

# INSIGHTS

## TURKEY'S COTTON TEXTILE INDUSTRY



Until 2006, Turkey's textile industry had been experiencing a period of steady growth. Incomes in Turkey were rising, fuelling domestic apparel and textile demand, and growth in apparel exports to Europe was strong. In response, Turkish cotton consumption and imports rose. However, Turkey's position as a dominant exporter to Europe was soon to be challenged. China's 2001 entry into the World Trade Organization marked the beginning of an influx of Chinese goods around the globe. By 2006, the quota systems that had been in place to limit Chinese exports of textiles and apparel to many countries had been eased, and at the end of 2007, European Union quotas expired. With the opening of both the EU and Turkish markets to Chinese exports, tough price competition from China has had negative effects on Turkey's textile and apparel industries. However, it is possible that the recent worldwide economic crisis could increase the competitiveness of Turkish products, mitigating the downturn in Turkey's textile industry.

### TURKISH COTTON INDUSTRY SLOWS

Turkish cotton production has been slowing since the 2004/05 marketing year and has fallen precipitously in the last two years. Production for 2008/09 is projected to be 2.3 million bales, a 45% decline from the 2004/05 peak of 4.2 million bales.

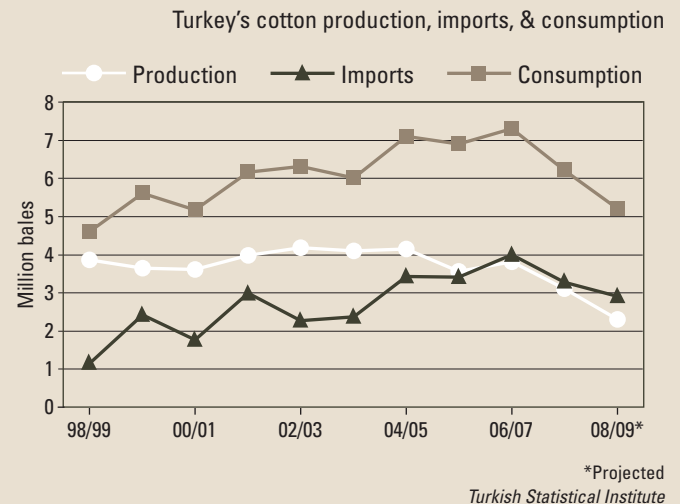
Turkey's imports of raw cotton peaked in 2006/07, when Turkey was the world's second-largest importer, importing 4 million bales. Since then, imports have fallen, and the estimate for 2008/09 is only 2.9 million bales (down 27% from 2006/07). This year, Turkey is expected to be the fourth-largest importer of cotton, behind China, Pakistan, and Indonesia, and the third-largest importer of U.S. cotton, behind China and Mexico.

Driving raw cotton imports, Turkey's mill demand grew until 2006/07, peaking at 7.3 million bales. However, Turkey's consumption of raw cotton this year is expected to be 5.2 million bales, down 28% from 2006/07. Despite falling consumption, Turkey continues to be a major player in the world's cotton supply chain. As with imports, Turkey is the world's fourth-largest consumer of cotton, behind China, India, and Pakistan.

Paradoxically, one factor weakening Turkey's textile industry is the economic strides the country has made. Accord-

ing to the International Monetary Fund, Turkey's per-capita GDP grew 27.3% over the past decade, and recent years have seen increasing stabilization of the Turkish economy and expansion of the middle class. Rising incomes put pressure on the textile industry, which must compete with cheap Asian labor in both the domestic and export markets. Although the textile industry is still Turkey's largest industrial sector, accounting for a third of industrial employment, the automotive and electronics industries are growing in importance (according to the U.S. State Department).

### COTTON INDUSTRY STARTS TO DECLINE IN 06/07



### TOUGH COMPETITION FROM CHINA

In both its own domestic market and the important European market, Turkey faces tough competition from Asia, especially China. According to the Turkish Statistical Institute, Turkey is still a solid net exporter of apparel, with a projected \$13.4 billion in exports and \$1.3 billion in imports for 2008. However, imports are rapidly gaining ground. From 2007 to 2008, exports were up slightly (by 6.1%), while imports were up significantly (by 53.9%). Furthermore, Turkey's apparel production was down 16.9% from 2007 to 2008.

Much of the growth in Turkey's imports has been in Chinese apparel. From January through September 2007 to the same period in 2008, imports from China were up 60.3% in knit apparel and 48.9% in woven apparel (according to the

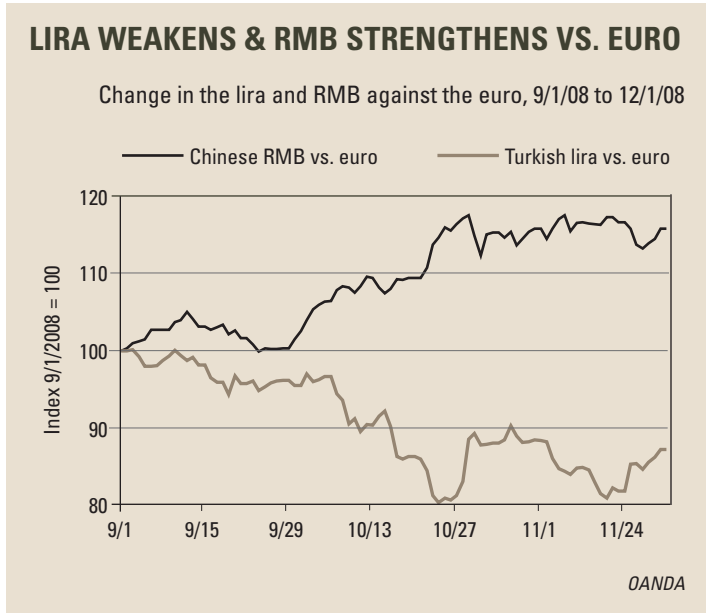
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Turkish Statistical Institute). China is the largest foreign supplier of apparel to Turkey, providing 14.9% of Turkey's total knit apparel imports and 18.4% of its total woven apparel imports so far in 2008. The value of Turkey's imports from China reached new records in September 2008 for both knit and woven apparel.

Chinese textile and apparel shipments to Europe also are up significantly so far this year. In fact, for the first ten months of 2008, the EU experienced larger growth in imports from China (38.54%) than any other region of the world. Despite tough economic times, total Chinese textile and apparel exports were up 8.43% for the ten-month period. Of China's \$157.4 billion in global exports of textiles and apparel, \$42.5 billion (27.0%) were destined for Europe, primarily the EU (21.0%) (based on data from the China National Bureau of Statistics).

Turkey has been feeling the pressure of Chinese competition, as nine of the top ten destinations for Turkish apparel exports in 2008 were EU countries. The most important destination was Germany, which received 24.6% of total Turkish apparel exports on a dollar basis (28.5% of knits and 18.9% of wovens). The top non-EU destination for Turkish apparel was the United States, which received only 2.3% of Turkey's apparel exports (1.9% of knits and 3.0% of wovens). For the first nine months of the year, Turkish apparel shipments to the United States fell 37.1% from 2007 to 2008 (44.3% for knits and 28.2% for wovens), continuing a seven-year trend of declining importance of the U.S. market to Turkish exporters.

Along with growing Chinese competition for the European market, the effects of the economic downturn in Europe have hurt Turkish apparel exports, as the value of September ex-



ports declined 1.4% for knit apparel (to \$630.6 million) and 5.5% for woven apparel (to \$450.3 million) (according to the Turkish Statistical Institute). Hardest hit were shipments to Turkey's two largest markets, Germany (where exports were flat in knits and down 11.1% in wovens) and England (with exports down 17.4% in knits and 20.4% in wovens).

## DOWNTURN BRINGS UPSWING?

What does this mean for the future? Strangely enough, the economic downturn could actually benefit the Turkish textile industry. Since September 2008, the relative values of currencies have shifted dramatically (based on data from OANDA). Against the euro, the Turkish lira fell by 12.7% from September 1 to December 1, while the Chinese RMB gained by 15.7%. Similarly, the lira fell by 11.9% against the British pound, while the RMB gained by 18.6%. The effects of these shifts have been to make goods from Turkey less expensive in the European market, while Chinese goods have become more expensive. Year-over-year, Chinese apparel prices were up 20% in euros and 40% in pounds as of December. In fact, reports indicate that European apparel orders have been shifting back from China to Turkey in the fourth quarter of 2008 (Just-Style, December 2008).

The question is how long this trend will continue. With more than 20% of its apparel exports destined for the EU, China will be motivated to win back market share. Furthermore, while the exchange rates currently make Turkish imports more attractive, the weak state of the European economy suggests that overall demand for apparel will continue to fall. Even if Turkey is able to regain market share from China, the demand in Turkey's principal apparel export markets will likely continue to be weak.

