

Türkiye, where East meets West

Modern Türkiye was founded in 1923 from the Anatolian remnants of the defeated Ottoman Empire by national hero Mustafa Kemal and, under his authoritarian leadership, adopted wide-ranging social, legal and political reforms. Today it is a modern democracy and, despite a movement for separation during the 1990s by the elements of the Kurdish population which makes up around 20% of the total population of 70.4 million, politically stable.

This is all to the good, as the country stands in a position of strategic importance and provides the geographic link between Europe and Asia. It is in

many ways unique, not least in the fact that despite almost the entire population being Muslim, it is very Western in outlook, particularly in the big cities.

Türkiye has been an associate member of the European Community since 1964 and during the past ten years has undertaken many reforms to strengthen its democratic and economic credentials with a view to negotiating full membership talks with the European Union. This is in itself a clear indication of where the country sees itself politically and culturally.

The economy

Türkiye's dynamic economy is a mixture

of modern industry and commerce alongside a traditional agriculture sector that still accounts for over 35% of employment. While it has a strong and rapidly growing private sector, the state still plays a major role in basic industry, banking, transport and communications.

The largest industrial sector is textiles and clothing, which accounts for one-third of all industrial employment. It has come under increasing competitive pressure in international markets following the ending of the global quota system. Other sectors however, particularly automotive and electronics, are growing in importance and filling the gap.

Annual growth in real GNP has exceeded



6% for many years, but this strong expansion has been interrupted by sharp declines in output in 1994, 1999 and 2001. Further reforms have strengthened the economy since then and GDP grew 9% in 2004, followed by roughly 5% in 2005. Inflation also fell to 7.7% during 2005, which marked a 30-year low. Unfortunately, it promptly climbed back up to around 9.8% by the end of 2006.

Despite the strong economic gains made between 2002 and 2006 largely as a result of renewed investor interest in emerging markets, IMF backing and a tighter fiscal policy, the economy still suffers from a high current account deficit and high debt. The public sector deficit exceeds 6% of GDP mainly due to high interest payments which accounted for some 37% of government spending in 2004.

Key numbers

Population	70.4 million
GDP	\$627.2 billion
GDP per capita	\$8900.0
GDP growth	5.2%
Inflation	9.8%
Current account	-\$25.99 billion
External debt	\$193.6 billion
Exports	\$85.21 billion
Imports	\$120.8 billion

*2006 estimates

Prior to 2005, foreign direct investment (FDI) averaged less than \$1 billion annually, though further economic and judicial reforms, plus the possibility of full EU membership, should provide a welcome boost. Privatisation sales are currently approaching \$21 billion. Completion of the Baku-Tbilisi-Ceyhan pipeline in May 2006 will enable up to 1 billion barrels of oil per day to be brought to market from the Caspian oilfield.

The leather industry

The processing of animal skins into finished leather that can be further converted into products for the benefit of man's welfare and comfort is an ancient skill. Türkiye has always been a recognised centre for the trade, especially where goat and sheep derived products are concerned. This remains equally true today and the country occupies second place in Europe after Italy and fourth in the world after Italy, China and India in this area of leather production. In fact it has the

Sheep are an important part of Türkiye's agriculture



capacity to process up to 20% of the world's total output sheep and goat skins. It is also the world leader in fur production with an annual processing capacity of 80 million skins.

Initial efforts to modernise the leather industry as a whole began in the 1970s but significant progress on a real industrial scale only began some ten years later. Since then, it has developed rapidly with an increase in the number of organised industrial zones, wastewater treatment plants and general technological advancement. It has also played an ever-increasing role in Türkiye's economy and is now an important export sector to an annual value of approximately \$650 million. In addition, an amount almost equal to half of officially recorded leather exports comes from sales of leather products to tourists.

Türkiye's tanning sector has a current production capacity of around 400,000 tons per year from 1,300 facilities employing some 20,000 people, and covering all types of leathers. The main centres for the industry are in Tuzla (Istanbul), Çorlu (Tekirda), Menemen (Izmir), Uflak, Bursa, Manisa, Gönen (Balıkesir). In addition, small- to medium-sized tanneries can be found in Çanakkale, Isparta, Denizli and Nide.

The reason for this high number of tanneries is rooted in the export boom of the early 1990s. The political breakdown of the Soviet Union forced Russia and most other former Soviet Block countries to adopt free market economies. As their own inefficient tanneries went out of business, a huge demand was created for imports of finished leather. Türkiye was strategically well placed to supply this need and, in consequence enjoyed a massive increase in investment and production capacity to the

extent that not only did existing tanneries enlarge their capacities by up to five times, but many new ones also opened for business.

The sector is now also up-to-date in that it employs modern production methods well up to European standards in 13 organised leather industrial zones. In fact, it is claimed that 70% of output uses environmentally-friendly systems. Recent years have also witnessed considerable improvements in research and development activities. Many larger concerns now have their own R&D departments and are actively seeking new techniques for their production lines. This movement is accelerating in line with a gain in the production of fully finished leathers at the expense of Italy and Spain. In addition, the establishment of an accredited laboratory based in the Tuzla organised leather industry area to cover the whole country is still being pursued.

Patterned soles



Image courtesy of AYSAF

Today's industry is highly technology-based and so requires a greater level of sophisticated operator skills than in the past. Türkiye's tanners are finding help in this through rapidly improving educational standards in the nation's schools and the subsequent number of graduates able to absorb the new technologies necessary to compete with international competitors.

Having said this, however, although there is 'high production capacity' this has unfortunately not always been reflected in the volume of exports one might expect. In 2005, a total of \$65 million worth of finished leather was exported. The main customer countries according to percentage share are Hong Kong at 13.2%, Belarus at 9.8%, Russia at 9.5%, Romania at 7.8% and Italy at 7.1%. Between them, they take nearly 50% of total exports. The

Colourful traditional Turkish slippers

industry has, however, been making strenuous efforts to win business in Far Eastern markets such as China, Vietnam and Indonesia.

The footwear industry

Footwear manufacture first appeared in a truly industrial sense as late as 1950 and, even then, it was extremely small. According to the State Institute of Statistics, it now has some 4,750 factories employing around 27,000 people. Almost half are concentrated in Istanbul. Other centres of production are Izmir, Konya, Ankara, Gaziantep, Manisa and Denizli, Adana, Malatya and Çorum.

The real effort to invest in the modernisation of footwear production took place in the 1980s on the back of the improvements made to tanneries. To make better quality shoes, you need better quality leather. However, only around 15% of factories are fully-mechanised in the European sense. The production capacity of the 33 leading companies in the sector is 328,100 pairs daily. An overwhelming 70% of production is carried out under semi-mechanised conditions and the remaining 15% is virtually made entirely by hand.

In an effort to improve its status in world markets, the industry is now concentrating its efforts on training and design. The Turkish Shoe Industry Research, Development and Education Foundation was established in 2001 to promote improvements in technology and overall quality of the industry's output. To meet the increasing demand for qualified designers, a Shoe Design Department has been opened at the Mimar Sinan University in Istanbul, offering two-year courses in various aspects of shoe design. In addition, annual shoe design

competitions are held in order to discover new talent.

The compiling of accurate statistics for the industry is difficult for two reasons. One is the large number of small enterprises where the paperwork is likely to be sketchy to say the least. The second is the existence of a large cash trade between Türkiye and its neighbours. This black market 'suitcase' trade is not officially recorded for obvious reasons. However, according to IGEME (Export Promotion Centre of Türkiye), the industry achieved export sales of \$236.5 million in 2006.

The main markets appear to be Germany, Russia, Saudi Arabia, Greece, Bulgaria, France, Netherlands, UK, Romania, Poland, Ukraine, Kazakhstan and Israel. Almost 50% of exports in 2006, worth \$115.5 million, were shoes with leather uppers, most of which went to Germany. The second most important group was shoes with synthetic uppers and soles which earned \$47 million in the same year. The largest exporter is in fact a trading company called ASD Footwear. This has 57 shareholders composed of small- and medium-sized manufacturers who have come together to cut the costs of exporting. Turkish manufacturers are actively seeking new trading partners and take part in major international fairs such as GDS in Düsseldorf, Motexha Spring Fair in Dubai and Mossshoes in Moscow. Besides this, Türkiye has seven annual fairs of its own spread across the major shoemaking centres.

One of Türkiye's best footwear specialities is military boots, and work and safety shoes. Standards have advanced rapidly here with products now being

made to international standards and able to carry the CE quality mark. The industry also closely follows the latest fashions and many companies prepare collections for every season according to trends both at home and across the world. There is no doubt that the country's footwear industry is making strenuous efforts to catch up with international standards but, it is rather late in the day.

The might of China and Vietnam for cheap footwear and India for quality leather shoes are all too apparent in world markets. While footwear imports into Türkiye were historically low, they have shown a substantial increase over the past ten years. However, they still remain relatively small compared with most countries at around 30% in terms of penetration. China significantly accounts for half of this—mostly low value synthetic products—followed by Taiwan and Indonesia.

Supply side

The preponderance of small factories is also reflected in the component supply side which is extremely diversified. It has also been a reason why Türkiye has not been a good market for highly sophisticated lasting machines as the small producers simply cannot afford the level of investment required. On the other hand, basic injection moulding machines, cutting presses and sewing machines of sufficient quality to meet demands of the smaller enterprises which do use machinery are made locally. While working this way makes much of the industry self-sufficient, some 30% of materials and components still have to be imported to meet the requirements of top-end shoe producers.

Producers vary enormously in size from three-man micro-enterprises to companies employing 350 or more people. While quality standards of locally produced materials and components vary widely, there are some areas where Türkiye scores quite well internationally, particularly textiles, chemicals, and soling and insole materials. Investment and expertise from abroad would undoubtedly help this sector of the industry to advance. Despite this, Turkish component suppliers are still able to take third place in terms of European sales behind Italy and Spain in terms of capacity. Their focus export markets are Russia, the Middle Eastern and North Africa. 

Military boots are a speciality of Turkish manufacturers