

## Turkish textile manufacturers head East to reduce costs

By Paul Cochrane 20 February 2019

Turkish textile and clothing manufacturers are eyeing slow but steady export growth in 2019, overcoming the challenges of regional instability, weak European export markets and a cheap Turkish lira that makes imported inputs more expensive.

The Turkish Exporters Assembly (TİM – Türkiye İhracatçılar Meclisi) wants to bolster textile and garment exports by 10% to US\$29bn, according to Turkey's Anadolu Agency, the country's national news agency.

The key element of these overseas sales will be clothing exports, which are forecast to reach US\$18 billion in 2019, according to Hadi Karasu, president of the Turkish Clothing Manufacturers' Association (TGSD – Türkiye Giyim Sanayicileri Derneği). He says textile and garment manufacturers are intending to relocate to lower cost production hubs in eastern Turkey to cater to a growing domestic market and lower income countries, to help cement these gains.

In 2017, Turkish clothing exports reached US\$17 billion, and increased by US\$650m in 2018, to US\$17.65bn, according to Karasu. "We managed to increase exports despite it being a difficult year for Turkey," he says, citing weaker global markets, continued instability in neighbouring Syria and the depreciation of the Turkish Lira.

The slow growth in exports in 2019 is primarily due to sluggish economic growth in Turkey's major export market, the European Union, he explains. "Our expectation is 2-3% growth, parallel to economic growth, but my expectation is a little higher due to the devaluation of the lira," continues Karasu.

The Turkish Lira (TRY) dropped 40% against the US dollar between January and August 2018, to TRY7, although has hovered around TRY5 since Q4 2018. "The devaluation means there is a 5-7% difference in prices, which is not big, but retailers want production advantages over price, for fast fashion," says Karasu. He adds that since Q3 2018, there has been heightened interest from UK retailer buyers due to the depreciation, making Turkish output more competitive given rising production costs in the Far East.

The potential for a USA-China trade war has heightened the interest of American buyers in Turkey. "Due to the trade war, Turkey is a country US brands are talking about," says Karasu. "We've already seen an increase in exports to the USA, and in 2019, we are going to bring [Turkish and American garment export] associations together and at the government to government level, not to get incentives, but support to renew our technology."

Textile sector exports to Africa and the Americas reached US\$1bn in 2018, up 13.5% on the previous year, according to the Istanbul Textile and Raw Materials Exporters Association (İTHİB – İstanbul Tekstil ve Hammaddeleri İhracatçıları Birliği).

The lira's depreciation is also set to bolster local clothing and textile production for the domestic clothing market, which reached US\$31.21bn in 2018, while demand for local brands is predicted to grow by 3-4% this year. According to Karasu, around 65% of Turkish clothing sales are sourced locally, but some brands have increased local production to 80%. There are some 500 Turkish brands.

Karasu says Turkey wants to encourage exports of Turkish brands, especially to lower income markets in Asia, Africa and the Middle East. With 70% of Turkish garment production in the West of the country, production costs are some 50% higher than in the East. The TGSD wants the lower cost production to move to eastern Turkey to cater to these markets, while investing in new technology for production geared for western markets in the west of the country.

"It will not be difficult to adapt as we have the know-how, but costly," says Karasu. "For factories investing in new machinery, the older technology will be taken to the east for low cost products."

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