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Turkish Apparel Exporters' Attitude, Expectations, and Strategic Preparations for a Quota-Free World

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TURKISH APPAREL EXPORTERS' ATTITUDES, EXPECTATIONS, AND STRATEGIC PREPARATIONS FOR A QUOTA-FREE WORLD

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Abstract

On January 1, 2005 the worldwide quota system for textiles and apparel was abolished. Although there has been much speculation in trade journals, newspapers, and academic articles about post-quota competition, little is known about how textile and apparel exporters view a quota-free marketplace and what strategic preparations—if any—they have undertaken to prepare for this new trading environment. This paper presents the results of a survey of Turkish apparel exporters and provides an inside view into their attitudes, expectations, and strategic preparations at the dawn of the quota-elimination period. The survey is the first wave of a three-year, longitudinal, multi-method study investigating the impact of and exporters' adjustment to quota elimination. Survey findings suggest that the majority of Turkish apparel exporters are aware that quotas were lifted in the EU and US markets, but a surprising proportion of SME exporters are unaware of quota elimination. Most exporters are optimistic about Turkey's market-share prospects in 2005 for both the EU and US markets but are more cautious in terms of market-share expectations for their respective firms in those markets. Firms report undertaking a wide array of production- and marketing-oriented changes and investments since 2001 when China's WTO membership became manifest. Substantial percentages of firms taking these actions began these initiatives only in the last year.

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"A new world has dawned in textiles and apparel trade. Now the fallout begins."
-- Women's Wear Daily January 3, 2005

"We are at the crossroads. We are part in Europe, part in Asia. We are neither the most expensive nor the least expensive. It is an important time of development."
-- Nuri Artok, Chairman of the Istanbul Textile and Apparel Export Union (in reference to quota elimination as quoted in Murphy 2002).

Apparel manufacturing has been called one of the most globalized industries in the world (Rossen 2004). Today, world production, valued at US$226 billion (3.1 percent of world merchandise trade), is fragmented and dispersed around the globe. The top fifteen textile exporting countries—which originate from every continent except Australia and Antarctica—account for a little more than three-fourths (79 percent) of world apparel exports (see Table 1). In stark contrast, the importation of textiles is narrowly concentrated: approximately three-fourths (76 percent) of world apparel exports are imported into just two countries, the European Union (EU) and the United States (US) (http://www.wto.org/english/res_e/statis_e/its2004_e/its04_bysector_e.htm)

Since 1974, textile and apparel imports to the EU and USA have been dominated by a system of quotas, mostly established through bilateral agreements via the Multifiber Arrangement.[1] This quota system has limited the amount of textile and apparel exports that quota-subjected countries could send into European and American markets.[2] But the quota system also has reduced uncertainty for exporters: it set known, quantifiable limits on the amount of goods that competitor countries could send into quota-limited markets. The quota system encouraged the proliferation of textile and apparel manufacturing in many countries (Anderson 2000). Under the quota system, buyers were forced to "quota hop," to source products from alternative countries when their supplying countries approached their quota limits (de Jonquieres 2004). Quotas often helped create and sustain textile and apparel markets in many developing countries (Appelbaum 2004).

On January 1, 2005, per the WTO's Agreement in Textiles and Clothing (ATC), the quota system was fully abolished.[3] *Women's Wear Daily*, a leading apparel industry journal, predicted that quota elimination would "begin a seismic shift" in worldwide apparel sourcing (Ellis 2003). A *Financial Times* article warned of a "global shake-out as quotas end" (de Jonquieres 2004). Leading up to 2005, there was a flurry of trade-journal articles and analyst reports speculating about the quota-free competitive environment. Although there was a general consensus that China would be the big winner of quota elimination, there was disagreement about how most other countries would fare after January 1, 2005. In published accounts about quota elimination, scant attention was paid to the perspectives of textile and apparel exporters. Until today, little is known about how textile and apparel exporters view a quota-free marketplace and what strategic preparations—if any—they have undertaken to prepare for this new trading environment. Such data might provide meaningful insights, particularly for countries like Turkey, whose post-quota destinies are uncertain.

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[1] In 2004 quotas were levied on 50 apparel categories in the European Union and 59 in the United States. Twenty countries faced quota limits in the European Union; 42 nations were subject to quotas in the United States (http://otexa.ita.doc.gov/). The number of quotas a country was subject to and its quantitative limit varied based on the terms of bilateral agreements between importing and exporting nations.

[2] Once assigned quantitative quota limits, countries allocated quota percentages to textile and apparel firms in their country. Many nations developed elaborate decision-making mechanisms based on attributes such as export intensity, export performance, production capacity, and reputation (Dickerson 1998).

[3] Safeguards are available until 2008. Tariffs remain in place in many countries in textile and apparel categories, but in most cases, tariff rates (average in the US is 17 percent) were not as burdensome as quotas. For example, the WTO reports that the tariff equivalent of quotas—the amount of tariff necessary to produce the same restrictive effect of quotas—is as high as 34 and 33 percent for India and China respectively (Nordas 2004). Post-2005 quotas will most likely remain in place for several non-WTO member nations, including Belarus, Laos (US only), Russia (US only), Serbia (EU only), Ukraine (US only), and Vietnam (Clothesource 2004).

Turkey is the world's fourth-largest clothing exporting nation behind the EU, China, and Hong Kong. In 2003, Turkish clothing exports were valued around US$9.94 billion and comprised 4.4 percent of worldwide clothing exports (http://www.wto.org/english/res_e/statis_e/its2004_e/its04_bysector_e.htm). Textile and apparel exports are vital to the Turkish economy; they account for approximately 10 percent of GDP, 18 percent of industrial production, 20 percent of the manufacturing labor force, and generate 32 percent of Turkey's export earnings (http://www.itkib.org.tr/).

Turkey, like many other developing countries, initially fought for the removal of these quotas when the ATC was signed in 1994. They anticipated that quota elimination would bring about increased sales and market share, particularly in the US where they faced stringent quotas in their major export categories (Wilson 1999). However, China's entry into WTO membership affected the calculus of future market-share prospects for many developing countries, including Turkey. Leading up to 2004, analyst and trade-journal reports were mixed in terms of their expectations for Turkish apparel sales in a post-quota environment. Some argued that Turkey would maintain or even gain market share. Others warned that the Turkish apparel industry would be devastated; several predicted that small and medium-sized firms—which comprise the majority of the industry—would be especially hard-hit. As the quota-elimination date approached, Turkish business associations were at the forefront of an international movement organized to persuade the WTO to postpone quota elimination (Zarocostas 2004).

This paper presents the results of a survey of Turkish apparel exporters and provides an inside view into their attitudes, expectations, and strategic preparations at the dawn of the quota-elimination period. The paper is organized into five sections. The first section provides an overview of the Turkish apparel sector. The second section chronicles the evolution of global textile and apparel trade policy and summarizes analyst expectations for the Turkish apparel sector after quota elimination. In latter sections, survey findings regarding Turkish apparel exporters' (1) awareness of quota elimination, (2) their market share expectations for the first year after quota lift, and (3) the strategic actions their companies have taken to prepare for the post-quota competitive context are presented. Findings among respondents from SME and larger firms also are compared and discussed.

The Turkish Textile and Apparel Sector

The Turkish textile and apparel industry has been central to the historic economic development of the country. The textile and apparel sector was granted the first priority for industrial investment and development in the newly independent republic's First Development Plan (Owen and Pamuk 1999). The nascent government exacted strong protectionist trade policies, levying high tariffs on textile, apparel, and other imports, thus encouraging many merchants to shift from importing activities to import-substitution production (Clark 1963). Throughout the mid-twentieth century, the textile and apparel sector grew. By the 1960s, textiles and apparel was the prime manufacturing concern in Turkey but the industry was primarily focused on meeting the needs of the domestic market (Ilyasoglu and Duruiz 1990).

The oil shocks of the 1970s inspired the heavily indebted Turkish government to actively seek a means to bolster weakened hard currency reserves. On January 24, 1980, Türgüt Özal's government announced a dramatically new economic program aimed at liberalizing trade, promoting exports, and placing a greater reliance on market forces rather than state intervention. Most textile and apparel import tariffs and surcharges were eliminated for intermediate and final goods; protection was still maintained for most categories of raw materials. A wide array of export-promotion incentives were offered to encourage domestic producers to seek export opportunities. [4]

[4] Export-promotion policies, referred to in Turkish as *tesvikler* (supports), included extensive export tax rebates, export credits, and foreign exchange allocations. Exporters were exempt from paying production tax on final export goods and did not have to pay customs or duties on imported goods that were used as inputs for exported products.

These export incentives encouraged many textile and clothing producers who were primarily focused on the domestic market to shift production and marketing emphasis toward foreign markets and induced new entrants into the industry (Ilyasoglu and Duruiz 1990). The Turkish textile and apparel sector grew exponentially throughout the end of the twentieth century. A 1999 survey of Istanbul textile and apparel firms suggests that 92 percent were founded after 1980 (Riddle 2001). As the industry grew, many manufacturers began to focus their exports on apparel. In 1980, clothing exports contributed only 14 percent to total Turkish textile exports. But, by 2003, this percentage had climbed to 76 percent (http://www.itkib.org.tr/).

Only a small percentage of apparel exports is in high value-added products; most Turkish apparel exports are in lower value-added categories, such as T-shirts (Murphy 2002). Cotton- and wool-knitted apparel and accessories account for little more than half (51 percent) of Turkish apparel exports, while cotton-woven apparel and accessories (35 percent) and made-up textile articles (14 percent) comprise the remainder.

Turkish apparel exports are primarily sent to the EU (destination for 72 percent of Turkish apparel exports) and the US (16 percent of Turkish apparel exports), the two largest apparel markets in the world (http://www.itkib.org.tr/).[5] Prior to 2005, Turkish apparel exports were subject to several quotas in the United States market (33 categories).[6] Over the course of the Multifiber Arrangement, quota limits were raised several times for Turkey, including following the 1999 earthquake (Ostroff 1999) and during the US-led invasion of Iraq in 1991.[7] At the end of 2004, Turkey's average quota-fill rate was 38.6 percent. Yet, several products—particularly in men's and boys' apparel categories—regularly reached 80 percent or greater fill rates,[8] often within a couple of months (see Table 2). Turkey was not subject to quotas in the EU, where they enjoyed Customs Union status since joining the union in 1995.

Although in 2004 Turkey maintained an overall trade surplus in textiles and apparel (US$8.4 billion), it continued to import substantial apparel and apparel accessories goods. EU countries provided the bulk of these imports (59 percent), while the US supplied 17 percent, China 12 percent, and other countries 12 percent. In late December 2004, Turkey was the first country (followed by Argentina and the US) to impose safeguard measures against 42 categories of Chinese apparel imports (Zarocostas 2005).

The Turkish textile and apparel industry is comprised of over 50,000 firms, most of which are very small. Eighty-three percent of Turkish textile and apparel firms employ less than 10 people (Ministry of Employment Statistics). The 41 largest firms account for nearly 55 percent of all production capacity, and these companies rank among the 500 largest textile and apparel firms in the world (http://www.itkib.org.tr/). Most apparel firms are located in Istanbul. Official statistics state that 500,000 are employed in the textile and apparel industry, but government officials claim that informal employment comprises 2 million persons in the sector (Smid and Taskesen 2002).

The majority of Turkish apparel manufacturers' costs were material costs; labor and high electricity costs were also considerable (Ghemawat and Baird 1998). SMEs struggled to compete with large firms in the sector. Larger firms have better access to market research and capital

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Additionally, exporters were permitted to claim an exemption from their corporate profit taxes equal to 20 percent of the value of their exports and to pay a much lower rate of tax on the exempted portion (Togan and Balasubramanyam 1996). Most of these policies ended once Turkey signed the GATT in 1989.

[5] One percent of Turkish apparel exports are each sent to Canada, Switzerland, Norway, and Russia, while eight percent are sent to other countries.

[6] Out of 41 apparel-importing countries, Turkey was ranked 11th in terms of the number of quotas to which it was subjected. China was at the top of the list with 71 categories (Clothesource 2004: 53).

[7] Turkey vigorously lobbied the USA for quota removal in exchange for their support of US efforts during the second invasion of Iraq in 2003. When Turkey refused to allow the US to deploy their troops for a northern front, the Bush administration retracted a multi-billion dollar aid package that included quota elimination for key Turkish apparel products (Ellis 2003b).

[8] Turkey's average fill rate was near the median (ranked 20th) among the 41 apparel-importing countries into the US market (Clothesource 2004: 53).

(Riddle 2001), and smaller firms find it challenging to comply with export formalities, such as collecting the 15 percent value-added-tax (Ghemawat and Baird 1998).

Several of Turkey's largest apparel firms are fully integrated firms; their production includes some fiber processing, spinning, weaving, dyeing, printing, and finishing operations (Neidik 2004). Many of these companies have developed well-known local brands. But only a few (10 percent of total exports) have begun to enter into foreign markets with branded products (Murphy 2001). For example, Vakko and Mavi Jeans have opened their own branded retail stores in the German and US markets respectively.

The Evolution of Global Textile and Apparel Trade Policy

The Turkish apparel industry developed during a period when global textile and apparel trade policy became increasingly formalized. Following World War II, much of international trade was subject to the rules of the General Agreement on Tariffs and Trade (GATT). Although GATT made tremendous progress in bringing down trade barriers in many product categories, it was less successful at stimulating freer trade in the textile and apparel sectors (Blokker and Deelstra 1994).

Both developed and lesser-developed countries faced strong incentives to protect their local textile and apparel industries in the 1950s. Many lesser-developed countries relied on textile and apparel production as a cornerstone of their economic development plans and sought to protect their infant industries from foreign imports. These countries often invoked Article XVIII, the balance of payments provision of GATT, which permitted a country to deviate from certain GATT rules—such as refusing imported textile products—to remedy serious balance-of-payments problems (Dickerson 1998). Until the mid-twentieth century, developed countries had maintained strong trade surpluses in textile and apparel products. But by 1960, these trade surpluses were being eroded by imports from Japan and other lesser-developed countries. Developed countries pushed the GATT to adopt the "Avoidance of Market Disruption" exception to the agreement. This exception made allowances for textile and apparel import restrictions if an injurious import increase[9] from a particular country was expected (Sarna 1981).

The passage of the GATT exception rule gave rise to a series of general trading agreements, referred to collectively as the Multifiber Arrangement (MFA), which continued to distance textile and apparel trade issues from the liberalization spirit and development of the GATT (Dickerson 1998). The MFA resulted in a proliferation of bilateral agreements between countries. These agreements would be initiated by a claim made by one country that the textile and apparel imports from another were disrupting their local economy. The two countries then would negotiate an acceptable import level for the disrupted market, thereby setting an annual import quota for the exporting country. Almost all bilateral agreements established under the MFA were initiated by developed countries that possessed large domestic demand. These countries also had less cost-competitive local textile and apparel industries, such as the EU and the US, against the increasingly cost-competitive textile and apparel exporters from lesser-developed nations (Spinanger 1995). By 1994, 55 countries were engaged in MFA bilateral agreements, and about 60 percent of global trade in textile and apparel products occurred under some type of trade restraint (Dickerson 1998).

But the establishment of the MFA did little to contract textile and apparel production outside the developed countries. Although bilateral agreements restricted imports with some lesser-developed countries, unrestricted countries increasingly took advantage of their status by cultivating local, export-oriented textile and apparel industries and by attracting foreign investment in the sector.

During the Uruguay Round of GATT trade talks, lesser-developed countries—many of which had developed vital textile and apparel sectors—began to push developed countries to bring

[9] A large import volume increase that resulted in a sizeable price difference between the imported goods and local, comparable goods.

textile and apparel trade back under mainstream GATT regulations so that they could gain greater access to export markets. The Uruguay Round talks dragged on for seven years and were often filled with heated debate on the issue of textiles and apparel. Finally, on December 15, 1993, the Uruguay Round ended, and the contracting parties of GATT agreed to a general plan to phase out the MFA over a ten-year period.

When the World Trade Organization was established in 1995, the Agreement on Textiles and Clothing (ATC) replaced the MFA and outlined a plan for the elimination of the worldwide textile and apparel quota system.[10] The first element of the ATC called for a four-stage quota phase-out schedule based on each country's 1990 import volume. All WTO members with instituted quotas—the EU, US, and Canada—were required by the ATC to liberalize 16 percent of their quota product categories in 1996, an additional 17 percent in 1998, and an additional 18 percent in 2002. On January 1, 20005, the additional 49 percent was eradicated (http://www.wto.org/english/tratop_e/texti_e/texti_e.htm).

In 1994, most lesser-developed countries hailed the quota-elimination plan as a great victory (Smeets 1995). But this enthusiasm waned once China became a WTO member on December 11, 2001. Alarm among China's competitors began in earnest when the results of 2002 first-quarter imports to the US market were revealed. In just a matter of months, China's share of the 29 categories that had been removed from quota that year had more than tripled, rising from nine percent in 2001 to 45 percent by the first quarter of 2003 (American Textile Manufacturers Institute 2003). By 2004, China's share of quota-released categories soared to 65 percent (National Council of Textile Associations 2004). China achieved similar dramatic success in the EU and Canadian markets as well. Industry reports pointed to remarkable price declines after quotas were eliminated in Chinese apparel imports: the average price in quota-free Chinese apparel categories decreased from US$6.23 in 2001 to $3.12 in 2004 (National Council of Textile Organizations 2004: 3).

In response to these events, between 2002-2004, several reports were written by industry associations, policymakers, and journalists, claiming China would be the primary winner of the "big bang" of quota elimination (Gresser 2004). Even under quota limits in the major textile-importing countries, China was the world's leading textile exporter and second-leading apparel exporter (after the EU) in 2004. Textile and apparel manufacturing accounted for 10 percent of the country's manufacturing output and 20 percent of Chinese exports (Buckman 2004). Although official statistics indicated that the combined textile and apparel industry was comprised of 21,000 enterprises and 7.9 million workers (14.5 percent of China's industrial employment), the China National Technical Importer/Exporter Corporation Group estimated that employment—once informal labor was taken into account—was closer to 15 million workers (ITC 2004). The sector was dominated by several large state-owned companies; the remainder was comprised of small firms (ITC 2004).

China's relatively low hourly wages in the textile and apparel sector (see Figure 1) were a major factor in the price-competitiveness of Chinese apparel products. In anticipation of WTO membership and quota elimination, China embarked on what the government referred to as a "reform equals rescue" plan in 1998, eliminating 1.5 million jobs in the sector and upgrading technologies to enhance efficiency. International Textile Manufacturers Federation statistics illustrate China's commitment to technological improvements: China purchased three-fourths of the shuttle less weaving machinery that was sold in world markets between 2002-2004, two-thirds of all texturing sales in the world between 2002-2003; and 60 percent of global wool- and cotton-ring spinning frames between 2002-2003 (National Council of Textile Associations: 4).

In 2004, several reports were released that made predictions about post-quota winners and losers. There was a general consensus that China would be the major winner of a post-quota world market, but there was disagreement about the magnitude of China's expected market-share

[10] For a full description of the ATC, see the WTO's "Explanation of the Agreement on Textiles and Clothing" at http://www.wto.org/english/docs_e/legal_e/ursum_e.htm#cAgreement.

gains (Malone 2004). A WTO report estimated that Chinese apparel would increase 29 percent in the EU and 50 percent in the US once quotas were lifted. A McKinsey study examining the impact to quota-elimination on total world exports posited that China's share in worldwide apparel would increase from 22 percent to 31-50 percent, depending on how long it would take the EU and the US to impose safeguard measures (Padhi, Pauwels, Taylor 2004: 10). Fashiondex Inc., a textile and apparel consulting company, argued for a more conservative estimate of China's market share prospects (market share of 27 percent for both the EU and US), noting that more than half of China's current garment exporters were not regulated by quotas (Malone 2004).

India—the only country to maintain market share in the EU and US markets in quota-free apparel categories after 2001—also often was mentioned as a post-quota "winner" (National Council of Textile Organizations 2004). Countries whose industry was mostly comprised of foreign direct investors from China seeking to circumvent quotas on Chinese goods were often mentioned as expected losers in a post-quota world since much of that investment was expected to be retracted once quotas were lifted (Appelbaum 2004).

But for most of the rest of the world's apparel-producing nations, the future was questionable. Appelbaum's (2004) review of over 60 studies and reports on the impact of quota elimination observes a substantial disagreement in the literature regarding who would be helped and hurt by quota removal—and by how much.

Analysts' assessments of the impact of quota-elimination on Turkey were mixed. Several reports conducted by American, European, and Turkish analysts argued that much lower labor costs in competing countries (including China) would render Turkish export goods uncompetitive in international markets (e.g., Nordas 2004, Emerging Textiles 2003, American Textile Manufacturers Institute 2004). A WTO study warned that China's labor costs were low enough to sustain its price advantage even in the European Union, a market in which Turkey was privy to duty-free access (Nordas 2004). A survey of US buyers conducted by the ITC noted that buyer's perceptions of higher Turkish apparel prices and lower relative product quality would result in "a shift in supply patterns from Turkey to China and Hong Kong" (ITC: L-42). The negative impact was expected to be particularly strong for SMEs, who typically would not have the resources or capability to absorb these losses.

Other analysts' reports were more upbeat, arguing that textile and apparel buying decisions were no longer made on price alone (e.g., Ikenson 2003; Abernathy et al 2003; Appelbaum 2004). They pointed to the fact that retail consolidation in the EU and USA and inventory and supply-chain information systems had changed buyers' decision-making criteria in the apparel industry. Retailers' larger product-line offerings and lean inventories resulted in a greater importance placed by buyers on a supplier's speed of delivery. Some analysts argued that Turkey's advantages of geographic proximity to Europe and lower supply-chain throughput time would engender a distinct advantage over China and other competitors—particularly in the EU market (e.g. ITC 2004, Munir 2004). On average, Turkish exporters' delivery time (including manufacturing and transportation) was eight weeks to the EU market, whereas Chinese and other Asian exporters delivered in 12-13 weeks on average (Ghemawat and Baird 1998). The *Winners & Losers 2005* report, published by Fashiondex Inc., claimed that Turkey's close proximity to the EU market would make it a post-quota winner. In addition, this report argued that Turkey would succeed in the US market after quota elimination because the industry was diversified and had substantially improved quality (Malone 2004).

But business association leaders in Turkey were convinced that quota elimination would be devastating to the industry. In July 2004, the Istanbul Textile and Apparel Exporters' Union (ITKIB) decided to take action. Along with the US association, ITKIB organized a conference of over 80 textile and apparel associations representing 46 countries. The result of this conference has become known as the "Istanbul Declaration," a plea to the WTO for a postponement of quota elimination. The declaration predicted that "trade-distorting practices," such as "deliberate currency undervaluation, state subsidies, and a proliferation of non-performing loans and rebate schemes" by some countries would enable these countries to dominate global textile trade in a quota-free world, resulting in "massive job disruption and business bankruptcies in dozens of

countries dependent on textiles and clothing" (http://www.itkibusa.org/). Despite these last-ditch efforts, on January 1, 2005, remaining quotas were abolished. As *Women's Wear Daily* magazine reported, "A new world has dawned in textile and apparel trade. Now the fallout begins" (Ellis 2005: 1).

Research Questions, Methods, and Measures

But what the fallout would be for Turkish apparel exporters—and how prepared they were for it—was unknown. To what extent were Turkish apparel exporters aware that these quota changes had occurred? What were their market-share expectations for Turkey and their firm in the formerly quota-controlled EU and US markets? What strategic preparations—if any—had they made in anticipation of the post-2005 competitive environment? How might awareness, expectations, and strategic preparation vary among SMEs and larger firms?

These research questions were explored via a survey of 100 export managers of Turkish apparel manufacturers. Only firms exporting some proportion of their sales to the EU and/or US markets were considered eligible for participation in the survey. This is the first wave of a longitudinal, multi-method (quantitative and qualitative) tracking study. This study, conducted over a three-year period, will investigate the affects of quota elimination on firm structure, marketing strategy, and financial performance. The sample size is small to allow for an in-depth data collection process during the study period. This first wave of the survey included measures regarding respondent's awareness of quota elimination, market-share expectations for Turkey and their firm in EU and US markets for 2005, firm-level strategic changes that were made to prepare for a post-quota environment, and firmographic variables.

The survey was originally written in English and translated into Turkish. Backtranslation from Turkish to English was performed independently by two bilingual Turks previously unfamiliar with the survey. Amendments to the Turkish wording were made based on backtranslation findings. The survey was pretested, and pretest respondents were asked for their interpretations, reactions, suggestions, and other feedback for each question after the survey was completed. Final changes to the survey instrument were made based on this input.

A sampling frame of Turkish clothing exporters (N=9686) was acquired from The Istanbul Textile and Clothing Exporters' Union (ITKIB). ITKIB's list is deemed a representative enumeration of the population of Turkish clothing exporters since every Turkish clothing exporter is required by law to register with ITKIB. A sample of 100 export firm owners was selected from the sampling frame. The enumeration was arranged from largest to smallest amount of 2004 export sales. In order to insure that the sample would include large, medium, and small exporters, the enumeration was divided into five equal strata, and 20 firms were chosen within each stratum by random selection. The sample was refreshed to achieve 20 completed interviews with firm owners of companies within each stratum.

A field research firm, Frekans, was hired to assist in the administration of the questionnaire. Frekans was chosen because of their experience in data collection for research projects conducted by social scientists from Turkey's leading universities, Koç and Bogazici. In addition it was hoped their brand-name recognition might increase response rates among respondents. Four interviewers with experience in executive and business-to-business interviewing were chosen from among the Frekans' staff to administer the survey. Interviewers first sent selected respondents a pre-contact fax, informing them of the survey's purpose and that an interviewer would be contacting them directly to set up an appointment for the administration of the survey. One or two days after the sending of the pre-contact fax, the selected participant was contacted by telephone by a Frekans' interviewer to set up the interview appointment. Data collection took place between January 2 – January 15, 2005. The overall response rate was 63 percent.

Findings

Sample Profile. The average firm in the sample is 12.2 years old (see Table 3). Most firms were established in 1980 or later. The majority of respondent firms (74 percent) employ fewer than 100 employees. Respondent firms are predominantly small in terms of number of employees but diverse in terms of total 2004 export sales. Exports constitute the majority of total sales for 78 percent of the sample; the average export intensity[11] for sample firms is 73.7 percent. Respondent firms send their exports to an average of 6.9 export market destinations. Most (88 percent) produce cotton apparel products, and about half produce man-made fiber apparel goods. Smaller percentages produce apparel products made of wool (40 percent), silk (26 percent), and silk blend/non-cotton vegetable fiber (15%). Sixty-nine percent are producing apparel products in US-quota-controlled product categories. These firmographic findings are similar to the findings of previous surveys of the ITKIB membership (e.g., Riddle 2001).

Sixty-seven percent of respondents claim that their firm had experienced growth in export sales over the past three years, while 26 percent reported that their firm had experienced a decline during the three-year period. The average reported export sales change was a 7.9 percent increase. Respondents were asked, "How does your average annual export sales growth/decline compare to the industry average?" They selected a response ranging from 1 (poor) to 7 (outstanding). The average response was in the middle of the scale: 4.1. Also, the question was asked, "Overall how profitable has exporting been over the last financial year?" Similarly, the average response hovered around the middle of the scale at 3.9.

SME Firmographic Differences. Revealing differences are apparent when firmographic comparisons are made between SMEs (those employing 100 or fewer workers) and larger firms (see Table 3).[12] Smaller firms are younger; their average age is 10.7 years, compared to the average of 16.5 among larger firms. Sixty-four percent of the SME respondent firms were formed since 1990; almost one-third (32 percent) were established in 2000 or later. In contrast, most (58 percent) of the larger firms were founded in the Turkish apparel-growth decade of the 1980s; few (3 percent) were formed since 2000.

Not surprisingly, SMEs tend to be smaller exporters than larger firms. The average total 2004 export sales for SMEs was US$1.5 million, compared to US$14.1 million among larger firms. The significant differences between SMEs and larger firms in terms of total 2004 export sales lay in the smallest and largest export sales categories. Forty-one percent of SMEs exported less than US$500,000, compared to only 8 percent among larger firms. Only 9 percent of SMEs exported US$5 million or more, while 61 percent of larger firms exported that amount.

Significant differences in export intensity were not observed between SMEs and larger firms. However, larger firms sell their products to almost double the number of export markets (10.6 countries) on average relative to their SME counterparts (5.7 countries). In general, SMEs and larger firms produce a similar array of goods, although a larger proportion of SMEs report the production of man-made fiber apparel. Although a majority of SMEs and larger firms produce products in formerly US-quota controlled categories, a significantly smaller proportion (65 percent versus 81 percent) of SMEs produce previously quota-controlled goods.

The most striking difference between SME and larger firms is observed in the comparison of export performance variables. Significantly fewer SMEs (67 percent compared to 81 percent among larger firms) report that their firm experienced export sales growth over the last three years, and more (26 percent versus 7 percent) report experiencing an export sales loss during this period. On average, SMEs report a 2.4 percent export sales increase over the past three years as compared to 23.5 percent reported by larger firms for the same period. When asked to compare their firm's annual export sales growth/decline to the industry average, SMEs

[11] Defined as export sales as a percentage of total sales.

[12] Findings regarding SME and larger firm differences in firm age, total export sales, export intensity, and number of export destinations are consistent with previous studies of firmographic differences in the industry (Riddle and Gillespie 2001).

tended to answer toward the middle of the scale (mean score is 3.7), whereas larger firms tended to reply toward the higher end of the scale (mean score is 5.1). Similarly, SMEs report lower export profitability (mean score is 3.6) than larger firms (mean score is 4.6).

Awareness. To test exporters' level of awareness of quota elimination, respondents were asked, "Are you aware of any quota changes that have occurred recently in the apparel industry?" One-quarter of the respondents answered "no" to this question (see Table 4). All but one of those responding negatively to this pseudo-aided awareness question were SME export managers—comprising almost one-third (32 percent) of all SME respondents.

Market Share Expectations. Overall, respondents are optimistic about Turkey's prospects in a quota-free American market (see Figure 2). Over one-third (36 percent) expect an increase in Turkey's market share in the US, and almost half (49 percent) expect Turkey to maintain its share.

Those indicating an expected market-share increase for Turkey were queried as to why they expected this outcome. Among the 36 respondents expecting a market-share increase for Turkish products in the US market, 19 reported that they predicted that Turkey's market share would increase because Turkish firms would be able to further penetrate categories that were previously limited. Seven respondents indicated that superior Turkish product quality would fuel a market share increase in the US, An additional seven argued that Turkey's fast turnaround time would convince buyers to purchase Turkish products. Three respondents mentioned Turkey's labor costs as the reason the country should expect a market-share increase.

Among the 15 respondents who expect Turkey to lose market share in the US, four cited a general increase in competition from other countries. Two named the "Far Eastern countries" and eight cited China as a specific threat.

SMEs and larger firms report similar US market share expectations. However, among those expecting Turkey's market share to decrease in the US market, SMEs expect a much sharper decline (average expectation is a 41.5 percent market share loss). Six claimed that Turkey's higher production costs would translate into higher prices and a lower share, while one respondent argued that the overvalued Lira would contribute to higher prices and fewer sales.

Fewer respondents (17 percent) expected market-share gains for their firm in the 2005 US market. The majority of respondents (78 percent) claimed to expect their firm to maintain their current market share. Only five percent expected a loss of market share for their firm in the US market. Again, SMEs and larger firms report similar expectation percentages. Those SMEs expecting their firm to lose market share expected a larger loss (average expectation is a 55 percent market share loss).

Among the 17 respondents that expected a market-share gain for their firm in the US market, 15 cited the opportunity to penetrate previously limited categories as the reason for their positive expectation. Four mentioned that their prices would be lower since they would not have to buy quotas from other companies or pay intermediaries. Three mentioned product quality as the reason for their optimistic outlook. One respondent argued that "With the elimination of quotas, there will be more flights to Turkey, which will carry our products. Now it is difficult to find available transport." All of the respondents predicting a market share loss in the US cited the fear that their prices would be too expensive relative to the competition.

Respondents also registered positive expectations for Turkey's market share in the 2005 EU market. In fact, the reported percentages for market-share increase/stay the same/decrease is virtually identical when compared to the expectations for the US market. More than one-half (54 percent) expect Turkey's market share to stay the same, over one third (34 percent) expect a market-share increase, while 12 percent expect a market-share decline. Expectations about Turkey's market share in a post-quota EU market were similar among SME and larger firms.

Among the 39 respondents predicting a market-share increase for Turkey in the EU market, 19 reported that they felt that Turkey's market share would increase because of a "decrease in bureaucracy or procedures" associated with quota elimination. Five respondents mentioned Turkey's product quality and geographic proximity respectively. Four respondents maintained Turkey's labor quality would enhance its share in a post-quota EU market, and two respondents

mentioned Turkey's fast turnaround time as a reason for a share increase. Two respondents offered that Turkey's political importance for Europe would facilitate a market-share increase. Country-of-origin issues were addressed by two respondents. One observed, "products bought from Far East countries are less profitable to Europeans," while another commented, "Turkey is working on becoming a brand name."

Among the 12 respondents predicting a market-share loss for Turkey in the EU market, four mentioned that competition in general would increase. Half of the respondents specifically mentioned China as the reason for Turkey's market-share loss, and two mentioned "Far East nations" as a more general culprit.

When asked about their expectations for their firm's market share in the EU after quotas are removed, respondents were more cautious. Two-thirds expected market share to stay the same, and a little over one-fourth (27 percent) expected market share to increase. Only seven percent expected a market-share loss. Although there were no observed differences in the proportions of expected increase or decrease among SME and larger firms, SMEs expected much larger impacts—positive and negative—on market share after quota elimination. Among the 30 percent of SMEs expecting a market-share gain, the average expected change was a 33 percent increase. Among the eight percent expecting a market-share loss, the average expectation was a 32 percent decrease.

Among the 27 expecting that their firm will increase their sales to the EU market, 11 mentioned that the gain would be due to the elimination of "limitations" in the market. Fewer firms mentioned firm-specific reasons as to why they expected a market-share increase. Eight firms mentioned their product quality would underpin a market share gain. There were single mentions of other firm-specific attributes, such as branding, product variety, innovation, and production capacity. All of the firms expecting a market-share loss in the EU cited China as the reason.

Strategic Preparations. Respondents were queried whether their firm had made any in a list of nine particular changes or investments in the last three years. These changes or investments included production-oriented changes, such as increasing production capacity (domestic and foreign production), integrating production capacities (e.g., enhancing facilities so that cutting, sewing, finishing, packaging, etc. are all done in one place), decreasing turnaround time (e.g., decreasing the amount of time from buyer order to receipt of goods), upgrading production technology. Marketing-oriented changes or investments were also included, such as expanding product line, increasing sales and marketing staff, developing a branded line of apparel for export, and becoming a new licensee for a foreign company.

The most common reported changes or investments are production-oriented actions. Almost all (93 percent) report taking steps to decrease turnaround time. Eighty-two percent claim that their firm has increased production technology and increased production capacity respectively. All respondents whose firms maintain production facilities outside of Turkey (35 percent) report that they increased their production capacity in those facilities.

Respondents also reported taking marketing-oriented actions. Three-fourths of respondent firms increased the number of sales and marketing staff. Eighty-one percent of respondents reported that their firms had expanded their production line to better compete in a post-quota environment. But only 23 percent reported developing a new line of branded clothing for export markets. Fifty-one percent claimed to have become a new licensee of a foreign brand.

For each action, respondents were asked which year the change or investment was initiated. In every action category, at least one-third of respondents reported that the change or investment was begun in 2004 (see Table 6). SMEs by far were by far the majority of those undertaking these initiatives in 2004. SMEs comprised over 80 percent of those firms reporting that their firm began to integrate production facilities, decrease turnaround time, upgrade production technology, expanding the product line, or increasing sales and marketing staff in 2004. Over two-thirds of those firms reporting that their firm began to increase production capacity, develop a branded line for export, or became a new licensee for a foreign company in 2004 were SMEs.

Conclusions and Future Research Directions

Leading up to 2005, a plethora of trade-journal articles and analyst reports carried speculation about the quota-free competitive environment. Although these claimed that some nations would benefit or be harmed by quota elimination, the future of other countries, including Turkey, was uncertain. The impact of quota elimination on Turkey's apparel export sector is crucial to its national economic health and vitality since it comprises such a substantial proportion of economic activity.

Little is known about how apparel exporters themselves feel about quota elimination or what they have done to prepare for the new competitive environment that it brings. This study indicates that although there are high levels of awareness of quota removal among Turkish apparel exporters, some SMEs may be unaware that this change has taken place. Most apparel exporters are optimistic about the market-share prospects for Turkey and their particular firm in the 2005 EU and US markets; the majority expect market share to either stay the same or increase. Many firms recently have undertaken production- or marketing-oriented changes or investments that might make them more competitive in a post-quota environment. But many of these changes have been started within the last year. In time it will be revealed just when and how these initiatives will come to fruition or fully impact the industry.

The numerous post-2005 predictions and assessments mostly have focused on country-level impacts and threats; firm-specific effects have been largely unaddressed. Which firm-specific characteristics or actions might make a firm more vulnerable to the effects of quota elimination or engender them better able to capitalize on the opportunities that quota removal might present are unknown. The post-quota Turkish apparel industry provides an interesting laboratory in which firm-level adaptation and response to environmental uncertainty and turbulence can be examined. Several questions need to be answered through further research. These future research questions include:

- Why are several SMEs unaware that quotas have been lifted? To what degree can the different levels of awareness among SMEs and large firms be explained by the degree and processes by which these firms gather, disseminate, and respond to export market information?

- Are those firms that were aware of quota elimination in January 2005 more prepared for the post-2005 competitive environment? What impact might exporter awareness have on a firm's export performance or firm survival?

- Are those firms that have undertaken particular production- or marketing-oriented changes or investments prior to quota elimination more prepared to cope with the post-2005 environment? What impact might these changes and investments have on a firm's export performance and survival?

- To what degree does the timing of production- or marketing-oriented changes or investments make a difference? Are late-responders at a disadvantage relative to earlier responders?

- Are SMEs more vulnerable to the effects of quota elimination? If so, why? Or are SMEs—due to greater flexibility and/or adaptability—better able to cope with the uncertainty of a post-2005 environment?

The answers to these questions could provide greater insight into the dynamics of trade liberalization by illuminating the impact of environmental uncertainty and turbulence on firm activities, performance, and survival.

FIGURES AND TABLES

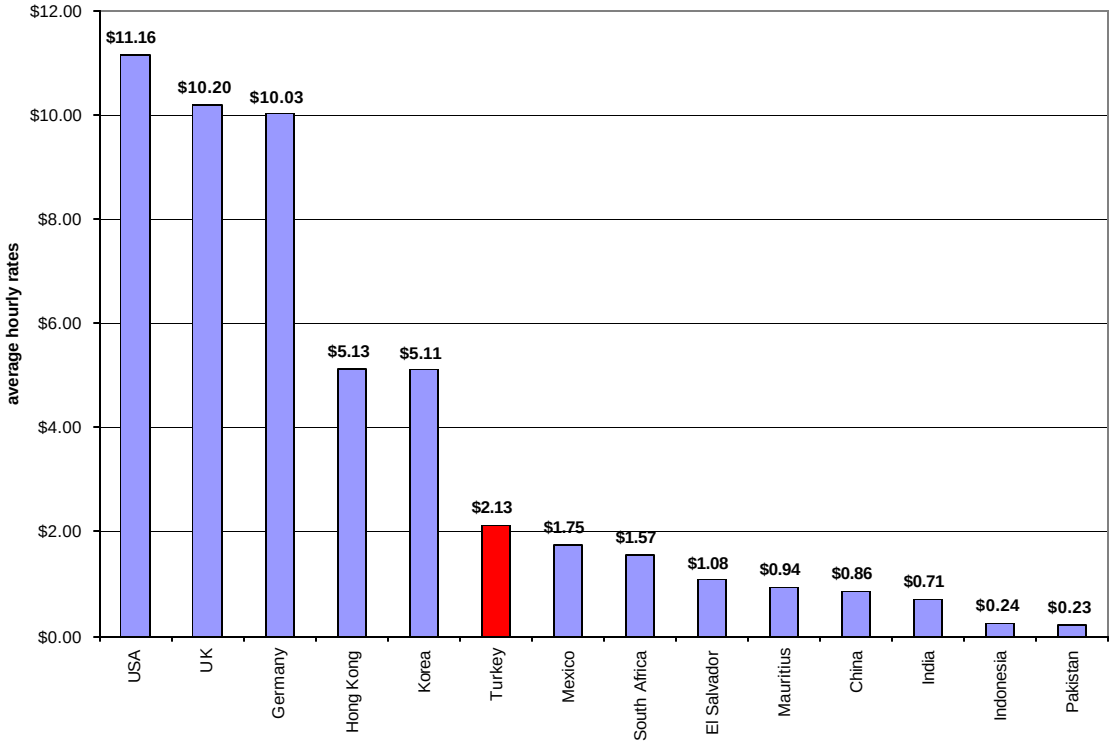
Table 1: Top 15 Exporting Countries by Export Value and Share in World Exports

Exporting Country	**Export Value** *billions of US dollars*	**Percent of World Exports**
European Union	59.95	26.5
Extra-EU (15)	19.04	8.4
China	52.06	23
Hong Kong Domestic	8.20	3.6
Turkey	**9.94**	**4.4**
Mexico	7.34	3.2
India	6.46	2.9
United States	5.54	2.5
Bangladesh	4.36	1.9
Indonesia	4.11	1.8
Romania	4.07	1.8
Thailand	3.62	1.6
Korea, Republic of	3.61	1.6
Viet Nam	3.56	1.6
Morocco	2.83	1.3
Pakistan	2.71	1.2

Table 2: Quota Fill Rates by Category for Turkey

Category	Description	Percent Utilization as of 12/31/2003
219	Duck	84.5
313	Sheeting	10.99
314	Poplin & Broadcloth	1.45
315	Printcloth	.06
317	Twills	11.55
326	Sateens	53.99
617	Twills & Sateens, Staple	3.73
625/626/627/628/629	Descriptions Below	20.52
625	Poplin & Broadcloth, Staple/Filament	18.95
626	Printcloth, Staple/Filament	.43
627	Sheeting, Staple/Filament	0
628	Twills & Sateens, Staple/Filament	2.18
629	Other, Staple/Filament	29.75
200	Sewing Thread; Yarns for Retail Sale	60.12
300/301	Carded (uncombed), Combed	23.37
335	Coats, Women's & Girls'	47.72
336/636	Dresses (Cotton & man-made Fiber)	24.08
338/339/638/639	Knit Shirts, Men's & Boys,' Knit Shirts & Blouses, Women's & Girls,' Knit Shirts, Men & Boys,' Knit Shirts & Blouses, Women's & Girls	95.33
338/339/638/639 S	Same as above	90.85
340/640	Woven Shirts, Men's & Boy's	17.17
340 Y/640 Y	Same as above	12.54
341/641	Woven Shirts, Men's & Boys,' Woven Shirts & Blouses, Women's & Girls'	20.84
341 Y/641 Y	Same as above	7.39
342/642	Skirts (Cotton & man-made Fiber)	31.97
347/348	Trousers, Shorts, etc., Men's & Boys, Women's & Girls'	52.62
347 T/348 T	Same as above	96.82
351/651	Nightwear & Pajamas (Cotton & man-made Fiber)	96.73
352/652	Underwear (Cotton & man-made Fiber)	96.67
361	Sheets	100
369 S	Other Manufacturers n.e.s.	43.28
410/624	Woven,>36% by weight wool, Woven, >15% &<36% wool	23.78
410	Woven,>36% by weight wool	33.97
448	Trousers, Shorts, etc., Women's & Girls'	95.96
604	Synthetic Staple	94.34
611	Artificial Staple>85% by weight	1.71

Figure 1: Hourly Labor Costs in the Textile and Apparel Industry



Source: ILO Labor Statistics http://laborsta.ilo.org/

Table 3: Sample Profile

	Total Sample n=100	**% SME Firms** n=74	**% Larger Firms** n=26
DATE FOUNDED			
Pre-1980	5%	5%	4%
1980-1989	31%	22%	58%***
1990-1999	32%	31%	35%
2000+	32%	42%	3%***
Average Firm Age in Years. (Std. Dev)	12.2(9.4)	10.7(9.7)	16.5(7.3)***
NUMBER OF EMPLOYEES			
Less than 50	54%	73%	--
50-99	20%	27%	--
100-499	20%	--	77%
500+	6%	--	23%
Average No. of Employees (Std. Dev.)	141.1(324.8)	32.8(22.1)	444.6(531.6)***
TOTAL 2004 EXPORTS US$			
Less than $500,000	33%	41%	8%***
$500,000-$999,999	12%	13%	9%
$1 million - $4,999,999	33%	37%	22%
$5 million or more	22%	9%	61%***
Average Total Exports (Std. Dev.)	$4.8 million (1.1 million)	$1.5 million (2.7 million)	$14.1 million*** (17.4 million)
EXPORT INTENSITY			
Less than 25%	13%	15%	8%
25%-49%	9%	9%	4%
50%-99%	42%	39%	50%
100%	36%	36%	38%
Average Export Intensity (Std. Dev.)	73.7% (30.6)	71.1%(32.2)	81.2(244.5)
AVERAGE NO. EXPORT DESTINATION (Std.Dev.)	6.9 (7.0)	5.7 (6.9)	10.6 (6.2)***
EXPORT PRODUCT CATEGORIES			
Cotton Apparel (SIC 300)	88%	88%	89%
Wool Apparel (SIC 400)	40%	41%	39%
Man-Made Fiber Apparel (SIC 600)	55%	50%	27%**
Silk Apparel (SIC 700)	26%	11%	23%
Silk Blend/Non-Cotton Veg. Fiber Apparel (SIC 800)	15%	27%	27%
EXPORT QUOTA-CONTROLLED PRODUCTS	69%	65%	81%*
EXPERIENCED EXPORT GROWTH: LAST 3 YRS.	67%	55%	81%%***
EXPERIENCED EXPORT DECLINE: LAST 3 YRS.	26%	39%	7%***
AVERAGE EXPORT SALES CHANGE: LAST 3 YRS.	7.9% (32.3)	2.4% (33.8)	23.5% (21.9)***
COMPARISON TO INDUSTRY AVERAGE[1]	4.1 (1.7)	3.7 (1.7)	5.1 (1.5)***
EXPORT PROFITABILITY-Last 1 YR. [2]	3.9 (1.6)	3.6 (1.6)	4.6 (1.3)***

*p<=.10, **p<=.05, ***p<=.01

[1]Respondents were asked, "How does your average annual export sales growth/decline compare to the industry average?" The response was a 7-point scale, where 1=Poor and 7=Oustanding.

[2]Respondents were asked, "Overall, how profitable has exporting been over the last financial year?" The response was a 7-point scale, where 1=Poor and 7=Outstanding.

Table 4: Aided Awareness: "Are You Aware of Any Quota Changes That Have Occurred Recently in The Apparel Industry?"

	Total Sample n=100	**% SME Firms** n=74	**% Larger Firms** n=26
Yes	75%	68%	96%
No	25%	32%	4%

Figure 2: Expectations Regarding Market Share in US Market

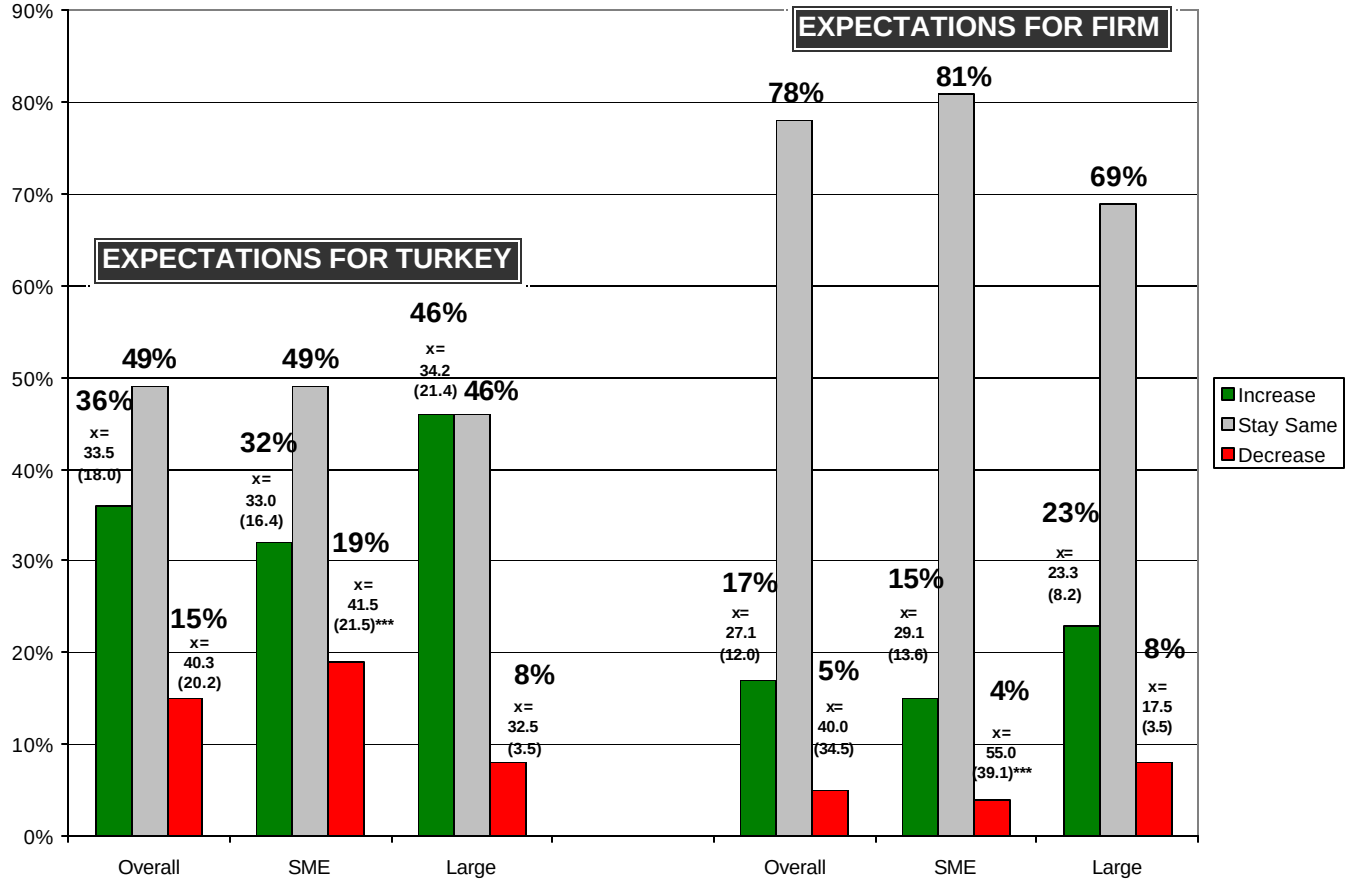


Figure 3: Expectations Regarding Market Share in EU Market

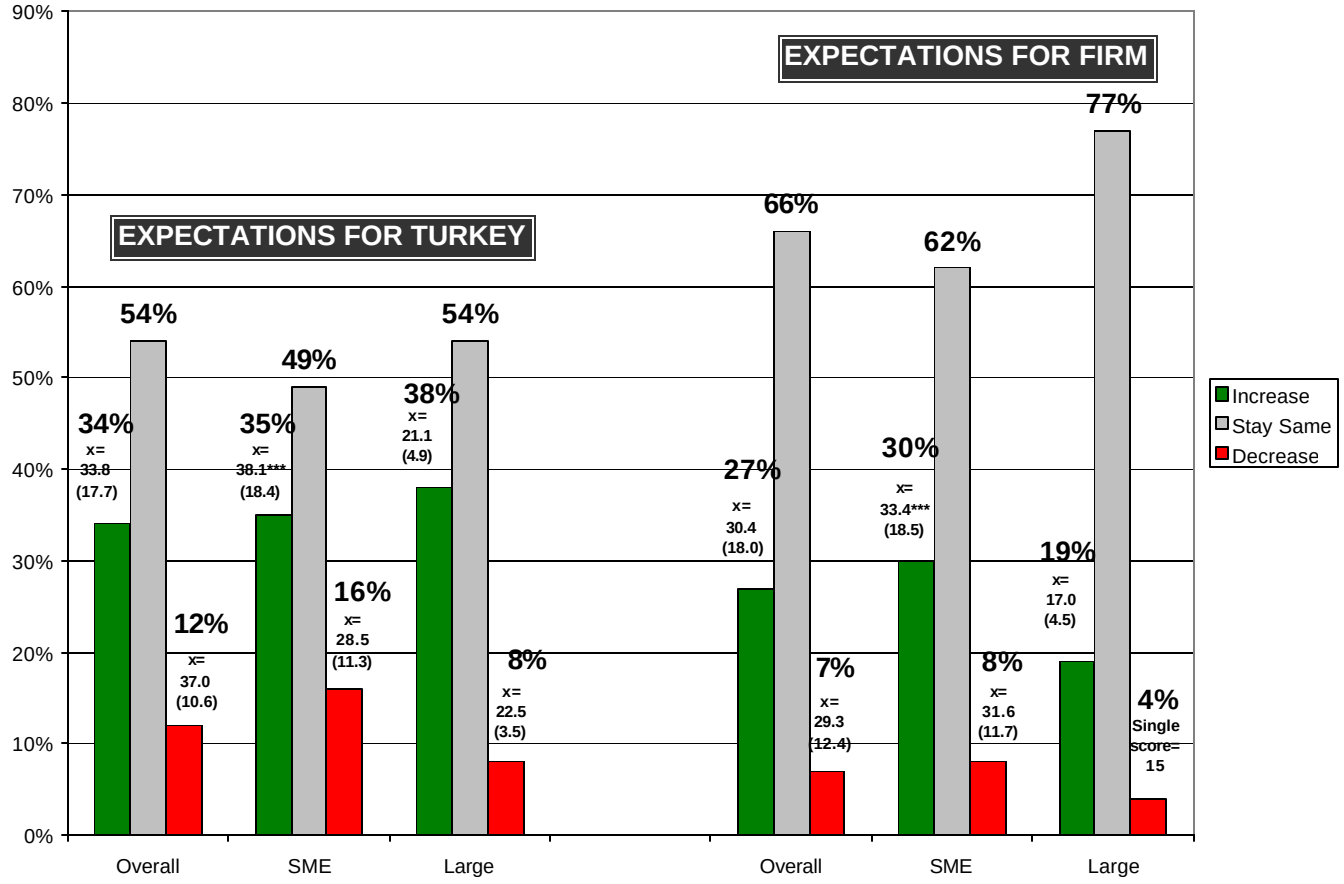


Table 5: Strategic Actions Taken 2001-2004

Action	Percent of All Firms Taking Action	Percent of SMEs Taking Action	Percent of Larger Firms Taking Action
Increased Production Capacity-Domestic	82%	77%	96%
Increased Production Capacity-Foreign	35%	26%	58%***
Integrated Production Facilities	68%	67%	65%
Decreased Turnaround Time	93%	89%	96%
Upgraded Production Technology	82%	80%	81%
Expanded Product Line	81%	82%	73%
Increased Sales and Marketing Staff	75%	74%	73%
Developed Branded Line of Apparel for Export	23%	8%	65%***
Became New Licensee for Foreign Company	51%%	50%	50%

*p<=.10, **p<=.05, ***p<=.01

Table 6: 2004 Action-Takers

Action	Percent of All Firms Taking Action That Started Change in 2004	Percent of Firms Taking Action in 2004 That are SMEs
Increased Production Capacity-Domestic	43%	69%
Increased Production Capacity-Foreign	37%	77%
Integrated Production Facilities	35%	83%
Decreased Turnaround Time	48%	86%
Upgraded Production Technology	43%	83%
Expanded Product Line	42%	84%
Increased Sales and Marketing Staff	43%	84%
Developed Branded Line of Apparel for Export	35%	77%
Became New Licensee for Foreign Company	43%	77%

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