar	6,948,847	171,912,000	81.63
Average	6,165,930	156,742,667	74.43

Source : Confederation of Turkish Labor Unions

As the data indicated, the monthly cost of labor in textile industry on 1.7.1993 was TL 91.9 million annually. On the same date, the lowest cost of labor in Turkey was in the wood industry with TL 78.6 million and highest cost of labor was in the chemistry industry with TL 210.6 million. The index, which assigns 100 points to the highest cost of labor for the chemistry industry, shows the cost of labor in the textile industry as 43.6. According to the index, the average cost of labor in Turkey is 74 points. Thus, the cost of labor in textile industry is only 58.6% of the cost of labor of the average in Turkey. In

other words, a worker in textile industry earns only 59% of the average wage of a worker in manufacturing industry.

Having compared the labor cost of the textile industry with that of manufacturing industry, the international dimension of this cost have been investigated in order to clarify the questions about the competitive strength of the Turkish textile industry.

A consulting firm, Werner International Inc., publishes annual reports containing spinning and weaving labor costs of many countries in the world. The last study, which investigated the cost positions in 52 countries, was conducted in 1991 and published in 1992⁸. The results can be summarized as follows;

- the country which had the highest cost was Sweden with \$ 19.48 per hour,
- Turkey ranked 27th with a cost of \$ 3.12 per hour,
- Western European countries placed in the top 10 with their high costs,
- the countries which had the lowest costs such as Indonesia, China, Pakistan, Sri Lanka, Egypt, and India had increased their textile and/or clothing exports to the EC.

Analysis of the changes in the export, together with the changes in the labor costs, of the main fifteen textile product suppliers may convey valuable information for understanding the competitive strength of Turkey in European markets. Therefore, the Table 9-listing the countries, which had the highest export to EC, and their labor costs in spinning and weaving industries- has been formed.

Table 9
Main Textile Producers and Exporters of EC and their Labor Costs

COUNTRY	EXPORT			LABOR COST		
	Value; 000 ecu		Change	\$/hour		Change
	1989	1992	92/89	1985	1991	91/85
TURKEY	795,467	571,883	-28.11	1.05	3.12	197.14
SWITZERLAND	1,322,030	1,233,661	-6.68	10.84	19.23	77.40
USA	1,227,248	1,128,011	-8.09	8.67	10.33	19.15
AUSTRIA	1,049,538	1,002,163	-4.51	8.71	15.51	78.07
AUSTRALIA	1,417,668	946,424	-33.24	7.03	11.27	60.31
INDIA	599,931	743,252	23.89	0.61	0.55	-9.84
CHINA	1,060,115	730,456	-31.10	0.21	0.34	61.90
JAPAN	720,017	686,808	-4.61	8.21	16.37	99.39
INDONESIA	193,582	425,603	119.86	0.23	0.28	21.74
PAKISTAN	419,565	421,227	0.40	0.31	0.38	22.58
S. KOREA	331,438	312,894	-5.60	1.57	3.61	129.94
TAIWAN	328,829	236,897	-27.96	1.61	5.01	211.18
EGYPT	263,793	192,070	-27.19	0.79	0.43	-45.57
THAILAND	167,185	185,122	10.73	0.53	0.87	64.15
BRAZIL	245,744	159,300	-35.18	1.43	1.53	6.99
TOTAL	10,142,150	8,975,771	-11.50	3.45	5.92	71.49

Source: Werner International, Eurostat

As it is seen from the table, Indonesia ranked first with 119 % export increase to the EC between 1989 and 1992. India, Thailand, and Pakistan followed Indonesia with 23 %, 10 %, and 1 % respectively. Other eleven countries, presented in the table, confronted contraction in their exports during the same period. The countries which faced dramatic declines in their textile export to the community, were Brazil, Australia, China, Taiwan, and Egypt with the decreases of 35 %, 33 %, 31 %, 28 %, and 27 % respectively. On the other hand, Turkey had to cope with the problem of 28 % decline in the textile export in the mentioned period.

When the labor cost is involved in the analysis, following interesting results come out;

- labor costs of all countries, except India and Egypt, had increased with an average of 71 percent,
- labor cost in the four countries, which increased their export to EC and were mentioned before, either increased at a lower rate than the average or decreased.

Under the highlight of these observations, it can be concluded that if a country has relatively lower increases in the labor costs, it will accelerate its export to EC.

Nevertheless, USA, Brazil, China, and Egypt could not rise their exports, even though they had also relatively lower increases in their labor costs. At the first glance, this observation seems to create a conflict with the argument stated above. However, the following plausible explanations may be put forward in order to debunk the situation:

- The labor cost in USA in 1985 was \$ 8.65 per hour, which was very high compared to the other countries. Therefore, with the 19% increase (52% lower than the average) USA had 10.33 \$/hr labor cost in 1992 which was still higher.
- A remarkable decrease (35 percent) in the exports of Brazil may be due to imposing a definitive antidumping duty on imports of cotton yarn originating in Brazil by EC⁹
- Other two countries, China and Egypt, mostly consumed their textile products as raw materials for their clothing industries. Besides, they expanded their clothing exports to EC.

On the other hand, 28 percent contraction in the textile export of Turkey may be due to 197 % increase in the labor costs together with the antidumping duty imposed by the EC, as in the case of Brazil.

III.3.2 Cost of Labor in the Clothing Industry

A study - called "Hourly Labor Cost in the Apparel Industry" and conducted by Werner International Inc. in 1992- can highlight the competitive position of Turkish clothing industry from the point of labor costs¹⁰.

Therefore, some of the results of this study has been presented as follows;

- the country which had the highest cost was Sweden with 18.52 dollar per hour,
- Germany, Italy, France, Japan, and USA, which are the main producers and exporters, had the costs of \$ 14.81, \$ 13.51, \$ 12.41, \$ 7.44, and \$ 6.77 respectively,
- Turkey was the 28th highest cost country with \$ 2.31 per hour,
- the lowest cost country was Indonesia, as in the textile industry, with the cost of \$ 0.18 per hour,
- China (\$/hr 0.24), Pakistan (\$/hr 0.24), and India (\$/hr 0.25) were other lowest cost countries.

In order to understand the relationship between export and labor cost in the clothing industry and to have some information about the competitive power of Turkey in the European markets, export and cost values of Turkey and other countries, which are the main suppliers of EC, have been investigated in the Table 10.

Table 10
Main Clothing Producers and Exporters of EC and their Labor Costs

COUNTRY	EXPORT				LABOR COST	
	Value; 000 ecu				Change	\$/hour
	1989	1990	1991	1992	92/89	
TURKEY	1,686,770	2,005,076	2,361,269	2,723,976	61.49	2.31
CHINA	1,485,583	2,130,308	3,467,869	3,491,507	135.03	0.24
HONG KONG	2,475,120	2,377,540	2,694,318	2,500,019	1.01	3.39
MOROCCO	773,047	1,022,562	1,141,649	1,256,373	62.52	0.99
TUNISIA	717,310	962,784	1,070,006	1,248,283	74.02	1.46
INDIA	816,184	987,874	1,018,072	1,126,618	38.03	0.25
POLAND	347,852	529,094	793,811	1,018,202	192.71	0.54
INDONESIA	327,969	456,803	770,087	946,390	188.56	0.18
AUSTRIA	676,726	737,870	844,260	890,484	31.59	9.84
S. KOREA	992,319	788,844	1,005,088	765,607	-22.85	2.75
THAILAND	535,853	587,723	768,862	727,051	35.68	0.59
USA	288,681	439,519	542,439	592,770	105.34	6.77
HUNGARY	308,364	373,266	469,767	579,304	87.86	1.19
PAKISTAN	316,928	405,811	551,644	557,671	75.96	0.24
TAIWAN	498,032	428,941	619,279	506,836	1.77	3.74
ROMANIA	391,815	343,292	347,159	464,272	18.49	0.27
SRI LANKA	152,150	162,005	251,584	306,639	101.54	0.39
TOTAL	12,790,703	14,739,312	18,717,163	19,702,002	54.03	

Source: Werner International, Eurostat

As the table displays, the countries under the examination had increased their exports by 52 % from 12.8 billion to 19.8 billion ECU during 1989 and 1992. Turkey ranked second, following China, in terms of value of export and had 61 percent increase in her export to EC. This was a satisfactory result for Turkey. However, Poland, Indonesia, China, USA, and Sri Lanka were more successful in increasing their exports in the mentioned period.

The six of the sixteen countries (China, India, Pakistan, Sri Lanka, Romania, and Indonesia) had realized remarkable expansions in their export to EC due to their relatively lower cost positions.

All of these observations indicate that, there exist a negative correlation between labor cost and marketing capability. In other words, the countries which have higher costs face either a decline or a very little rise in their exports.

III.4 TRENDS IN FOREIGN TRADE

III.4.1 Export

The new foreign policy which started in 1980 in Turkey allowed the T&C industry to benefit from it the most. The reasons such as the cheap labor, abundance and high quality of the raw materials, proximity to the export markets and commercial partnership with EC made T&C industry be the star of Turkish exports. Table 11 shows the import and export values for Turkish T&C industry during 1989 and 1992.

There has been a trend for recession in the Turkish textile exports after 1989. The reason for this immobility is the anti-dumping taxes applied by EC to Turkish textile products and the lack of competitive power of Turkish products with low added-value.

While the Turkish textile exports remain constant, there is a considerable increase in imports. Turkish textile imports were \$ 624 million in 1989, and increased by 90 % in 1992 reaching \$ 1.2 billion.

If the investigation is shifted from the textile industry to the clothing industry, a totally different situation is faced. While the Turkish clothing exports were \$2.4 billion in

1989, they increased in the following 3 years by 67% and exceeded \$4 billion. This success is well above the economy average. Thus the clothing exports carried their share in total Turkish exports up to 27.2%.

Table 11
Foreign Trade of T&C Industries (Including Fiber)

TEXTILE							
	1989	1990	1991	1992	% Change		
	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)	90/89	91/90	92/91
Export	1,427,301	1,424,248	1,374,356	1,369,322	-0.21	-3.50	-0.37
Import	624,280	1,049,012	872,912	1,189,310	68.04	-16.79	36.25
CLOTHING							
Export	2,401,495	2,898,349	3,219,350	4,009,615	20.69	11.08	24.55
Import	6,617	17,984	26,516	35,066	171.78	47.44	32.24
TEXTILE AND CLOTHING							
Export	3,828,796	4,322,597	4,593,706	5,378,937	12.90	6.27	17.09
Import	630,897	1,066,996	899,428	1,224,376	69.12	-15.70	36.13
TOTAL FOREIGN TRADE							
Export	11,624,700	12,959,300	13,593,500	14,714,700	11.48	4.89	8.25
Import	15,792,100	22,302,100	21,047,700	22,870,900	41.22	-5.62	8.66
SHARE OF T&C IN THE FOREIGN TRADE							
Export	32.94	33.36	33.79	36.55			
Import	4.00	4.78	4.27	5.35			

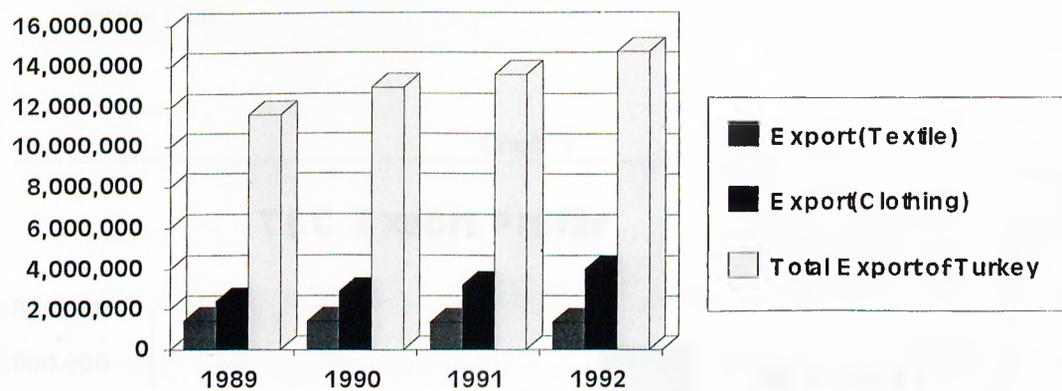
Source: Treasury and External Trade Undersecretary

If the import figures in clothing industry are examined, increases are observed in significant proportions. While the imports for the Turkish clothing industry were \$ 6.6 million in 1989, they increased by 430 % in the following 3 years and reached \$ 35 million. However, the low import figures for the clothing industry, resulted in having no disturbances because of the high rate of increase in the figures.

The evaluation of the textile and the clothing industry indicates that, while Turkish T&C industry exports were \$3.83 billion in 1989, they reached \$5.38 billion at the end of 1992. According to these results, the share of the T&C industry in total exports has been increasing.(Graph 8). This share increased slightly in 1990 and in 1991. In 1990, the share of the T&C industry in total export revenues reached 33.4% and in 1991 33.8%. One year later, in 1992, since there became a big difference in the total Turkish export increase rate and the T&C exports increase rate (total export increase rate: 8.2%), the share of the T&C industry in total export revenues increased to 36.6%. It can easily be stated that an industry which has a share of more than 1/3 of a country's export revenues is the leader and the star of the economy.

Graph 8

Share of T & C in Turkish Foreign Trade



III.4.1.1 Distribution of Exports Among the Countries

It is beneficial to know the markets that the T&C industry is targeting, besides providing information on the size and the development of the industry. As a result of defining these markets, the effects of 1995 Turkey-EC Customs Union can be better understood.

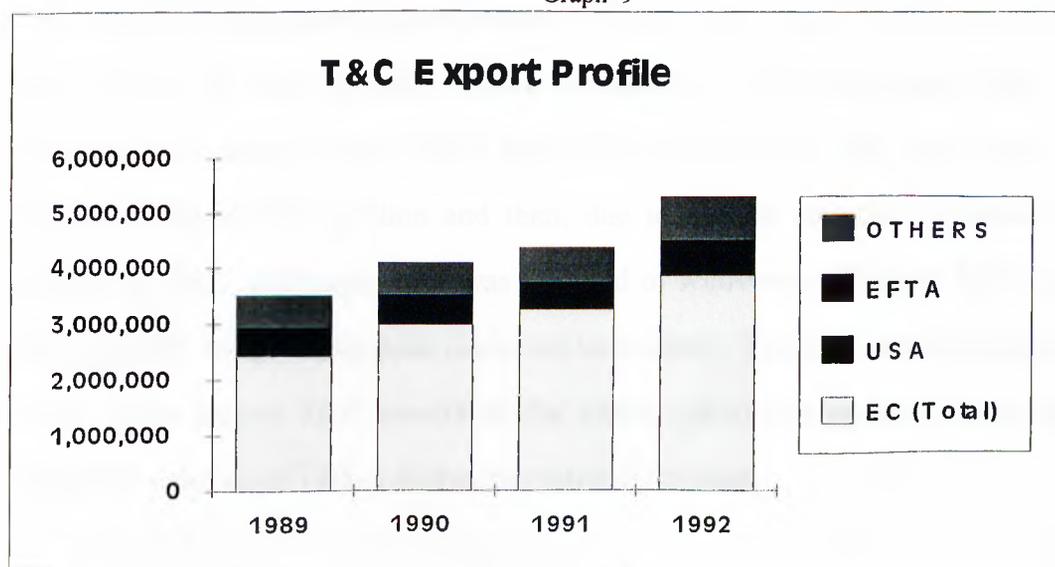
Table 12 and Graph 9 aim to examine the markets which are targeted by Turkish T&C industry, show the distribution among the countries.

Table 12
Distribution of Exports among Countries (Excluding Fiber)

Country	1989	1990	1991	1992
	(\$1,000)	(\$1,000)	(\$1,000)	(\$1,000)
Germany	1,299,435	1,666,159	1,935,201	2,233,023
England	314,239	369,484	343,545	477,625
Italy	293,452	312,204	297,178	283,044
France	223,546	292,827	294,017	371,025
Benclux	244,458	298,008	321,612	376,452
Other EC	62,309	82,964	86,992	117,229
EC (Total)	2,437,439	3,021,646	3,278,545	3,858,398
USA	368,065	353,064	302,960	399,269
EFTA	148,329	175,488	179,879	233,581
OTHERS	553,904	552,571	608,417	810,377
TOTAL	3,507,737	4,102,769	4,369,801	5,301,625

Source : SSI

Graph 9



The largest market for all Turkish T&C industry in monetary terms is the EC. The community purchased 69.5% of the Turkish T&C exports in 1989, increased this amount in the following years and in 1992, the figure reached 72.8%. The largest share among the EC countries belongs to Germany, since, the share of Germany in total Turkish T&C exports exceeded 42% in 1992. Following Germany, the next largest stakeholder is England. England has 9% of the Turkish T&C exports. The other important purchasers of Turkish T&C exports in EC are Benelux and France with a share of 7 %. The market shares of these 4 countries showed an increase between 1989 and 1992. Among the main purchasers in EC, only the share of Italy in total Turkish T&C exports decreased between 1989 and 1992. Since Italy, which is a clothing giant, purchases a lot of textile but no clothing products Turkish T&C exports to EC countries shrank between 1989 and 1992. Eventhough, Italy is one of the main purchasers of the cotton thread in the EC, following the anti-dumping tax, there occurs a decrease in the amount of cotton thread purchased by Italy from Turkey. Turkey achieves to sell very few T&C products to the other EC countries (Denmark, Spain, Portugal, Ireland, and Greece). The total share of all of these countries in total Turkish T&C exports was only 2.2% in 1992.

Following EC, the second largest market is USA. Turkey sold T&C products worth of \$400 million to USA in 1992, which constituted 7.5% of the total T&C exports. However, this share is well below the 10.5% achieved in 1989. The sales of T&C products reached \$368 million and then, due to several reasons¹¹, dropped to \$303 million in 1991. Although there was a period of recovery in Turkish T&C exports to USA in 1992, the previous peak could not be reached. Turkey's loss of power in USA, which is the largest T&C market in the world, brings out serious doubts about the competitive power of Turkey in the international markets.

The third largest T&C market of Turkey is EFTA countries. Turkey will, by signing a free trade agreement in 1991¹², have the right to sell T&C products to EFTA countries without any customs tax in 1996.

From this point of view, it is expected for the Turkish products to have a bigger market share in EFTA countries. However, the possibility of some EFTA countries' becoming EC members prevents making reliable predictions.

Turkey sold T&C products worth of \$148 million to EFTA countries in 1989. This value increased in the following years and reached \$234 million in 1992. This means that there was an increase by 57.5% between 1989 and 1992 for the T&C exports channeled to EFTA countries by Turkey. An increase by 57.5% is above the average rate of increase. As a result of this trend, the share of EFTA countries in Turkish T&C exports reached 4.4%.

There was a slight decrease in the T&C products sold to the countries other than the three categories mentioned. While the share of these countries classified as others was 15.8% in 1989, it dropped to 15.5% in 1992. The two countries that attracted attention in 1992 were Poland and Saudi Arabia. The T&C exports to Poland amounted to \$115 million, and to Saudi Arabia \$113 million, in 1992. In addition, there is a tendency for an increase in the exports to these two countries.

When the geographical proximity of Turkey to Europe, the number of Turkish people living in Europe, the partnership between Turkey and EC as a partner member, Turkey's application to EC for full membership, Turkey's devotion to common goal of Europe along the years, and Turkish producers' better knowing of the European consumers are considered, this intensity can be seen as a natural evolution. Besides, there is no

customs tax for the Turkish T&C products sold to EC since 1971 due to Turkey's being a partner member of EC. This superiority creates a difference of 6-7% in prices for Turkish products. Moreover, since Turkey is a member of EC which has certain exemptions, a certain generosity has been shown in setting the quota sizes. The Turkish T&C industry, utilizing this generosity, has increased its market share by penetrating such a well protected market relatively easily.

III.4.1.2 Turkey's Position in the EC Market

It gives out interesting results to examine the importance of Turkey in terms of these markets following the investigation made for the importance of various markets for the Turkish T&C industry. Table 13 aiming to explain this importance, shows the market share of Turkish T&C industry in the EC market. Since the EC import data were obtained from EC sources (Eurostat) and Turkish export data were obtained from Turkish sources (Treasury and External Trade Undersecretary), if the numbers given in this figure are converted to dollars, the values may not coincide with the data presented in the previous figures.

Table 13 divides the EC imports into two parts as Intra-EC and Extra-EC, while investigating the T&C industry trade of EC. Intra-EC import means the purchases made by an EC member country from one of the other 11 EC member countries. On the other hand, Extra-EC import means the purchases made by an EC member country from a non-EC member country. The concept described as world means the total of Extra-EC and Intra-EC imports. As for Turkey, EC imports will be considered in the context of Extra-EC imports.

Table 13
Share of Turkey in EC Textile and Clothing Import

TEXTILE							
	1989	1990	1991	1992	% Change		
					90/89	91/90	92/91
World	37,700,155	38,141,290	37,548,249	36,808,357	1.17	-1.55	-1.97
Intra-EC	23,170,730	24,048,480	23,808,495	23,858,312	3.79	-1.00	0.21
Extra-EC	14,377,648	13,946,254	13,571,566	12,829,061	-3.00	-2.69	-5.47
Turkey	795,467	692,709	696,809	571,833	-12.92	0.59	-17.94
Share **	5.53	4.97	5.13	4.46	-10.22	3.37	-13.19
CLOTHING							
World	36,152,110	41,721,448	49,612,469	51,592,243	15.41	18.91	3.99
Intra-EC	18,421,514	21,335,660	23,999,938	24,955,414	15.82	12.49	3.98
Extra-EC	17,706,877	20,359,143	25,593,222	26,629,339	14.98	25.71	4.05
Turkey	1,686,770	2,005,076	2,361,269	2,723,976	18.87	17.76	15.36
Share	9.53	9.85	9.23	10.23	3.38	-6.32	10.87
TEXTILE AND CLOTHING							
World	73,852,265	79,862,738	87,160,718	88,400,600	8.14	9.14	1.42
Intra-EC	41,592,244	45,384,140	47,808,433	48,813,726	9.12	5.34	2.10
Extra-EC	32,084,525	34,305,397	39,164,788	39,458,400	6.92	14.17	0.75
Turkey	2,482,237	2,697,785	3,058,078	3,295,809	8.68	13.36	7.77
Share	7.74	7.86	7.81	8.35	1.65	-0.71	6.97

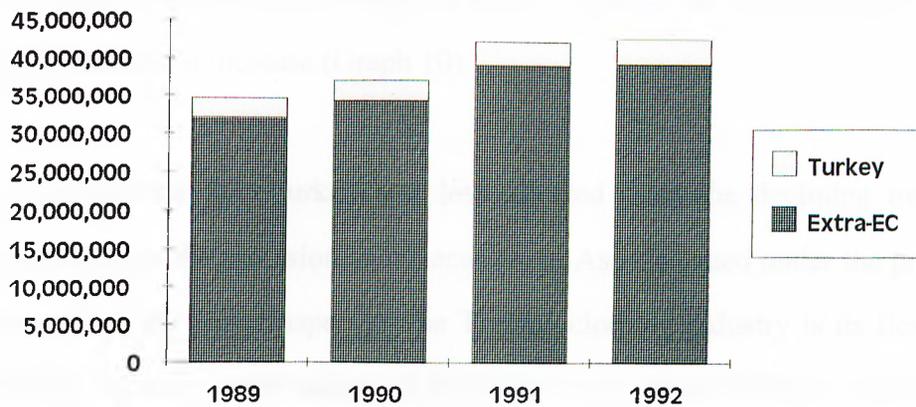
Source: Eurostat

** Extra-EC is considered, while share of Turkey is determined

EC which is the largest market for Turkey in T&C products, is at the same time one of the most important importers of T&C industry in the world. Such that, the share of EC in world T&C trade is above 40.4% in 1990's. However, when the developments in EC's T&C trade are considered, interesting results are observed. Extra-EC imports have been steadily decreasing since 1989. In 1989, EC's Extra-EC imports amounted to 14.4 billion ECU. This value kept decreasing and dropped to 12.8 billion ECU in 1992. In other words, EC's textile imports shrank in total by 10.8% between 1989 and 1992.

Graph 10

Turkey's Share in Extra-EC T&C Import



During the same period, there was a decrease in textile exports of Turkey to the EC. Turkey achieved to sell textile products worth of 796 million ECU to EC in 1989. Textile exports of the country to the community decreased by 13 % in 1990, and dropped to 693 million ECU. In 1991, they almost stopped and Turkey reached 697 million ECU in textile exports to EC. The two reasons for this decrease are the anti-dumping tax of 12.1% applied to Turkish cotton thread by EC, and Turkey's loss of competitive power in the products with low added-value.

EC clothing imports grew rapidly between 1989 and 1992. While Extra-EC imports were 17.7 billion ECU in 1989, this amount climbed up to 26.6 billion ECU in 1992. We should not miss the point that this rapid increase in imports occurred in a period of economic recession. The only explanation of this result is EC's beginning to nullify its clothing industry production, since, consumers decrease their consumption and try to save more in a period when there is a trend for recession. In spite of this situation, the increase in the clothing imports of the EC is a sign that the EC tries to meet its demands by increasing the import.

If the textile and clothing trade are examined together, by means of increasing clothing exports in contrast to decreasing the textile exports, the market share of Turkey in EC exports shows an increase.(Graph 10)

It is considered that Turkey was less affected from the declining trend of the total imports due to the recession in the economy. As it is stated under the previous topics of this section, the major aspect of the Turkish clothing industry is its flexibility. Turkish clothing industry starts using its flexibility in a more efficient way while there are decreases in the size of orders in an environment where recession is faced and shrinkage in the lead times are observed. Due to this, European importers try to find a way of purchase from Turkey, which can work in a more flexible fashion instead of buying from Asian countries.

As a result, eventhough there is a decrease in the Turkish textile industry exports to EC, there is a rate of increase in clothing exports which is above the average. Such that, between 1989 and 1990, there was an increase of 33% in Turkish T&C exports. With this figure, Turkey became the second largest T&C supplier in EC. This success achieved in spite of the decrease in the textile industry exports is significantly apparent. It is obvious that there will be a decrease in purchases made by EC for the textile products which are the raw materials for the clothing industry, in the following years. Since, EC engages in clothing trade rather than clothing production. Also it is clear that it is very difficult to sell clothing raw materials to a country which does not have any clothing production. Besides, it is observed that there is an increase in textile exports which are used as final products.

III.4.2 Distribution of Imports Among the Countries

An important development observed in Turkey in the recent years is particularly the increase in textile imports. The distribution of imports among the countries for the Turkish T&C imports will gain more importance after the customs union. For this reason, the distribution of imports among the countries for the Turkish T&C imports is shown in Table 14. In addition, the distribution of imports among the countries for the Turkish T&C imports is shown in Graph 11 with the main supply channels.

The largest supplier of Turkey in T&C products is Germany as it was in exports. At the end of 1992, purchases of T&C products worth of \$182 million were made from Germany. Another EC country, Italy, follows Germany. The amount of purchases made from Italy in 1992 were \$127 million. Turkey purchases T&C products worth of \$40 million from the other large countries including England, France, and Benelux.

As can be seen from the graph, the share of EC in Turkish T&C imports in 1992 was 37%. This figure explains the 2 point increase in 1989 with respect to. 35%

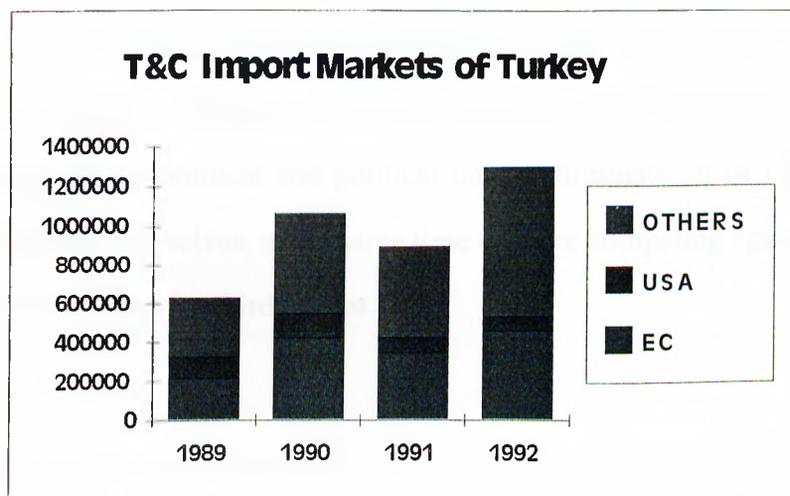
The other important supplier of Turkey in T&C products is USA. In 1992, Turkey purchased T&C products worth of 75 million from USA. However, the share of USA in Turkish T&C imports decreased significantly between 1989 and 1992. The reason for this is most probably the preferences of Turkish industry in favor of cheap raw material suppliers instead of high quality American products.

Table 14
The Profile of Turkish T&C Import (Including Fiber, \$ 1000)

Country	1989	1990	1991	1992	92/89	89 Share	92 Share
Germany	92,842	169,767	145,689	182,076	96.11	14.72	14.09
England	21,066	38,628	33,738	41,297	96.04	3.34	3.20
Italy	51,121	123,321	104,969	126,785	148.01	8.10	9.81
France	11,054	29,929	23,220	35,554	221.64	1.75	2.75
Benelux	17,463	30,331	25,166	39,877	128.35	2.77	3.09
Other EC	25,897	32,365	13,017	29,496	13.90	4.10	2.28
EC (Total)	219,443	424,341	345,799	455,085	107.38	34.78	35.21
USA	108,797	124,781	85,857	74,476	-31.55	17.24	5.76
Australia	22,383	38,051	28,980	39,951	78.49	3.55	3.09
China	19,236	32,702	31,166	37,582	95.37	3.05	2.91
Taiwan	19,263	32,747	26,623	30,174	56.64	3.05	2.33
India	7,805	13,259	10,734	28,916	270.48	1.24	2.24
South Korea	14,728	25,037	29,950	44,851	204.53	2.33	3.47
Pakistan	45,994	78,189	65,597	38,019	-17.34	7.29	2.94
Syria	6,127	10,416	5,785	25,770	320.60	0.97	1.99
Russia	0	0	0	68,151	-	0.00	5.27
Others	167,121	287,473	268,937	449,553	169.00	26.49	34.78
Total	630,897	1,066,996	899,428	1,292,528	104.87	100.00	100.00

Source: Treasury and External Trade Undersecretary

Graph 11



An important subject which should not be overlooked, when evaluating the T&C imports made from EC and USA, is the raw materials brought to Turkey for sub-contract production. Turkey's position as an important supplier in clothing production resulted in USA and EC bring their raw materials and start the production in Turkey. Due to this reason, the amount of T&C imports made from these countries seems high.

Among the 3rd parties, the ones which have highest sales figures to Turkey in T&C products are Russia, South Korea and Pakistan.

When the distribution of Turkish T&C industry imports among the countries is examined, we face an intensive number of countries which will be left out of the customs union. Moreover, most of these countries are the developing ones which are inexpensive suppliers. This observation will be used as an important piece of information in the section investigating the effects of customs union.

IV. FACTORS AFFECTING EXPORT OF TURKEY

IV.1 THE CONCEPT OF GLOBALIZATION IN TEXTILE MARKETS

The political conjuncture and the globalization in international markets that are faced today, surely will affect the international textile industry and trade. In this frame, two opposite poles appear as liberalization and protection in international textile trade. While the aforementioned economical and political unions eliminate all of the barriers about textile trade within themselves, at the same time they are competing against each other in creating new limitations for third parties.

In addition to the above mentioned countries' globalization of their economic policies for textile industry, globalization is faced in the European textile markets in terms of the following concepts:

1. Globalization trends in consumption
2. Globalization trends in production and in the markets

When textile industry is examined from the consumer point of view, in the recent years important changes are observed in the market and fashion mentalities in the European markets.

In addition to realization of the Customs Union between the EC countries, removal of barriers in movements of people and products, close relationships between countries in terms of cultural aspects, bring out the similar taste and color styles and a new mentality in clothing leads to a new way of life. Particularly for the young generations, there is an increase in the number of people who share the same interests, like same books and movies, same music, same sporting event, and same style and the process of these people effecting each other is gaining a new acceleration.

These generations create their own idols in music, cinema, art, culture, politics and sports. The mentioned situation also affects textile, clothing and fashion industries. In fact, fashion which is used as a tool to distinguish and differentiate people's mind from the others, to emphasize their personalities, by the help of this new mentality expands rapidly. The color and fashion understanding, which used to address a limited number of leading people through fashion experts, left its place to multi-centered, multi-colored and multi-direction fashion mentality.

The dictating functions of the fashion centers started losing their effects against the customers who are well informed, who know to draw their line in the direction they want and who can define the relation between their mentality and their clothing clearly. Furthermore, consumer has started dictating the way that the fashion creator should follow in terms of color, style, accessories, etc. in some of the branches of clothing industry. Nowadays, fashion ceased being a concept which originates from one or two centers and expands to country in circles and dies when its widespread, instead, it lost the power of directing the crowds. Here while not denying the role of fashion in human life, it is possible to mention the fact that people influence the fashion industry but not the reverse. In the meantime, besides the richness in color, print, pattern, fabric types became more evident compared to past years.

In spite of all these mentioned means for nuance and distinguishing accessories, the life time of the fashion line has been decreasing. In other words, selling a dress which is out of fashion in France, in Germany or in Italy or selling an old fashion costume to a customer in England is not possible anymore. Namely, consumer is renovative, too. Besides the various color and accessory types, consumers want to see the alternatives for fabric, pattern, print and model. Sensitive and searching consumer mass who are also well informed about the prices, direct the market with the help of the media.

If we look at the subject from the point of production and marketing, it is possible to see the traces of the new mark left by the market thus customer. European textile producers were late in realizing this change in the consumer. The main reason for the problems that they have, is their being late in making investment to renew themselves in addition to their improper or incorrect evaluation of movements in the demand in the market. It is not possible for a textile industry whose level of creativity is low, technology is old and productivity is insufficient, and which couldn't accomplish new marketing methods,

which is not flexible, to have a different result against a young consumer mass. Nevertheless, in spite of all protective approaches, precautions and limitations, the unavoidable collapse in the European textile industry is the best evidence. On the other hand, there has been a change in the concept. The concept of quality stepped forward in the production and total quality concept gained importance. If subject is examined from the marketing point of view, parallelism and similarities between the European countries are observed in terms of marketing techniques and institutions. The most important similar development in the market from the marketing institutions point of view, is the rising importance of concentration and internationalization in the trade in the recent years and medium and small marketing institutions' loss of competitive power in the market. Small firms cannot compete against the mentality of bigger firms in terms of fashion, suppliers and finance, and the number of such firms has been decreasing. There has been an increase in the sales of large chain firms and firms which accomplish sales by means of catalogues.

IV.2 EC TEXTILE POLICIES

IV.2.1 EC's Textile Policy Toward the Eastern European Countries

The relative influence of the textile industry within the whole economy varies for different groups of Eastern and Central European countries and the former Soviet Union. The first group includes Hungary, Chek. and Slovak Republics, Poland, Romania and Bulgaria where synthetic fiber-based raw material production and clothing production constitutes a significant proportion in the total industrial products. On the other hand, the countries of the former Soviet Union (with the exception of Ukraine) clothing production is basically for the domestic market. The countries in the second group possess natural fiber-based raw material. What is more, it is possible to influence the world cotton market by investing in these countries since a significant potential exists.

Attempts have been taken by a pioneer group of investors (including entrepreneurs from Turkey) for this purpose in the last 3 years.

Countries in the first group have a traditional production potential of textile machines and have become acquainted with the European textile market via sub-contract production. Many companies that have bases in the European Community have engaged in joint venture agreements with these countries and have enhanced their relationship after these countries gained their independence.

The textile policy adopted by the EC towards the Eastern European countries in the first group reflects the trace of the long term relations EC plans to establish with these countries. EC seems to consider the inclusion of this group to the Community after the full membership of Austria and Norway. For this reason, EC has made agreements with these countries just after they gained their independence. These agreements gave such countries opportunities to be partners first and full members later in the future. Just after these developments, contradictory to the strict limitations of the past, liberalization of external trade and substantial increases in the quotas have been decided upon and put into application. The most significant agreement that has taken place in between is concerned with the removal of the quota limitations on sub-contract production. When viewed from the EC side, an agreement on liberation is apparent in the attitudes of the major textile producers, unions and outstanding bureaucrats, who act as decision makers. These parties have outvoiced their shared opinion on the maintenance and enhancement of this relationship for the improvement of the conditions of the textile industry in the northern countries and for at least maintaining the current level of businesses (whose number kept declining in the last ten years).

Although more restrictive southern wing countries of the Community seem to comply with this attitude, they do not hesitate to use it as a trump in the limiting policies applied by the EC to the third parties. In fact, these countries are quite successful at it. Hence, a certain group of countries including Turkey become victims of consensus due to the internal bargaining of the Community.

The results derived from these explanations mean that EC has a tendency for corporation with the Eastern European countries, concerning political, commercial (textile) issues, especially sub-contract production. This warm attitude is especially supported by the northern countries in the group.

In addition to the evaluation of the current situation mentioned above, it is possible to realize that next to those countries that are seen as privileged by EC (Poland, Czech and Slovak Republics, Hungary) Romania and Bulgaria have advantages relative to other countries in the medium-long range. The sub-contract agreements initiated with these countries turn to be collaboration in textile industry and many investors from the EC countries make direct investment in these countries. Meanwhile, the state owned firms that are publicized in these countries in alignment with the liberal economic policies are taken over by the western firms and furnished with western technology and know-how. Facilitation of the recruitment of qualified labor, the condition of the infrastructure, low labor cost, liberal foreign investment regulations, incentives and the gaps in environmental protection regulations attract foreign investment to these countries, and all related developments are supported by the EC. The firms of the EC member states prefer production in these countries to balance the high costs in Northern Europe. The trade relationship that has started as a short term collaboration turns into a mid-range investment potential, and investment in these countries is perceived as the only way to access to Soviet market.

IV.2.2 Effects of the EC Policies and the Globalization

The developments observed in the Eastern European textile industry will influence Turkey (who is a major exporter to EC) in the short run, and the effects are likely to prevail in the medium and long run.

IV.2.2.1 Short and Medium Range Effects

The importance given to the textile industry by the Eastern European countries, EC's affiliation to these countries, western investments in Eastern Europe, and proximity to the market will influence Turkey's textile exports to EC, at least as for artificial fiber, thread and clothing products. Especially, low labor costs and proximity to the market and the absence of the quota problem will attract sub-contract productions to these countries. In fact, this situation is already observed in present. These countries are expected to undertake short term orders by using their proximity to the market and speed as an advantage in the short-medium term. Although in the short run, this tendency is reflected on sub-contract production, it can easily be split over to the other industries that constitute major export revenues for Turkey, once medium range investments are realized. Especially in those areas where learning and adaptation are relatively easy, (like cotton woven wear, knitted shirts, T-shirts, sweat-shirts, jackets, costumes, and heavy clothing), severe competition is expected to evolve.

IV.2.2.2 Long Term Effects

Eastern Europe witnesses a development that is similar to the one that started in 1980 in Turkey, and was realized with government support together with entrepreneurial dynamism. Moreover, these developments are backed up by EC. Turkey's relative advantage over the Far East countries' product prices and speed do not constitute a priority over the Eastern European countries. Especially if Turkey's quota problems continue to exist in 1995, when the customs union is planned to be realized, the

competition will get more severe and the Eastern European countries will be preferred over Turkey. These countries will attain the power to compete with Turkey via their renewed technology, western know-how, educated labor, low labor cost, proximity to the market and domestic market factors which are supported by the collaboration with the west.

Another interesting observation is the plans and attempts taken by the major marketing firms to shift their distribution and storage centers to Poland, Hungary, and Chek. and Slovak Republics due to economic reasons. Particularly, those stores that sell via sales catalogues and the ones with many branches have gone a long way in this sense. Although these decisions are based on reasons like finding sites with convenient prices, cheap labor, and central location, in the long term, proximity in terms of production and distribution will follow.

IV.3 THIRD WORLD COUNTRIES AND EUROPEAN MARKET

The main industrial investment field of developing countries is the textile industry. Textile industry has the highest priority for the credit flow by means of bilateral agreements and World and European banks. The main reasons are that; most of the developing countries lie on the cotton production zone, and the first steps of the textile industry can be learned and implemented relatively more easily. In addition, among the EC countries, Germany, England, France, Italy, Holland and even Spain have very sophisticated textile equipment industry, and this makes the governments of these countries give more priority on giving loans to the Third World Countries in textile industry. Due to lack of any restraints up to a certain level, the first investments become more attractive. Therefore, these countries penetrate into the European market rapidly. On the other hand, the exports of the most of the Third World Countries are in the trend

of exceeding the limits put by the European Council. Therefore, the restrictions for these countries are in the agenda of the Council.

V. EFFECTS OF CUSTOMS UNION

As mentioned above, Turkey-EC customs union is the last phase of a long term agreement. It might be argued that the completion of the customs union will not bring much for the Turkish industrial goods, since the customs tax on the Turkish goods entering the EC market has already been liberalized in 1971. Nevertheless, Turkey-EC customs union is expected to have various impacts on the Turkish textile and clothing industry.

V.1 REMOVAL OF PROTECTION AGAINST EC GOODS

First of all, the customs union that will be realized in 1996 is expected to result in the nullification of the customs tax on all EC goods entering Turkey. Such a situation will, no wonder, reduce Turkey's protection against EC. In present, although Turkey is showing special treatment for the EC and EFTA originated goods, a certain amount of customs tax is still due. At this point we feel the need to explain the situation by giving two concrete examples. The first example concerns the customs tax applied to the textile products. Cotton woven and cotton threads which are considered as the two most significant textile products are taken into account.

The protection rate on the EC originated cotton thread in Turkey in 1993 is 26% including tax and the deductions for Housing Fund¹³. The protection rate for cotton woven is 30%, which will also be nullified in 1995 due to the customs union. However, this liberation is not expected to result in serious impacts for the Turkish textile industry, since Turkey's textile imports from EC are rather limited, because the EC countries lack

international competitive strength in goods with low added-value due to their high labor costs.

The second example is related to the clothing industry. The current effective protection rate on the EC originated textile products is 40-50%¹⁴. These products are made up of well-known brands like Lacoste, Levi's, Chanel and Hugo-Boss, whose access to the Turkish market becomes feasible only after high customs taxes are levied.

The Turkish consumers' profile depicts a dynamic, young character with a high propensity for consumption. However, the purchasing power of these consumers is not that high. Nevertheless, once these well-known brands gain access to the Turkish market with zero customs tax, the high quality clothing industry in Turkey will be faced with severe competition. In summary, Turkish clothing industry will find itself in a highly competitive environment as far as the high quality products are concerned.

V.2 COMMON EXTERNAL TARIFFS

Another impact of the Turkey-EC customs union is the reduction of protection against the third parties. With the realization of the customs union, Turkey will be obliged to comply with the Common External Tariff of EC. Accordingly, Turkey will have to charge the same amount of customs tax to the textile and clothing products of the third parties, as the EC. However, in most cases the customs tax applied to the foreign goods is higher in Turkey than that of EC. Therefore, compliance with the EC standards will mean an increased competition for the Turkish textile industry which is supported by the third party inputs, and an opportunity to acquire cheaper raw materials for the Turkish clothing industry.

In 1993, the effective protection rate applied to the cotton thread with third party origins is 29%, including tax and Resident Fund. That is to say, the cotton thread from Pakistan is charged with a 29% tax on the invoice price, before being traded at the Turkish market. The customs tax applied by EC to the same product is only 6%. Apparently, a considerable difference exists between these two tax rates. Once Turkey adopts this 6% rate applied by EC today, an increase in textile imports is expected to take place.

At this point, it will be beneficial to examine a specific situation that has been observed in Turkey in 1993. In 1992, 88% of the imported cotton thread has been brought to Turkey via temporary admission, which allows imports with the stipulation of exports. In other words, no customs tax has been paid for these cotton threads¹⁵. This example shows that, although the protection rate seems high at first glance, it may turn out to be rather ineffective.

Clothing products depict a different picture. As mentioned above, Turkey's protection rate is quite high for the clothing industry (40-50%). This rate will drop to 6-10% once Turkey accepts to comply with the Common External Tariff. This will in turn facilitate the entrance of more low price, no-name third party products with low added-value. Such a situation will result in a highly competitive environment for the Turkish clothing industry, as far as the low quality products are concerned.

Another point that to be analyzed related to the privileges provided by EC to the textile and clothing products of the developing countries. EC applies exemption from customs tax to a certain limit to the textile and clothing products of these countries within the framework of the Generalized Tariff Preferences¹⁶. For instance, the first 100 T-shirts (or first 100 units cotton thread) imported from Pakistan, enter the EC market without paying any tax. Beyond this tariff quota, customs tax is applied with the decision of the

commission. However, experience has shown that the commission's decision making process is rather slow. For instance, Indonesia's cotton thread tariff quota is 2261 tons. Yet, on September 1993, the commission finally decided to implement the application of customs tax to Indonesian cotton thread during 1993¹⁷. Yet, the amount of cotton thread sold to EC by Indonesia has already exceeded the tariff quota at that date. Turkey also has to accept giving the same privileges to the developing countries after the realization of the customs union. Such a situation will result in the nullification of the already reduced (from 40-50% in 1993 to 6-10% in 1995) protection against a certain group of countries.

As it is easily observed from these examples, once the customs union is realized, competition will be severe at the top and lowest quality clothing industry products in Turkey. This competition will come from the EC products at the high quality level and from the Far East countries' products (due to the cheap labor cost) at the low quality level. As for the textile industry, no similar condition is predicted, since a similar competitive environment already exists due to the temporary acceptance application.

V.3 QUOTA FOR THE THIRD PARTIES

The third implication of the customs union for the Turkish textile and clothing industry is Turkey's acceptance of the application of quotas to these countries specified by the EC's Multi Fiber Agreement (MFA). Turkey will have to comply with the Common Commercial Policy (CCP) of EC starting from 1995. CCP deals with many subjects. For instance, due to the CCP specifications, a Free Trade Agreement has been signed with EFTA, a partnership relationship has been undertaken with the Eastern Europe countries, customs tax privileges have been offered to many countries in Africa and Caribbean. In general, Turkey has to comply with all these obligations. Realizing the difficulty embedded in such a compliance, EC has required that Turkey should comply

with a certain proportion of these obligations only. The rest will be undertaken by Turkey over the years.

The two tools of the CCP that EC wants Turkey to accept are the restraints on the Japanese automobiles and the quotas for the textile and clothing products. In compliance with the CCP, Turkey has to impose quotas to those countries to which EC applies quotas. Such an application may be welcomed by those textile and clothing manufacturers lacking competitive power, since almost all of the imported textile products will be subject to a quota. The price of this protection for the domestic producers will be paid by the consumers who will face high end product prices.

The major problem that arises related to the quota application is the agreement on the amount of the total Turkey-EC quota, if Turkey is included in the EC, and to determine how the related decision will be made and who the decision maker(s) will be. The most reasonable approach for this purpose (called the past performance approach) is to come up with the size of the total Turkey-EC quota by adding up the current EC quota and an amount that is slightly higher than Turkey's previous year's imports. However, even this application may bring out some other problems.

V.4 IMPOSING OF ANTIDUMPING TAX

Another impact of the customs union will occur due to the antidumping and countervailing investigations. Turkey completed preparation of her own regulations concerning these issues and put them into application in 1989¹⁸. However, this national dumping regulation will not be applicable after the customs union, and Turkey will have to adopt that of EC¹⁹. Unless the Turkey and EC regulations are aligned, a precaution taken by one side will be made ineffective by the other, due to the goods allowed to pass through.

Once Turkey accepts the EC regulation, it might be obliged to apply an anti-dumping tax on the goods of some countries although it does not normally want to. For instance, if EC starts applying anti-dumping tax on the cotton thread originating from Pakistan, Turkey has to obey although unwillingly. Besides, if Turkish industry becomes suspicious of the existence of a dumping concerning a certain import, she can apply to the EC commission at Brussels for precautions. Such an application will be welcomed by the textile manufacturers with low competitive power, but will create additional difficulties in cheap raw material procurement for the clothing producers.

V.5 REMOVAL OF IMPORT INCENTIVES

Another regulation that has to be accepted with the realization of the customs union is the import made conditioned on the export (temporary acceptance or import incentives). Currently, a businessman planning to export can get exemption from the customs tax for a portion of his imported inputs, provided that he receives an incentive certificate from the Treasury and External Trade Undersecretary. After the customs union, the export of such goods to the EC countries will not be possible, since Turkey-EC customs union includes only those goods that are in free circulation in EC and Turkey. Those goods produced with the condition to export are not included in this category and are not allowed to circulate freely in EC countries. Since Turkish exports to the EC countries will be limited with this application, Turkish clothing industry will encounter difficulties and may end up with relying on the Turkish textile industry whose competitive power has declined. Nevertheless, those goods produced conditioned on the exports can be sold to the non-EC countries.

V.6 USA QUOTAS

Another interesting issue concerns the USA quota that is applied to the Turkish textile and clothing products, after the realization of the customs union. As already known, USA applies quota to 34 different Turkish textile and clothing products. However, no US quotas are applied to goods with EC origin. Once Turkey becomes a member of the EC in the economic sense, Turkish textile and clothing goods can freely flow into the EC countries. Same should be applicable for the US according to the above specifications. If US wants to impose a quantitative restrictions on the Turkish products no matter what, then it has to check the specific origin of all products coming from EC. Considering the difficulty of the adoption of such a strict control mechanism, the removal of the US quotas on Turkish products is expected to be a more logical step.

V.7 REMOVAL OF QUOTAS

The major effect of the 1995 Turkey-EC customs union on the Turkish textile and clothing industry will be the removal of the EC quotas on the textile and clothing products.

Many reports prepared by EC for in-house usage, have underlined the need for the removal of quotas for the realization of a complete customs union. Nevertheless, even in Turkey, there are doubts about the removal of the quotas. Even the major businessmen in textile and clothing industry in Turkey seem to share these doubts. The following table (Table 15) presents the amounts of quantity restraints of the last three years and filling ratios of the quotas in 1993.

As seen from the Table 15, clothing industry fills the quotas and sometimes exceeds them. Therefore, if the quotas are removed particularly, clothing export to the EC may increase.

Removal of the quotas may create other opportunities (not for the textile industry but) for the Turkish clothing industry, since the current quotas discourage investors. Presently, a businessman with certain amount of capital can decide to make an investment, but can easily refrain from the clothing production, seeing that all clothing products are subject to the EC quota and entering the EC market is especially difficult for the newcomers. Once the quotas are removed, foreign direct investment is expected to flow in Turkey, as in the Portugal case.

Table 15
Quantity Restraints imposed by EC and Quota Filling Ratios in 1993

TEXTILE						
CATEGORIES	DESCRIPTION	QUANTITY	1991	1992	1993	Ratios
1	Cotton Yarn	ton	97,554	100,000	101,650	25%
2	Cotton Fabric	ton	24,480	26,650	27,183	82%
9	Towel	ton	4,043	4,800	5,041	100%
20	Sheet	ton	9,112	10,550	11,183	67%
33	Polypropen Sack	ton	5,592	6,650	7,016	100%
65	Cotton Knitted Fabric	ton	7,791	12,250	12,985	58%
CLOTHING						
CATEGORIES	DESCRIPTION	QUANTITY	1991	1992	1993	Ratios
4	T-shirt	1000 Num.	58,241	61,153	70,000	100%
5	Sweater	1000 Num.	26,166	27,343	31,350	100%
6	Trouser and Short	1000 Num.	17,859	18,752	20,500	100%
7	Woman Blouse	1000 Num.	15,142	15,823	18,200	100%
8	Man shirt	1000 Num.	19,924	20,621	22,100	100%
12	Knitted Sock	1000 Num.	144,830	154,245	175,800	100%
13	Under Wear	1000 Num.	31,230	33,104	36,800	98%
18	Cotton Burnoose	ton	5,166	5,412	6,000	97%
26	Woman Outwear	1000 Num.	22,393	23,849	26,500	88%
83	Knitted Outwear	ton	1,394	1,485	1,750	100%

Source: Treasury and External Trade Undersecretary

Although there is strong conviction about the removal of quotas with the customs union, it should not be forgotten that there is a chance that the reverse might happen. Especially if Turkey fails to fulfill its obligations, EC is not likely to remove the quotas.

VI. MEASURES AND NEW STRATEGIES

VI.1 FUNCTIONAL MEASURES

VI.1.1 Industrial Policy Toward EC

It is very natural for the industrial policy that will cope with the globalization trends in the European markets, the demand flexibility and fluctuations, the pressure coming from the increasing number of goods produced by the 3rd world countries and the competition originating from the Eastern Europe, to be geared towards the target market. The stability observed in the recent years in the Turkish textile exports can not solely be explained by the economical recession in some of the EC countries or the EC quotas applied to Turkish goods. Turkish textile industry has not been able to renew itself and has failed to develop an investment policy based on a new understanding of the market. Turkey's success in the European market under this increasingly competitive environment can only be achieved by the development of a new textile investment policy with the cooperation of the state and the private sector.

Within the framework of this policy, the textile industry should be given the opportunity to renew itself and invest in alignment with the new market and fashion approach. Instead of producing cheap, easy-to-imitate, traditional textile products, technology intensive, hard-to-imitate investments that require expertise should be supported.

VI.1.2 Marketing Policies

Textile producers that aim to export should design an active marketing policy. The beginning point for this policy should be the target market. A marketing policy that will

be driven from within the market will quickly perceive the changes in consumer habits and the market movements. Consequently, the alignment of this policy with the market trends will be direct and quick. The brand policy constitutes a significant portion of this marketing policy. The most significant precaution that should be taken against the competition that will emanate from 3rd World Countries, Eastern and Central Europe is to differentiate Turkish textile products using brand names. This way no-name competition will be eliminated, and the products will attain commercial value.

During the reformation of the European market, as the Eastern and Central European countries evolve as rivals, they bring in new markets. Although these markets do not seem to be very attractive at the first glance (due to the low income level of the consumers), the existence of an urban consumer group whose disposable income has been steadily increasing signals positive news. This group of consumers has taken the European consumer as a role model and has a tendency to adopt the European life style. Turkish textile producers should make efficient use of their knowledge of the European countries in these markets. When the intense textile trade among the Eastern and Central European countries and the former Soviet Union is considered, it is possible to gain access to the Soviet market via these countries.

VI.1.3 Finance Policies

The institutions in the textile industry should refrain from making the typical mistakes of the past in their new attempts and policies. They should show special concern to the establishment of a sound financial structure. The amount and structure of the capital should be determined based on the investment terms and the duration of the pay-back period. Equity-leverage proportions should be realistically computed and long term investments should be based heavily on equity. These investors should never forget that imbalance in the capital structure will negatively influence the marketing policy. Also

they should not disregard the need arisen for new funds as a result of accessing new markets with new marketing policies. What is more, these requirements for the funds will be long term.

VI.2 INSTITUTIONAL MEASURES

VI.2.1 Education Institutions

Although training constitutes one of the major problems of the Turkish textile industry, no attempts for improvement are observed. There are only a few institutions that give training in textile and raise and educate personnel especially in exports. Since each institution becomes obliged to educate its own personnel, a scientific training based on objective criteria is impossible to observe. The personnel flow to and from the exporting institutions prevent the establishment of continuous and permanent norms. Like every other industry, textile industry becomes the scene of a conflict among the qualified and unqualified labor.

The foundation of schools that will raise middle level managers and organization of short-term courses to raise qualified labor will accelerate the development of the industry and facilitate its alignment with the markets. These schools and courses should also give practical training and the apprenticeship notion should be retained.

VI.2.2 Research and Development Institutions

An industry policy that relies on the market should detect and evaluate the market trends, demand fluctuations and consumer habits on time. Significant investment is required to develop the products that come out of the results of such research. Not only should the companies be supported in their R&D efforts, but also public and private institutions in the industry should be organized in teams to form R&D centers.

VII. CONCLUSION

It is expected that the 1995 Turkey-EC customs union will result in the removal of the EC quotas on Turkish textile and clothing products. Although these quotas are not that crucial for the textile industry, the removal of the clothing quotas will mean a lot. Nevertheless, unless Turkey fulfills its obligations, EC is very likely to hang on these quotas. Hence, all the members of the textile and clothing industry in Turkey should cooperate in order not to sacrifice themselves for the sake of other industries in Turkey.

Removal of the quotas put aside, Turkish textile industry is expected to benefit more from the Turkey-EC customs union, since no additional competition is expected to evolve for the currently competitive Turkish textile industry that is already standing up against worldwide rivals. However, the situation is different for the clothing industry, because a severe competition is expected to emerge for both the low added-value and the high added-value goods. Besides, the clothing industry will also have hard time in procuring the textile products. Taking all these factors into account, we conclude that the Turkish clothing industry will encounter quite a lot of difficulties unless the quotas are removed.

These difficulties stem from the recent developments in the world conjuncture. The latest developments in the world trade, the collapse of the Eastern block, and the attempts taken for the conversion of the European Economy Community to a political community have changed the balance of power and Europe has entered a new period of formation. With the contribution of the media, a rapid globalization has been initiated in consumption, production and marketing. Within this framework, a new life style and a new understanding of fashion that comes with it, have made it necessary to develop new policies and strategies in the textile industry. On the other hand, the extension preference of the EC assigns higher priority to the Eastern European countries in addition to the

EFTA members. These Eastern European countries can be rivals to Turkey in textile production and in being of appeal to EC due to their geographic, economic and political positions. Turkey is in need of institutional precautions in addition to the development of new investments, marketing and financial policies so that the advantages like proximity to the market and dynamism will be retained. On the other hand, collaboration or joint investments with these countries are the two opportunities that should not be underestimated, considering entrance to new markets and these countries' affiliation with EC. Turkey's rejuvenation of its textile industry can only be achieved by new policies and strategies that will be developed by the joint effort of the public and private sectors.

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