

COMPETITIVE ASPECTS OF TURKISH AND CHINESE TEXTILE AND CLOTHING INDUSTRIES

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ABSTRACT

China is an important competitive country among the countries having major textile production capacities with their technological innovation and optimization of industrial structure. Chinese textile enterprises have improved their ability to compete on the world market. Turkish textile and clothing industry are playing an important role on country's economic figures and they have important contribution to Turkish industry. Therefore, textile and clothing producers should adapt new strategies to cope with Chinese textile and clothing industries. In this study, Turkish and Chinese textile and clothing industries were compared, and their competitive aspects were presented.

Keywords: Textile and Clothing Industry, Turkey, China

INTRODUCTION

As in many other developing countries, the textile and clothing industries have played an important role in the process of industrialization of Turkey. Textile sectors are now the driving force in the Turkish export industry, and they have become one of the key players in the world over the years [1]. Turkey, as one of the largest economies in the region, has a strategic location on the map. Therefore, Turkey has a chance to enlarge its bilateral economic relations with neighbor countries, and countries all over the world. Turkish economy has been growing and the annual growth rate of 4.1% is over the past 20 years. It reached 6.1 % in 2006 (based on real GDP), and the cumulative economic growth was realized as 40% in period 2002-2006. Annual exports and foreign trade volume hit record of about 21% GDP and 55% of GDP respectively [2]. In 2005, Turkish exports reached over US\$ 73 billion, recording an increase of 16% over 2004. The foreign trade volume reached to US\$ 189.6 billion with an increase of 18% compared to the previous year [3].

In Turkey, as well as in China, economic opening has led to a strong rise of foreign trade with developed neighbor countries. In the nineties, Turkey appears to be more willing to open up the economic policies than China. Actually Turkey is also the country, which has liberalized the access to its domestic market the most rapidly since 1980. The openness of the

Turkish economy and the progress of its trade liberalization stem from its entry into a custom union with the EU (for manufactured goods). This opening up policy has led to an acceleration of foreign trade in Turkey and China especially for the manufacturing sector. Turkish manufacturing exports recorded a very strong progression in the eighties, but slowed down in the nineties following the deep financial crises in 1994 and 2001 [4].

Table 1: Growth of manufacturing exports (in %, annual average)

	1981-1991	1991-2001
China	18	17
Turkey	17	10
World	8	6

Turkey is currently the second larger exporter of textile to the European Union following China. It has the largest production capacity in the EU and the fourth largest in the world. Since the EU and U.S are major markets for Turkish textile and clothing products, it is necessary to explore the competitive position of Turkish products in these markets, and they have to be prepared to the attack of its competitor such as China, India and other Asian countries. There is no doubt that China will be the largest force in the global textile sector. According to a forecast by World Bank, China is likely to raise its current share of 20 % in the world textile market to 50 % before 2010. The effect of the elimination of quotas after January 2008 will be devastating for other countries [5]. It is obvious that the competition will be harder from now on.

TURKISH TEXTILE & CLOTHING INDUSTRY

Turkish textile industry provides an advantage for the competitive power of the national economy. Especially clothing production is surpassing both the total industrial production and the textile production [6]. Therefore, textile and clothing industry is one of the most important sectors in the Turkish economy in terms of GDP, employment and exports. The share of this sector in the country's GDP is around 10.7 % and share in the total employment is 10,9 %. There are about 40 thousand manufacturing companies and 1.9 million employees in the sector. Turkish textile and clothing exports reached to US\$ 20 billion in 2006. With this amount, it had a share of 26% in total exports of Turkey [7,8]. Besides the Turkish textile industry, Turkish home textile industry has also shown significant growth in terms of production and exports. That sector is also an important earner for the country, too. Turkey ranks 6th in clothing exports and 3rd in home textile exports in the world [8]. Turkey is a

dynamic emerging market equipped with a network of developed infrastructure and a globally competitive work force. Its unique position at the crossroads of the world trade routes and its proximity to the developing energy producing regions in the Caspian and Central Asia are factors that further raise its potential for the coming years. That geographical situation gives textile and garments industry natural advantage. Moreover, Turkey as a quality cotton-producing country has an integrated and diversified production in all sub-sectors of the textile industry, produces and exports all types of yarns, fabrics, clothing, household textiles, various ready-made products and technical textiles [7,8].

Because of the customs union with the EU since 1995, and the ongoing EU pre-accession process and, IMF Stand-by Agreement the economic legislative environment is in progressive alignment with the main policies and standards of the EU. The resolute implementation of the economic program not only heals the short-term imbalances in the economy, but also rapidly improves the business environment via constructing a sound premise for sustainable growth [9]. The improvement in the financial sector contributes to the development of Turkish textile and clothing sector, too [6].

The success of the Turkish textile and clothing industry in world market depends on some other opportunities that Turkey has. One of the most effective competitive advantages of Turkish textile and clothing industry is that they are able to respond quickly and offer flexible payment terms. Turkish textile and clothing industry is also offering relatively short delivery period that becomes very sensitive tool in the international trade [10]. In addition, just in time delivery allows retailers to work with minimum stock [11]. Cotton is still the most important raw material needed in textile and Turkey is the sixth largest cotton producer of the world. Besides the raw material, Turkey has a powerful production capacity in yarn and fabric [7,10]. Turkey is advantageously close to Europe, which is the most active market for textiles. What's more, compared to the developing nations Turkish business have a superior information technology and technical infrastructure. Therefore, Turkey is in a better position to defend its textile industry against Chinese competition than the countries like Bangladesh, Cambodia, etc. which the lack of raw material, geographic proximity to major markets, an educated and highly skilled workforce, and infrastructure. In addition to them, Turkish textile industry has also one of the most advanced textile machinery pool in the world and it is close to Italy in modernization [10]. This should certainly help Turkey absorb some of the jobs lost in some countries [5]. For example, Turkey's large textile manufacturers are getting an

increasingly large slice of the Italian and Spanish markets, well known as the centers of fashion in the European region. Turkish textile industry has the chance to affect fashion and draw attention with outstanding designs, and European customers are now buying 79.6 % of all Turkey's textile exports [12].

The Turkish Ministry of Trade and Industry was introduced “Turquality®” branding program in 2004 to upgrade the international perception of products made in Turkey. The Turkish government provides subsidies of up to US\$ 500.000 for marketing and distribution; or US\$ 300.000 for design and development. This program provides support for companies and Turkish fashion designers under a wide range of incentives (from the cost of brand registrations to marketing and PR activities, from opening stores, warehouses, branches, offices and showrooms to the payment of rental expenses and commissions for stands at fairs, from the decoration costs of franchise stores and the cost of quality certificates to all expenditures pertinent to branding activities.). With the Turquality® concept, the image of Turkish products on the market will relate directly to quality [12]. The success of this branding program will most probably provide a competitive advantage for the Turkish textile companies and designers in the global market, too. However, Turkish manufacturers have been losing ground to their Chinese competitors in the US market for the last three years because of the cheap Chinese products. When we look at the labor costs in Turkey, they remain lower than in Europe, but much higher than in Asia as in showed in table 2.

Table 2: Workmanship costs per hour in some countries [6].

Country	Workmanship Cost /Hour, \$
Switzerland	24.08
Denmark	23.10
Belgium	21.70
Germany	21.48
Norway	20.45
Portugal	4.51
Turkey	2.75
Mexico	2.33
Slovakia	1.48
China	0.62
Pakistan	0.60
India	0.50
Madagascar	0.41
Bangladesh	0.40

In addition to the unbeatable labor cost in China, the price of electricity used in the industry is high in Turkey, and there are hidden expenses in transportation and customs in Turkey. Electrical and heat energy are together the most important production costs for textiles (about 10% of the total input) [8] but the most negative factor for textile and clothing producers is the overvalued currency in Turkey right now. If the dollar stays below 1.2YTL, 60 % of the companies in this business will have to shut down. Currently companies are trying to cope with the hard competition conditions by focusing more on quality. Companies are contract manufacturing, selling their brands abroad or forming strong domestic brands. Those who focus on brand development have fewer or no problems at all, but contract production is in real trouble [12]. Turkish producers could increase their market shares in terms of the volume of products only by decreasing the relative price whereas relative price increases for Chinese products do not lead to a decline in the quantity demanded. This finding also supports the argument on product quality [1].

CHINESE TEXTILE & CLOTHING INDUSTRY

The Chinese economy has been rising dramatically and it has become a significant phenomenon in the global economy over the past two decades. In 2006, its economy expanded by 13.6% – nearly three times as fast as the world economy. At this rate, China could overtake Germany in 2008 and become the world's third-largest economic power [14].

China developed its foreign trade very quickly with the help of the vertical specialization which is enabled it to acquire comparative advantages in new products characterized by a dynamic international demand and significant high technology content [4]. In addition, the progressive integration of China into the international trading system - spurred by its membership of the WTO in 2001 - has provided China with secure, open and predictable export markets. That integration helped China to become the world's third largest exporter. Its total external trade is now more than three times the combined trade of India and Brazil. Exports represent more than one third of China's economy [15]. WTO accession is an important event for the Chinese industry. The WTO accession treaties changed the competitive conditions in the market and affected the Chinese textile and clothing industry, too. On the other hand, this accession is not an issue for some Chinese firms for which compliance with international standards is more immediate challenge to their survival [16]. During 2005, China increased its market share in the United States from 16 % to 39 % and, in the EU, from 27 % to 48 %. The National Council of Textile Manufacturers (NCTO)

president Cass Johnson said, “The China textile safeguard mechanism that has preserved millions of jobs around the world will expire at the end of 2008”. NCTO released a comprehensive review of global trade figures show that China has been racing towards monopoly status in clothing categories, which were not covered by quotas in the United States or the European Union in 2005 [17].

China's textile industry grown by more than 15 % in terms of output value, profits and exports year-on-year in 2007. Chinese textile enterprises recorded a total output value of about 2.46 trillion Yuan (US\$ 307.7bn) in 2006, a rise of 21.3 % from a year earlier according to state media. Their profits hit 88.3bn Yuan, up 28 %. The sector's exports amounted to 147.1bn Yuan worth in 2006, a year-on-year rise of 25.1 %. The export volume included \$52.3bn of textiles, up 18.8 % and, \$94.8bn of clothing, up 28.9 %. Exports to the European Union totaled \$23bn in 2006, up 21.7 % year-on-year, but the growth rate was 33.6%. Exports to the United States hit \$23.1bn, up 18.1% year-on-year [18]. China's textile industrial output for 2007 was about 3,332 trillion Yuan (US\$ 416.8bn), a 21.9 % increase year-on-year, according to a report released by the Textile Industry Association. Large-scale textile enterprises (those with annual sales exceeding two million Yuan) expected to realize profits of 115.2 billion Yuan in 2007, a 32 % jump over the previous year. The export value would reach about 177 billion Yuan, a 20.1 % increase year-on-year [19].

Table 3: Figures from Chinese Textile Industry [18,19].

Year	Total output	Rise	Profits	Rise	Exports	Rise
2006	2,4598 Trillion Yuan	%21.3	88.3 billion Yuan	%28.0	147.1 billion Yuan	%25.1
2007	3,332 trillion Yuan	%21.9	115.2 billion Yuan	%32.0	177.2 billion Yuan	%20.1

There are some factors favorable to a continuous improvement in the productivity and international competitiveness of China's manufacturing industry. Without a question, the first positive factor is China's abundant and cheap labor supply [4,20]. For example, the labor costs are around 40 cents/hour in China, which is one fourth of Turkey. Therefore, China products are spreading out in the global market very fast. Turkey is also one of the markets.

There are more than 20 million laborers in the unemployed urban labor force and more than 200 million surplus laborers in the rural labor force. The large size of the unemployed labor force will not only guarantee a supply of cheap labor to produce internationally competitive products, but will also lower the cost of China's economic restructuring. China's labor reserve is abundant, but by no means of a low quality. Every year there will be more than one million university graduates entering the labor market, and tens of thousands of Chinese students trained overseas in developed countries will return to China every year. The high growth rate of human capital provides

China has an opportunity to develop more productive and more technology-intensive industries. This will make the overall competitiveness of the Chinese economy even stronger [20]. The intense collaboration between the Chinese government and its textile and clothing sector enables Chinese exporters to under-price its other competitors, including countries like Bangladesh and India, which have lower wage rates. According to United Nations data, China exports clothing products worldwide at average prices 58 % below those of other countries [21].

Another factor that contributed to the success of the Chinese textile industry is the speed of reforms and restructuring, and the marauder approach to international trade in textiles and clothing, which has taken the industry to its zenith. In addition, supportive infrastructure and liberal labor laws, focusing on social security rather than job security, have also played an important role in growth of the Chinese textile industry, enabling it to adjust production according to the market dynamics [22]. Textile factories are increasingly starting to import modern machinery and high-tech knowhow while the government supports local development initiatives and promotes domestic brands. The goal is to make the trademark 'Made in China' become synonymous with 'quality.' Beijing started a "Textile Industry Technical Advancement and Development Program" as a part of its current five-year-plan and established a fund of 180 million dollars that is not only aimed at driving technological development but also innovation [23].

On the other hand, some negative factors would impede any further improvement in China's productivity and international competitiveness. The first is China's shoddy banking system, which might cause macroeconomic instability after 2007 [20]. China's banking and financial industry remains unsophisticated and subject to non-market government "guidance" that generates the excessive lending and non-performing loans that waste capital [24]. In

addition, China is suffering problems in scope of globalization. One of the major problem is that its progress is dependent on high foreign capitals but the country is still has the Maoist administration. Thus, it seems impossible for China to adapt a liberal economy and the requirements of globalization under a democratic management [25].

The second negative factor is the changed international business environment for Chinese manufacturing goods. The rapid increase in antidumping cases against Chinese manufacturing goods is an obvious indication of the changes in the business environment. The third is the pressure from rising labor costs. The low labor cost is based on virtually no social security system in rural China and a very low standard social security system in the urban areas. This may help international competition in the short term but it can be the source of domestic grudges [25, 20] Chinese government should deal with some epidemics, which could be problem for China's social security and healthcare systems. On the other hand, this problem would ultimately increase labor costs and damage the investment environment, causing troubles for China's continuous improvement in productivity. In addition, low labor costs are also no longer a guarantee for fat profit margins. If the government ignores these problems, social unrest will occur sooner rather than later, but either way, there will be negative impacts on improvements in China's international competitiveness [20].

China's demographics are also worrisome. In another ten years the one-child policy will begin to bite as China's population starts to age rapidly and eventually to shrink. By 2020, the age pyramid will become sharply inverted with too few young people trying to support too many seniors. If China doesn't run into problems sooner, this will be the ultimate barrier to its continued economic growth. In short, China will get old before it gets rich. The second disadvantage is that the future looks brighter for China's farmers, less and less migrant workers are willing to work in the textile industry, thus removing a traditional labor source in China [24,26]. The growth rate of sales of Chinese textiles slowed significantly in 2006, dropping by almost 20 %, due to a higher valued Chinese currency, a cut in export tax rebates and higher labor costs, according to Guotai Junan Securities [27].

In brief, shortage of cotton supply, imports of raw materials, lack of labor force and higher requirements for environmental protection will also pose challenges to the development of China's textile industry [28]. Moreover, the new protectionism and the industry's focus on low-end products are only two of the more urgent problems facing the Chinese textile industry. Issues keep popping up, one after another, which will force the industry to solve its

own problems and sharpen its competitive edge before looking to take on the world market [26].

CONCLUSION

China, as an emerging economical superpower in this century, has a comparative advantage in the production of mass-produced and labor intensive textiles. Due to the increasing input costs of "made-in-Turkey" goods, Turkish manufacturers have to shift production to more value-added goods and try to differentiate their textiles products from the Chinese ones. Turkish producers have a capability to produce high-end textiles and luxury apparel and Chinese manufacturers could not gain place in the elite market in near future. It is obvious that cost competing with Chinese products is pointless. Instead, moving into highly value added textiles (new product development) and, more profitable technical (smart) product will be an advisable step. China, like the other Eastern countries, will not give up on price competition very soon. Each company who would like to survive and increase its share in the global market should invest in new technology (taking R&D activities seriously and focusing on medical textile, technical textile, and organic textile, etc.), and spend more time on research, development and education. Turkey has a chance and power to affect fashion. Therefore, creating and promoting their own brand names and selling their own collection, as Italy does, is the other solution. It is quite important to follow the developments and trends in the world closely on a company basis. In addition, the companies need to use partnership in expanding to international markets. Finally, the textile industry in China is still a labor-intensive industry offering entry-level jobs to unskilled workers and Turkish textile companies have to fill this gap in the market at once. Nevertheless, changing in China is unavoidable, which is already happening from an intensive labor force industry to a more technical intensive sort of production. Chinese threat for its competitors could be tougher for the industry in the future.

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