

IS TURKEY AN EMERGING GLOBAL SOURCING HUB?



COVID-19 has impacted the global supply chains and made textile and apparel sourcing difficult. Turkey with its skilled workforce, production flexibility, and years of experience has emerged as a viable location for textiles and apparel sourcing. But it has its fair share of challenges. In this note, we look at advantages and drawbacks of Turkey as a key sourcing location for global textile and apparel value chains.

by **FIBRE2FASHION**

An emerging market economy with a rich cultural heritage, Turkey is located at the intersection of Europe and Asia. It has served as a major regional trade hub for centuries given its strategic location and maritime control of key waterways between the Black Sea and the Aegean Sea. Although lacking in natural resources, it benefits from large tracts of arable land and miles of coastline. Textiles and clothing form the core of the Turkish economy in terms of GDP contribution, employment generation, investments, and macroeconomic indicators. In 2021, the

Turkish textile industry exported \$16.2 billion worth of textiles and was the fifth largest supplier in the world, while the apparel industry exported \$18.3 billion worth of apparel and was the fourth largest supplier in the world.

According to the data from the Turkish Statistical Institute and the Ministry of Trade, textile and apparel exports from Turkey increased by 13.03 per cent year-on-year in January-March 2022 to \$9.02 billion compared to exports of \$7.98 billion during the same period of 2021. With its qualified human resources, modern

technology, flexible production capacity, and years of experience, the Turkish textile and clothing industry has a significant role in world trade with the competence to meet high standards and can compete in international markets in terms of premium quality and a wide range of products.

The European Union (EU) is by far Turkey's largest import and export partner, as well as its main source of investments. In 2021, the EU accounted for 51.8 per cent of Turkey's exports of textiles and apparel, and it was the EU's third largest textile and apparel supplier in the world.

Over the past two years, COVID-19 has disrupted the textile and apparel industry's business. Lockdown induced supply chain disturbances have been at the top of the agenda of fashion chief executives around the world. The need to build fast, flexible and reliable supply chains has become increasingly important as the severity and frequency of the supply chain shocks is trending upwards. The goal is to spread the risk across multiple sourcing markets to the point where companies can remove dependence on any one market. Companies nowadays have started manufacturing their collection more smartly with analytics, becoming more customer-centric, designing sustainable products, implementing digital tools, and providing end-customer satisfaction. Keeping these recent changes in the apparel industry, Turkish companies can provide various competitive features that can help the textile and apparel industry quickly adapt to today's changing global supply chain.

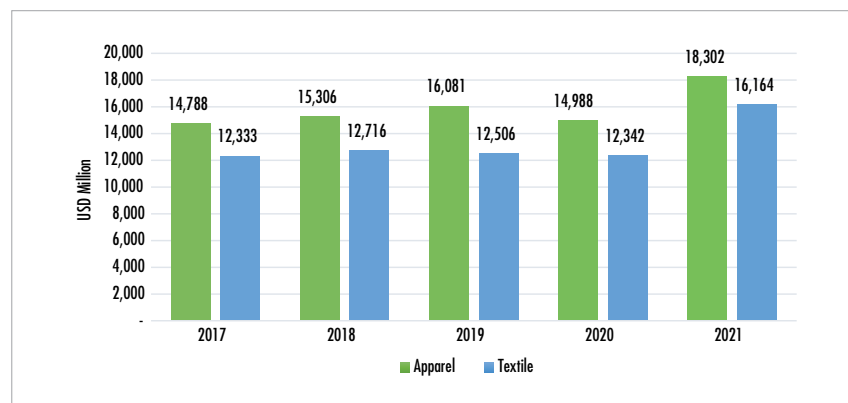
STRENGTHS

Location - Bridging Asia and Europe, Turkey is situated on the edge of one of the largest trading blocs in the world. It means shipping into Europe and the United Kingdom takes days rather than close to a month in most cases out of Asia. It fits into any 'near-sourcing' strategy for European companies that are facing several difficulties such as demand volatility, supply chain disruptions, and rising costs in terms of raw materials and global logistics. The central location of the country and the varied access routes to Asia and Europe make Turkey a prime location for any manufacturing.

Companies these days are turning their attention to nearshoring, or even reshoring, to secure the supply chain. This allows them to order closer to launch dates or employ dual-sourcing strategies for greater in-season reactivity and options for replacement. As sourcing managers in Europe look closer to home to fulfil their demand, they may think more about nearshoring developments amid their diversification efforts. In such a scenario, Turkey is expected to benefit the most.

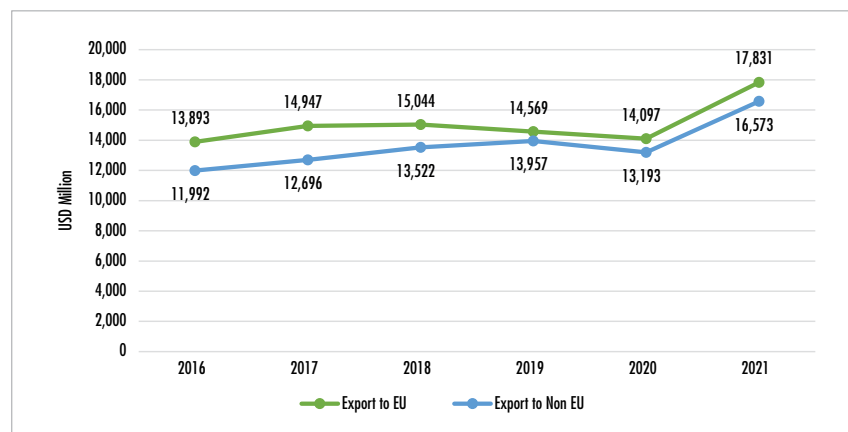
During the period 2019-2021, US imports from Turkey grew by over 63.46 per cent and now Turkey ranks as the sixth-largest supplier of textiles and

FIGURE 1 TURKEY'S TOTAL EXPORT OF TEXTILE AND APPAREL OVER THE YEARS



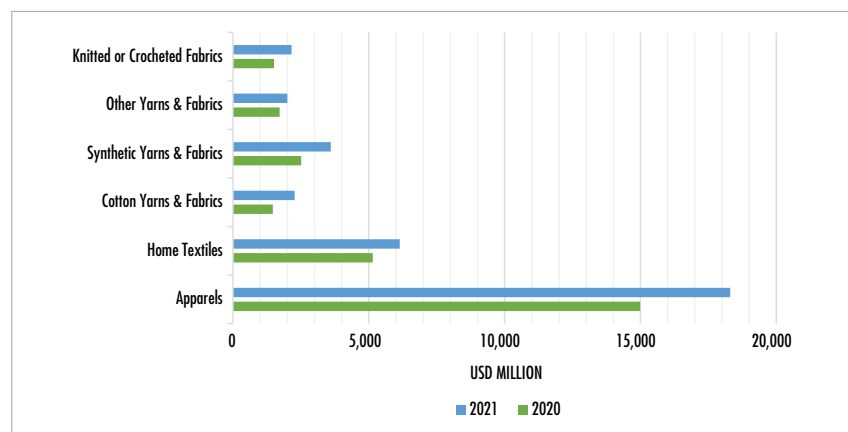
SOURCE: TexPro

FIGURE 2 TURKEY'S EXPORT OF TEXTILE AND CLOTHING TO EU AND NON-EU MEMBERS



SOURCE: TexPro

FIGURE 3 TURKEY'S EXPORT OF TEXTILE AND CLOTHING BY PRODUCT GROUPS



SOURCE: TexPro

apparel to the US market and supplies more than three per cent of total textile and apparel. In the recent years, many American brands have arrived in Turkey in search of an alternative production base, particularly as they aim for near-sourcing. Global apparel brands such as Superdry, Inditex, H&M, Hermes-Otto, Debenhams and Ralph Lauren have already diverted their orders to Turkey. According to Craig

Dana, senior vice president of global sourcing at Ralph Lauren, 40 per cent of Ralph Lauren's income comes from out of the US, and their goal is to increase this rate in the next three years. He said that Turkey is a great market for business and can be a strong European centre for them.¹ McKinsey CPO survey 2021 ranked Turkey as the third hot spot country in sourcing after Bangladesh and Vietnam by 2025



AKIMOV IGOR | SHUTTERSTOCK.COM

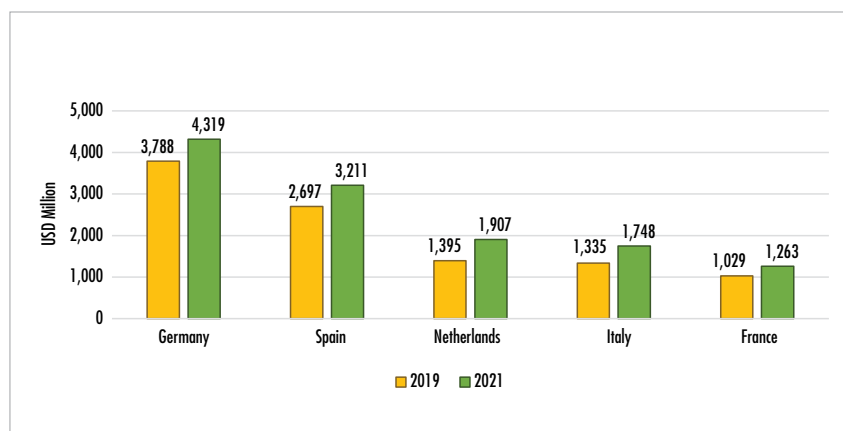
In 2021 Turkey saw one of its worst inflations and a lira crash that has led to more than 40 per cent loss in its value against the USD. The soaring inflation rate has decimated the purchasing power of the Turkish people.

because of its great location.²

Production elasticity - Turkey is often praised for its flexibility in the variety of apparel it can produce and its elasticity in production capabilities. Turkish textile and apparel industry comprises thousands of small to medium sized companies, and orders of any size, from small to very large quantity, can easily be met by adjusting the working hours according to the requirement. The Turkish apparel industry neither asks its customers to order well in advance nor does it have a long production period, which provides an impetus to companies which are uncertain about placing huge orders that may result in piling up of unsold inventory. According to ASOS sourcing director Simon Platts, “The key factor to sourcing from Turkey is speed to market and the ability to place small through to larger-scale orders gives flexibility, and the ability to trial new products and trends, and be quick to market with these.”³ Companies do not need to plan long ahead before ordering and can even make late additions. This saves a lot of time while placing an order in Turkey which certainly gives the Turkish apparel sector an advantage in the context of fast fashion.

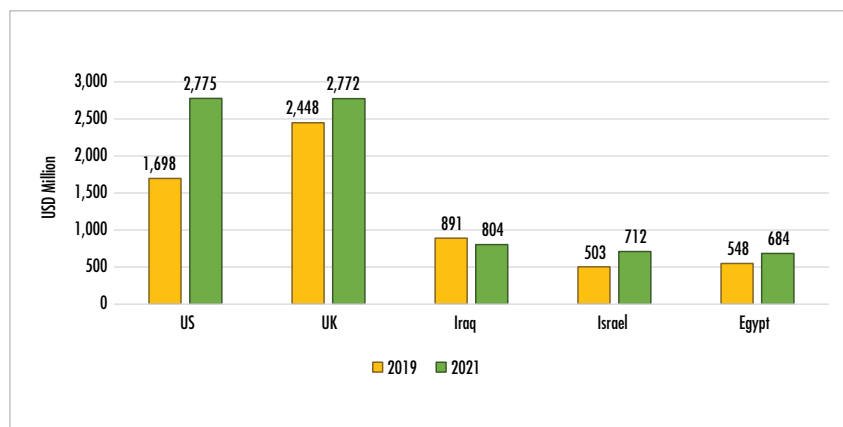
According to the McKinsey Apparel CPO Survey of 2021², six out of ten

FIGURE 4 TOP 5 EU COUNTRIES IMPORTING TEXTILE & APPAREL FROM TURKEY



SOURCE: TexPro

FIGURE 5 TOP 5 NON-EU COUNTRIES IMPORTING TEXTILE & APPAREL FROM TURKEY



SOURCE: TexPro

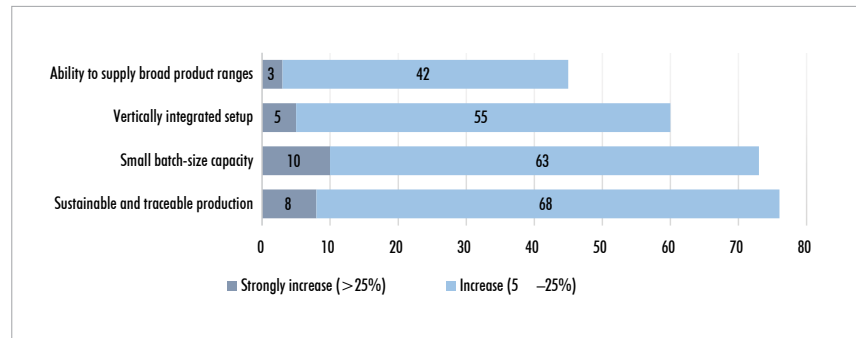
executives plan to increase or strongly increase their number of suppliers with small-batch capacity.

Sustainable products - Companies in Turkey are investing considerably in sustainable production and certification to show that the industry is both sustainable and traceable. Turkish clothing manufacturers are implementing international standards and adopting blockchain technology for transparency in anticipation of rising consumer demand for eco-friendly textiles and apparel. According to McKinsey's *The State of Fashion* report, Consumers want to support brands that are doing good for the environment, with 66 per cent willing to pay more for sustainable goods. Demonstrating progress in sustainability is particularly important in gaining the trust of younger fashion consumers, as some 43 per cent of Generation Z say they actively seek out companies that have a solid sustainability reputation.⁴

In 2021, Turkey launched a Textile Sector Sustainability Action Plan for its textile industry in a bid to increase global market share by reducing its environmental impact. According to Istanbul Textile and Raw Materials Exporters' Association (İTHİB) president Ahmet Öksüz, the plan gives a lot of importance to digital transformation and sustainability. Öksüz adds that theirs is the first industry to prepare a Sustainability Action Plan with the leadership of the Turkish Exporters Assembly (TİM). The journey began with the motto "Manufacturing for the world without consuming the world."⁵

With the action plan, the Turkish textile industry aims to further increase its market share in global exports by providing a permanent transformation and complying with the European Green Agreement norms at a high level. Under this plan, the Turkish textile industry has decided to build sustainable manufacturing facilities such as separating the infrastructure of washing and dyeing, recycling the wastewater, expanding the technologies that use less water in washing and dyeing and reducing the share of fossil fuels in production as much as possible.⁶ According to McKinsey Apparel CPO Survey 2021³, one in three respondents say they plan for more than 90 per cent of their product to be made with

FIGURE 6 PERCENTAGE OF RESPONDENTS ON HOW THEY PLAN TO DEVELOP SOURCING SETUP BY 2025



SOURCE: McKinsey Apparel CPO Survey 2021



Turkish carpets are very much in demand in the international market due to their durability, colourfastness, anti-soiling finish, ease of cleaning, and antibacterial qualities.

sustainable fibres by 2025, and two-thirds put this figure at the half at least.

Istanbul Apparel Exporters Association (IHKIB), in collaboration with the Ministry of Industry and Technology of Turkey, has announced an apparel industry project, 'From Design to Production: Digital Transformation Project in the Apparel Sector in Turkey' that will help SMEs in digital transformation and provide training to develop digital skills and provide environmentally friendly solutions. The project also aims to develop new techniques and use them to detect harmful particles that pose threats to both humans and the environment in the content of textile products. In addition, within the scope of the project, research and development studies will be carried out on methods that will test Organic Turkish Cotton.⁷

Cotton industry - Turkish cotton industry is one of the major sub-sectors, contributing to large export earnings as

well as employment capacity. Turkey is the seventh-largest producer of cotton and the third-largest exporter of cotton apparel in the world. Turkey's suitable land for cotton planting is located around the Aegean and Mediterranean regions and some in South-eastern Anatolia. Although having limited land in comparison to the leading cotton-producing countries in the world, Turkey has suitable environmental conditions as an advantage in the regions where cotton farming is practised constantly for centuries. Presently, almost all the cotton grown in Turkey is the upland type, whose lint characteristics have proved to be suitable for most applications. In 2021, \$18.3 billion worth of apparel were exported, with approximately 60 per cent of it being cotton apparel.

Turkey has increased the production of both Better Cotton Initiative (BCI) cotton and organic cotton as the demand for organic apparel is expected to grow in the coming years. In 2021, BCI cotton production was about 104,140 metric



YUSUFASLAN | SHUTTERSTOCK.COM

Turkey's apparel manufacturing industry has been built on a vertical model, enabling companies to operate in all stages from fibre to fabric production; processing, spinning, weaving, dyeing, printing, and finishing workshops all under one facility. Vertical setups cut out product development lead time, avoid delivery delays, and ensure raw-material supply, even during supply-chain disruptions.

tonnes, or almost 13 per cent of total cotton production, as reported by Turkey's Association of Better Cotton Initiative (IPUD). The Association forecasts that BCI cotton production will increase further to approximately 132,000 metric tonnes in 2022 due to increased demand from local textile companies. The Turkish Garment Manufacturers' Association (TGSD), in cooperation with the Ministry of Agriculture & Forestry, has announced an organic cotton production project for 2022. The project will work with 200 farmers in the Soke area (Aydın province) of the Aegean Region to grow 5,000 metric tonnes of organic cotton on 20,000 hectares of land. TGSD has predicted that 20 per cent of the Turkish apparel exports will be based on yarn and fabric produced from organic cotton by 2025.⁸

Vertical integration model - With more apparel brands considering vertical operations within the supply chain, Turkey would be a lucrative option to either improve existing chains or begin afresh. Turkey's apparel manufacturing industry has been built on a vertical model, enabling companies to operate in all stages from fibre to fabric production; processing, spinning, weaving, dyeing, printing, and finishing workshops all under one

facility. Vertical setups cut out product development lead time, avoid delivery delays, and ensure raw-material supply, even during supply-chain disruptions. Especially with current fluctuations in raw material prices, which challenge manufacturers to keep relationships with mills stable, an internal source for key raw materials (such as fabrics) is a strong competitive advantage. With the vertical model, product diversification is also a benefit that Turkey can deliver to brands in the world. In working with their own materials, Turkish factories produce an incredibly wide range of products, including knitted wear, denim, socks, T-shirts, and outerwear. Such a broad array of apparel could prove to be an incentive for brands that might be looking to move some of their sourcing capabilities away from their traditional suppliers and expand into new product categories. As per the McKinsey CPO survey of 2021, more than half of CPOs plan to increase their number of vertically integrated suppliers.²

Skilled worker pool - In the past, low-cost countries have always relied on cheap factory labour compared to more developed economies, but nowadays it is no longer solely about the cost of labour. The factory workers should be skilled and

efficient in what they do. This certainly applies to Turkey, which has a skilled worker pool that is competitively priced, which benefits the manufacturing sector and exports. Turkey has a huge workforce which is educated, trained and capable to work for long hours at a stretch to manufacture plenty of textiles for export.

Design & development - Turkish suppliers are constantly working on the development of their design capabilities to manufacture trendy apparel. For the last decade, Turkey has been ahead of others in terms of managing design departments in its factories. The apparel industry of Turkey has a developed digital production system that considers digitalisation from the design perspective, which is why Turkey is emerging as a digital production hub in fashion design for global buyers.

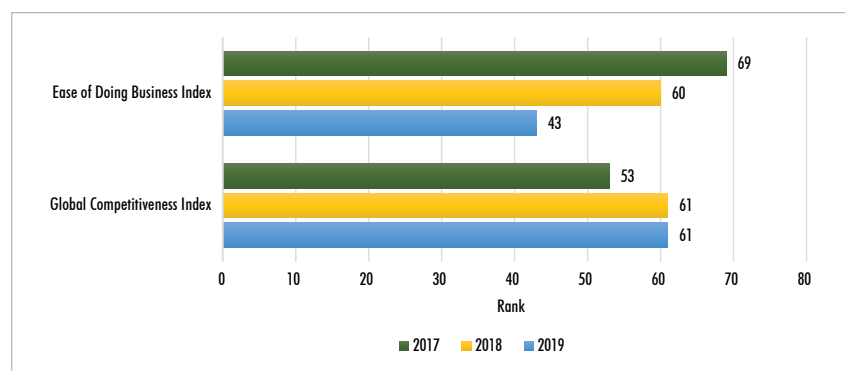
While sourcing from the Turkish apparel industry, designs and collections are created with a cooperative approach between the producer and the buyer or brand. The buyers can share their thoughts and ideas about designing with the manufacturers and in cooperation with them create a new collection of apparel. The Turkish apparel industry wants to build strong partnerships and secure the smooth functioning of the

supply chain to stay in the competition. IHKIB is firm on the belief that the Turkish apparel industry is not aiming to replace suppliers in the Asia-Pacific region, but given the differentiation offered within the market, particularly when it comes to the collaborative aspect of design and product development, Turkey's apparel industry may be able to offer the alternatives necessary to effectively diversify the supply chain.¹

Home textile - With its capacity to match the high-quality criteria of all discerning consumers, the Turkish home textile industry currently plays a significant role in global trade. Towels, bedsheets, bedspreads, curtains, blankets, pillows, quilts, cushions, carpets, table linens, lace, and sleeping bags are among the many varieties of household textiles produced in Turkey. The Turkish home textile industry has also acquired the latest technology with a high production capacity, a highly skilled labour pool, and design and fashion capabilities. The industry has also managed to reduce the cost of production below the world average while it has increased the quality of its products. In 2021, Turkey exported over \$6.1 billion of home textiles.

The European countries are the most important markets for Turkey's home

FIGURE 7 TURKEY'S RANKING IN THE WORLD



SOURCE: World Economic Forum; World Bank.

textile exports. The other main markets are the US, Iraq, the United Kingdom, the United Arab Emirates and Israel. Currently, the Turkish home textiles sector has recognised the growing demand in the international market for its environmentally friendly products and has quickly adapted to global technical standards. Furthermore, it has kept production costs below the global average cost while enhancing product quality and carrying on a long-standing tradition.

Turkish carpets and kilims - Turkish rugs have been admired in Europe since the mid-15th century and have played an essential role in European social life, even being featured in paintings of the

time, and regarded as a status symbol. Turkish carpets and kilims are unique products carrying valuable traditional messages from the depths of history. Turkey exports hand-woven carpets and kilims with ornamental motifs and various weaving techniques to many countries. Turkish carpets are very much in demand in the international market due to their durability, colourfastness, anti-soiling finish, ease of cleaning, and antibacterial qualities. A variety of different carpets of the latest trends, unique designs, and colour combinations continue to be introduced to the global market by manufacturers. Turkey exported \$3.2 billion worth of carpets in 2021 of which \$1.2 billion were exported to the United States. It is the second-largest exporter of



Since the Syrian civil war started in 2011, millions have left Syria to escape the violent conflict. Turkey has accepted more than 3.6 million Syrians and over 650,000 are estimated to be working in the country's garment industry in the lower tiers of the supply chain.

carpets following China and had a 17 per cent share in 2020 in the total export of carpets. The annual growth rate of carpet export was eight per cent between 2016-2020.

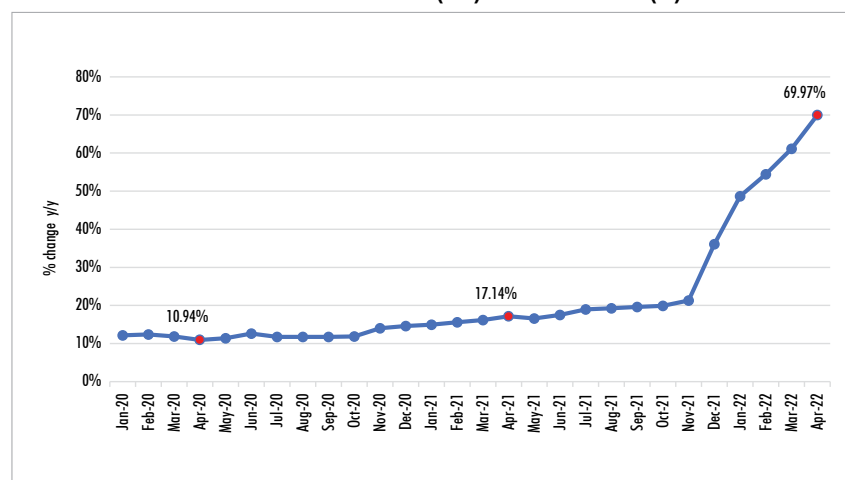
SHORTCOMINGS

Doing business in Turkey

Turkey was ranked 33rd out of 190 economies in the World Bank's Ease of Doing Business 2020 Report. It was placed above many other emerging markets including India and local competitors Romania and Bulgaria and stood at 61st out of 141 countries in the Global Competitiveness index 2019 compiled by the World Economic Forum. Compared to previous years, there have been significant improvements. Still, like every country, there are certain challenges companies face while doing business in Turkey as it has a complex and challenging market requiring adaptability and persistence. Exporters face many of the same challenges such as high labour costs, lack of government support, and instances of inconsistent or contradictory policies, regulations, documentation requirements, etc.

High labour cost - Turkey has a higher level of production costs compared to typical Asian sourcing destinations due to

FIGURE 8 **TURKEY'S CONSUMER PRICE INDEX (CPI) INFLATION RATE (%)**



SOURCE: TurkStat

high labour costs. In 2021 Turkey saw one of its worst inflations and a lira crash that has led to more than 40 per cent loss in its value against the USD. The soaring inflation rate has decimated the purchasing power of the Turkish people. To balance the situation, the government raised the minimum wage at the start of 2022 by 50 per cent from \$182 to \$275 a month.

Complex bureaucracy & regulatory issues - There are several official rules and processes which make it difficult for overseas textile and apparel companies to

adapt to a Turkish way of doing business. In certain cases, laws and regulations change suddenly, sometimes overnight. Companies have expressed their concern about frequent regulatory changes that occur with short implementation timeframes which is indeed a challenge for them to follow and quickly adapt to the unpredictable regulatory environment. Therefore, overseas companies may need to collaborate with local partners, consulting companies or law firms to overcome the obstacles associated with bureaucracy.



In working with their own materials, Turkish factories produce an incredibly wide range of products, including knitted wear, denim, socks, T-shirts, and outerwear.

High inflation and currency risks -

There is an ongoing financial and economic crisis in Turkey, characterised by the Turkish lira (TRY) plunging in value and high inflation. Lira has lost more than 40 per cent of its value against the dollar since 2021. The depreciation of the lira has resulted in skyrocketing prices for households, Turkey's Consumer Price Index (CPI) increased by 69.97 per cent annually and 7.25 per cent monthly in April 2022, according to official data by TurkStat. The yearly price increase in the clothing and footwear sector was 26.23 per cent. The sharp lira depreciation increases the burden of textile and apparel companies with large exposure to foreign currency-denominated debt and increases the credit risk for businesses that operate in import-oriented sectors. Prices of all inputs such as fabric, thread, and other inputs, have shot up, thereby increasing the cost of doing business in Turkey. Due to this Turkey is facing tough competition from its Asian counterparts.

Water shortage - Water scarcity has become an increasingly vital issue in Turkey as the country has been classified as a 'water-scarce' nation. The textile industry is one of the major consumers of water but environmental data for the textile sector in Turkey is not easily available. A large amount of water is consumed during yarn washing, bleaching, printing, and end-product washing processes of the textile industry. After the metal industry, the textile industry is the sector with the highest wastewater discharge. Two main water risks for the textile industry are: 1) further depletion of the already scarce freshwater resource will impose a higher scarcity risk to the industry, and 2) inappropriate treatment and discharge of effluent further reduce future availability of quality freshwater. Considering the increasing water scarcity in the country, the long-term viability of Turkey's textile industry and its further growth will be determined by the industry's sustainability across the supply chain, especially in water management.⁹

Syrian labour- Since the Syrian civil war started in 2011, millions have left Syria to escape the violent conflict. Turkey has accepted more than 3.6 million Syrians and over 650,000 are estimated to be



With its capacity to match the high-quality criteria of all discerning consumers, the Turkish home textile industry currently plays a significant role in global trade.

working in the country's garment industry in the lower tiers of the supply chain. It is likely that the Turkish government may implement some new law to help them.

CONCLUSION

Turkey has significant potential in textiles and apparel sector but adopting sustainable techniques and processes is essential to grow profits in an industry which has cut-throat competition globally. Textile and apparel manufacturers in Turkey are well-positioned to add to the supply chain across a wide range of products. It provides a well-developed supply chain, where buyers can get almost every fabric, embroidery and cleansing required for the maintenance of textile and apparel. The Turkish textile and apparel industry is well-recognised and is a viable option for UK and EU enterprises who wish to source closer to their markets. **FF**

REFERENCES:

1. Istanbul Apparel Exporters Association (İHKİB). (2018, October). 11th Istanbul Fashion Conference. <https://www.istanbulhazirgiyimkonferansi.com/11Eng.pdf>
2. McKinsey Apparel CPO Survey. (2021, November). Revamping fashion sourcing: Speed and flexibility to the fore. McKinsey and Company.
3. Bearn, S. (2017). Buying and sourcing in Turkey. Drapers. <https://www.drapersonline.com/topics/supply-chain/buying-and-sourcing-in-turkey>
4. McKinsey and Company. (2022). The State of Fashion. <https://www.mckinsey.com/industries/retail/our-insights/state-of-fashion>
5. The Istanbul Ready-to-Wear Clothing and Apparel Exporters' Association (İHKİB). (2021, October). 14th Istanbul Apparel Conference. <https://www.istanbulhazirgiyimkonferansi.com/TGSDsonuc14en.pdf>
6. <https://tim.org.tr/en/news-the-call-for-sustainability-from-tim-chairman-gulle>
7. <https://rekabetcisektorler.sanayi.gov.tr/en/cati/?projectCode=TR14C1.1.14>
8. United States Department of Agriculture (USDA). (2022, April). Turkey: Cotton and Products Annual. <https://www.fas.usda.gov/data/turkey-cotton-and-products-annual-6>
9. Stockholm International Water Institute (SIWI). (2016). Water governance mapping report: Textile industry water use in Turkey. <https://siwi.org/wp-content/uploads/2017/06/Water-governance-mapping-report-Turkey.pdf>